



# US Market Wrap

## 4th December 2023: Dollar and yields back on the front foot as NDX lags amid large-cap weakness

- **SNAPSHOT:** Equities mixed, Treasuries down, Crude down, Dollar up.
- **REAR VIEW:** Dismal German trade data; Foxconn halts iPhone production at Chennai facility; ALK to acquire Hawaiian Airlines; US factory orders post largest decline since COVID; Saudi said OPEC+ cuts can 'absolutely go beyond Q1'; UBER, JBL, and BLDR to join S&P 500.
- **COMING UP: Data:** UK BRC Retail Sales, Japanese, Italian, French, German, EZ, UK, US Composite & Services PMI, Spanish & French Industrial Output, US JOLTS, Australian AIG Manufacturing Index **Events:** RBA Policy Announcement, ECB Consumer Expectations Survey **Supply:** Japan, UK, Germany.
- **WEEK AHEAD:** Highlights include US jobs report; China CPI, trade data; RBA, BoC rate decisions. To download the report, please [click here](#).
- **CENTRAL BANK WEEKLY:** Previewing Riksbank, RBA, BoC, RBI; Reviewing RBNZ. To download the report, please [click here](#).

## MARKET WRAP

The major indices were mixed on Monday with gains in the small-caps (Russell 2k) offset by losses in the SPX and NDX. Most of the weakness occurred around the open with the indices paring somewhat into the NY afternoon, with little new drivers or data (barring a large fall in US factory orders in October) and instead a focus on finding equilibrium after last Friday's Powell commentary and the ISM manufacturing survey ahead of a busy week of data this week including NFP on Friday. Gold was in particular focus after it spiked to an all-time high at USD 2,135/oz (Reuters data) in early APAC trade, only to reverse to lows of 2,020/oz in the NY morning in the absence of any fresh catalysts for the massive moves. Bitcoin also saw large moves on Monday and hit a peak of USD 42.2k, a level not seen since April 2022. Treasuries saw large bear-flattening, paring a significant amount of last Friday's rip higher; note there is no coupon supply this week to digest. There was no new Fed Speak either with the FOMC blackout period now in place ahead of the meeting next Wednesday. There are now c. 125bps of Fed cuts priced across 2024 vs the 130bp+ figures seen late on Friday, but still more than the 115bps priced pre-Powell. Funding is in focus with the latest SOFR fixing spiking higher as of Dec 1st despite month-end already passing, with Barclays forecasting a large decline in RRP usage this week amid a surge in secured funding demand. The Dollar reversed higher with yields, while Goldman is calling a low in USD /JPY, heightened by some dovish-leaning BoJ commentary from the weekend. Oil prices were lower and choppy amid continued fallout from OPEC+ in the backdrop of the cooling economic data and volatile Middle East tensions.

## FIXED INCOME

### T-NOTE (H4) FUTURES SETTLED 15+ TICKS LOWER AT 110-06

**Treasuries bear-flattened on Monday as markets consolidated after Friday's Powell- and ISM-induced rip ahead of more key data.** 2s +7.5bps at 4.642%, 3s +7.6bps at 4.404%, 5s +7.2bps at 4.226%, 7s +6.3bps at 4.293%, 10s +5.2bps at 4.276%, 20s +2.1bps at 4.608%, 30s +1.5bps at 4.432%.

**INFLATION BREAKEVENS:** 5yr BEI -0.4bps at 2.160%, 10yr BEI -0.6bps at 2.225%, 30yr BEI -2.6bps at 2.288%.

**THE DAY:** Treasuries entered stateside trade Monday already in a bear-flattener as the market pulled back some of Friday's large bull-steepening post-Powell and ISM manufacturing. The bulk of the pullback occurred at the globex reopen before T-Notes stretched out an interim low of 110-12 in the London morning, hovering just above from there. However, 2yr futs were already making new lows as US participants returned from the weekend.

The bear-flattening only accelerated in the NY morning, with a chunky 12.4k 2yr block seller weighing in the absence of any major data or fresh catalysts, bringing T-Notes to new session lows of 110-09 right after the trade. The selling found some pause at first not long after that block, and T-Notes made a recovery to 110-18 into a choppy NYSE stock open, but better selling developed again later into the European close and the downside saw contracts ultimately trough for the session at 110-03+ early in the NY afternoon, before recovering somewhat into settlement.



With the Fed now on blackout, traders are looking to Tuesday's JOLTS and ISM Services, followed by ADP on Wednesday, Jobless Claims on Thursday, and the NFP report and Michigan survey both on Friday.

**FED PRICING:** 125bps of cuts are now priced across 2024 vs 130bps after Powell on Friday, however, the 10% implied cut for January remains unchanged, while the 75% implied cut for March receded to 63%. Most of the pullback today in Fed pricing has occurred for meetings at the back end of 2024.

#### STIRS:

- SR3Z3 -1.75bps at 94.623, H4 -4.5bps at 94.865, M4 -7.5bps at 95.215, U4 -9bps at 95.585, Z4 -9bps at 95.92, H5 -9bps at 96.195, M5 -8bps at 96.38, U5 -6.5bps at 96.48, Z5 -5.5bps at 96.505, Z6 -5bps at 96.43, Z7 -5bps at 96.305.
- SOFR spiked to 5.39% as of Nov 1st from 5.33%, volumes fall to USD 1.650tln from 1.850tln.
- NY Fed RRP op demand at USD 0.816tln (prev. 0.769tln) across 84 counterparties (prev. 90; lowest counterparties since May).
- Barclays sees Fed's RRP falling to USD 500bln by Friday, citing the rally in Treasuries as having boosted demand for secured funding faster than dealer balance sheets' capacity to supply it.
- US sold USD 76bln of 3-month bills at 5.250%, covered 2.98x; sold USD 69bln of 6-month bills at 5.190%, covered 2.66x.

## CRUDE

**WTI (F4) SETTLED USD 1.03 LOWER AT 73.04/BBL; BRENT (G4) SETTLED USD 0.85 LOWER AT 78.03/BBL**

**Oil prices were lower and choppy on Monday amid continued fallout from OPEC+ in the backdrop of cooling economic data and volatile Middle East tensions.** WTI and Brent hit session lows of USD 72.63/bbl and 77.52/bbl, respectively, in the NY morning before rallying c. USD 2/bbl, which did coincide with Reuters reports that Turkey is warning of "serious consequences" if Israel tries to hunt down Hamas officials. But prices meandered lower again into the NY afternoon. There was only a fleeting spike higher on the Saudi Energy Minister saying to Bloomberg that OPEC+ cuts could "absolutely" go beyond Q1, whilst jawboning that the group's 2.2mln BPD cuts will be delivered. Elsewhere, Bloomberg reported the US DoE as saying it will buy back as much oil "as we possibly can", saying it is to take advantage of low oil prices to refill reserves, but reserve refill is limited by physical constraints. In the east, oil loadings from the Russian Black Sea port of Novorossiisk resumed on December 3rd after the storm, Reuters reported.

## EQUITIES

**CLOSES:** SPX -0.54% at 4,569, NDX -0.99% at 15,839, DJIA -0.11% at 36,204, RUT +1.04% at 1,882.

**SECTORS:** Real Estate +0.54%, Health +0.21%, Industrials +0.2%, Consumer Staples +0.1%, Financials unch., Utilities -0.39%, Energy -0.46%, Consumer Discretionary -0.46%, Materials -1.19%, Technology -1.31%, Communication Services -1.37%.

**EUROPEAN CLOSES:** DAX +0.04% at 16,404.76, FTSE 100 -0.22% at 7,512.96, CAC 40 -0.18% at 7,332.59, Euro Stoxx 50 -0.09% at 4,414.75, IBEX 35 +0.37% at 10,178.30, FTSE MIB -0.05% at 29,914.09, SMI +0.60% at 10,952.44.

**STOCK SPECIFICS:** Alaska Air (ALK) will acquire Hawaiian Airlines (HA) for USD 18/shr in cash, for a transaction value of approx. USD 1.9bln, inclusive of USD 0.9bln of Hawaiian Airlines net debt. Uber Technologies (UBER), Jabil (JBL), Builders FirstSource (BLDR) will join the S&P 500 index before trading on December 18th; will replace Sealed Air (SEE), Alaska Air (ALK) and SolarEdge (SEDG). Foxconn (2354 TW) halted production of Apple (AAPL) iPhones at a facility near India's Chennai due to heavy rains; Foxconn yet to decide whether to resume iPhone production on Tuesday. Intel (INTC) is sticking to its plans for a German fab despite federal budget issues, according to FAZ. China's CPCA reported Tesla (TSLA) sold 82.4k China-made vehicles in November (prev. 72.1k M/M), -17.8% Y/Y. Richard Branson told the FT that he doesn't plan further investments in Virgin Galactic (SPCE). SAIC (SAIC) surpassed expectations on the top and bottom line alongside raising FY24 outlook. Spotify (SPOT) is to reduce total headcount by around 17% or around 1.5k employees and will incur approximately EUR 130-145mln in charges in Q4 '23. Lululemon (LULU) was downgraded at Wells Fargo; said LULU's positive catalysts have already played out, and forecasts more muted growth in 2024. Carvana (CVNA) was upgraded at JPM; said CVNA has bolstered productivity and made progress cutting costs. Five9 (FIVN) is reportedly considering a deal, according to Bloomberg; FIVN and Zoom (ZM) are noted to have spoken about resurrecting a deal. Bitcoin rose above USD 42k and provided tailwinds for crypto exposed names such as Coinbase (COIN), MicroStrategy (MSTR), and Marathon Digital (MARA).



## US FX WRAP

**The Dollar** was firmer to start the week, printing a high of 103.850 as it was supported by higher US Treasury yields, particularly in the short end, unwind Friday's post-Powell and ISM moves. Newsflow was light on Monday amid the Fed blackout period as participants await the week's risk events in the form of JOLTS and ISM Services (Tues), ADP (Wed), Jobless Claims (Thurs), NFP and UoM (Fri). For the record, despite garnering little market reaction, US Factory Orders for October declined 3.6% from +2.3%, deeper than the forecasted 2.8% dip.

**Antipodeans** and **Sterling** were the G10 underperformers, on account of the broad risk-off sentiment and general Dollar bid, as opposed to anything too currency-specific. As such, AUD/USD and NZD/USD hit lows of 0.6605 and 0.6152, respectively, while Cable printed a trough of 1.2605, just holding above the round figure. Ahead, the RBA is expected to keep rates unchanged at its meeting on Tuesday with money markets pricing in a 95% probability for the Cash Rate Target to remain at 4.35% and just a 5% chance for a 25bps hike to 4.60%, while a Reuters poll showed 28 of 30 economists expect the central bank to keep maintain the cash rate at the current level and 2 economists are calling for a 25bps hike.

**CAD** saw losses, albeit not as deep as the other high beta FX currencies, despite being weighed on by the losses in the crude complex, as well as the aforementioned known themes.

**EUR** and **CHF** saw similar losses vs. the Greenback. Before the souring in risk sentiment as US players entered for the day, the Swissy was the G10 laggard in the European morning following the region's CPI metrics which printed sub-forecast across the board in the release before the SNB's quarterly decision later this month. USD/CHF traded between 0.8668-8755. The currencies both fell foul to the Dollar bid and highlighting this EUR/USD fell under the lower bound of Friday's 1.0820-0912 parameters and breached beneath the 200 DMA (1.0818). EUR/USD traded between 1.0805-0894. ECB commentary on Monday from the likes of President Lagarde and de Guindos failed to spur much of a reaction ahead of next week's ECB meeting. In addition, there was further weak German trade data, as there were unexpected contractions in imports and exports (reflecting weak demand). Note also an Ifo survey that saw German companies cut their investment spending plans for this year and next substantially.

**USD/JPY** managed a ~0.3% rise after trading at its lowest since early September. As part of the broader Treasury yield-led rebound, desks note the cross could be heading towards major resistance by 148. BoJ's Noguchi spoke, saying Japan has yet to achieve a wage-driven rise in inflation and said they must see price rises backed by sustained wage increases to achieve the 2% price target. Elsewhere, Goldman Sachs suggests that the Yen's recent strength may be nearing its limits and as such GS recommends a cautious approach towards the JPY which is influenced by a dovish outlook for the BoJ and the perceived limits to the USD/JPY downside amid a potential soft landing in the US economy.

**Scandis** saw losses, with the NOK underperforming its counterpart on account of lower oil prices amid the continued fallout from OPEC+ in the backdrop of cooling economic data and volatile Middle East tensions. In the latest Riksbank Minutes, they noted monetary policy has reduced demand in the Swedish economy and contributed to an easing of inflationary pressures; monetary policy needs to remain contractionary, they said, adding it is now appropriate to leave the policy rate unchanged. First Deputy Governor Bremen said in his overall monetary policy assessment, the prospects for inflation and economic activity weigh more heavily than the continued weak krona.

**EMFX** was exclusively weaker against the rising Dollar. Aside from general risk sentiment, ZAR and COP were weighed on by spot gold and copper losses, respectively, although the former surged to USD 2,135/oz at the APAC open before retracing all of its gains to lows of 2020 in one of its largest trading ranges on record. Looking ahead, Chinese Caixin Services PMI (Tues), Chinese Trade data (Thurs), and RBI (Fri) are the highlights.

### Disclaimer

The information contained within this document has been prepared and issued by Newsquawk Voice Limited ("Newsquawk") on the basis of publicly available information and other sources believed to be reliable. Whilst all reasonable care is taken to ensure that the facts stated are accurate, neither Newsquawk nor any of its directors, officers or employees shall be in any way held responsible for its content or your use of it. Neither the provision of any content herein nor anything on our website or any other media we use is intended to, and should not be construed as, providing advice and/or enticing an offer or solicitation to invest in, buy or sell securities or other financial instruments.

