US Market Wrap

6th December 2023: Stocks fall and Dollar gains as eyes turn to NFP after soft ADP

- **SNAPSHOT**: Equities down, Treasuries up, Crude down, Dollar up.
- **REAR VIEW**: ADP disappoints; Labour Costs fall more than expected; Productivity beats; BoC on hold with a dovish statement offset by hawkish guidance; AMD unveils new chip; Weak UK and German data
- **COMING UP**: **Data**: Australian Trade, Chinese Trade, UK Halifax House Prices, French Trade, Italian Retail Sales, EZ Employment (Final), GDP (Revised), US IJC, US Wholesale Sales, NZ Manufacturing Sales, Japanese Cash Earnings, GDP (Revised) **Speakers**: ECB's Elderson **Supply**: Japan, Spain, France, US.

MARKET WRAP

Stocks were lower on Wednesday with big tech/NDX leading the downside, while small caps (Russell 2k) saw relative outperformance despite slipping into the red in late trade as part of the broader risk souring. Treasuries continued to see bull-flattening in wake of the soft economic data - soft ADP Employment, and falling Unit Labor Costs - while traders are reticent to push Fed rate cut pricing any further for the time being at least ahead of NFP on Friday and FOMC next Wednesday. The Dollar Index was ultimately firmer, reversing initial losses seen after the US data as the risk environment soured into the close. The Euro saw noteworthy selling, with ECB rate cut pricing ramping further in 2024 to nearly 150bps amid tumbling German factory orders. Sterling was another standout underperformer in the G10 space, with soft construction data weighing. Oil prices hit multi-month lows amid mixed inventory data and the global growth woes, with OPEC action and jawboning failing to stop the rot; WTI is now beneath USD 70/bbl. For stocks, homebuilders did well, led by Toll Brothers (TOL) after its strong earnings report. Food producers were also well supported after the Campbell Soup (CPB) report. AMD (AMD) was lower despite the unveiling of its new MI300X chips, with competitor Nvidia (NVDA) even lower on the day, although the losses were already accruing before the announcement.

GLOBAL

US ADP: The ADP report saw private sector employment increase by 103k in November, short of the 130k estimate while the prior was revised down to 106k from 113k. The wages data eased again in November, where the median change in annual pay for job stayers rose 5.6% (prev. 5.7%), while for job changers, it eased to 8.3% growth from 8.4% in October. Both goods and services sectors saw weakness, with leisure and hospitality and manufacturing posting declines. The ADP Chief Economist said, "Restaurants and hotels were the biggest job creators during the post-pandemic recovery. But that boost is behind us, and the return to trend in leisure and hospitality suggests the economy as a whole will see more moderate hiring and wage growth in 2024."

US UNIT LABOR COSTS: Unit Labor Costs in Q3 were revised down to -1.2% from -0.9%, beneath the -0.9% expectation, while productivity was revised up to 5.2% (prev. 4.7%, exp. 4.9%). On the former, Oxford Economics notes, that the decline points to a further slowdown in services inflation, the last front in the Fed's effort to bring inflation back to 2%. Meanwhile, on productivity, the consultancy adds, "Part of the rebound could reflect the shift in the mix of jobs created, with lower wage sectors like leisure and hospitality no longer driving the bulk of payroll gains as they did early in the pandemic". Looking ahead, Oxford's baseline forecast assumes that rate cuts don't start until Q3 '24, although the risk may be growing that the Fed starts sooner (current Fed pricing has 73bps of cuts priced in by end-July and 125bps by year-end).

BOC: The BoC left rates unchanged at 5.00% as expected, while it made some tweaks to its statement with both hawkish and dovish tones. On the dovish side, it started to show some of the impacts rate hikes are having by noting "higher interest rates are clearly restraining spending: consumption growth in the last two quarters was close to zero, and business investment has been volatile but essentially flat over the past year". The statement also noted the Q3 GDP contraction, the easing labour market, and noted that the economy is no longer in excess demand. It also dropped the line that progress toward price stability is slow and inflationary risks have increased. However, on the hawkish side, it maintained its view that it is concerned about the risks to the outlook for inflation and it also maintained its guidance that it is prepared to raise the policy rate further if needed. However, with price growth easing and economic growth slowing, markets still largely expect that the BoC is done with rate hikes, and BoC Governor Macklem in a recent speech had also suggested policy may now be restrictive enough. By maintaining guidance the BoC will be prepared to raise rates further if needed, helping to keep inflation expectations anchored, but with slowing growth the demand side of the equation should keep prices anchored. Attention now is turning to the easing cycle, the decision today saw little reaction to money market pricing and markets are still pricing in c. 110bps of easing in 2024 with the first cut fully priced by April. It is unlikely we will get any guidance on rate cuts shortly, with Macklem recently noting now is not the time to be talking about rate cuts, plus the BoC would be cautious over any rising inflation expectations if the consumer starts to expect rate cuts. The December meeting was a statement-only affair but Deputy Governor Gravelle's has a speech on December 7th. Looking ahead, analysts at Oxford Economics believe that further rate hikes are unnecessary and expect the BoC to hold rates until mid-2024.

FIXED INCOME

T-NOTE (H4) FUTURES SETTLE 7 TICKS HIGHER AT 111-04+

Treasuries twisted and flattened on Wednesday as the duration bid extended on soft ADP and Unit Labor Costs while Fed cut pricing hits a near-term limit ahead of NFP and FOMC. 2s +3.0bps at 4.608%, 3s +1.4bps at 4.344%, 5s -1.0bps at 4.128%, 7s -3.0bps at 4.163%, 10s -4.2bps at 4.129%, 20s -7.2bps at 4.408%, 30s -7.4bps at 4.233%.

INFLATION BREAKEVENS: 5yr BEI -5.2bps at 2.083%, 10yr BEI -4.6bps at 2.155%, 30yr BEI -3.6bps at 2.228%.

THE DAY: After Tuesday's bull-flattener post-JOLTS, Treasuries pared into the APAC session on Wednesday, although the long end continued to hold up much better than the rest of the curve. There was a bid in the European morning with soft German factory orders dampening the growth outlook, supporting USTs too with T-Notes hitting resistance at 110-30 before paring back down to session lows of 110-20+ ahead of the NY handover.

The soft-leaning US ADP employment report and tumble in Unit Labor Costs saw renewed bidding surface in the NY morning, sending T-Notes through their Tuesday peaks of 110-31+ with duration continuing to outperform whilst the short end remained rangebound, with 2yr futs still struggling to make a run on their post-Powell peaks - note some 20k block sellers seen post-ADP in both Sep'24 and Jun'24 SOFR futures. There is likely an element of near-term tape exhaustion as far as rate cut pricing is concerned, with 2024 cuts continuing to gyrate between 125-130bps priced as participants await Friday's NFP that will no doubt play into next week's FOMC and Dot Plot. The long end bid saw T-Notes peak in the NY afternoon at 111-07.

Traders are now looking to Jobless Claims on Thursday and the NFP report and Michigan survey on Friday. Not to mention the approaching mini-refunding announcement on Thursday for next week's 3yr, 10yr, and dreaded 30yr auctions.

FED PRICING: 125bps of cuts are priced across 2024, similar to Tuesday. For comparison, Reuters released the economist poll ahead of next Wednesday's FOMC, where 52/102 surveyed see the Fed waiting until at least July 2024 before cutting rates, less than the 70% in September, while the other 50 see the Fed cutting earlier. 72/100 see the Fed cutting 100bps or less in 2024. And 26/28 respondents said the first Fed cut would be to adjust real interest rates not to start stimulus.

STIRS:

- SR3Z3 +0.5bps at 94.6275, H4 -1bps at 94.885, M4 -3.5bps at 95.23, U4 -5.5bps at 95.59, Z4 -6bps at 95.935, H5 -5.5bps at 96.235, M5 -3.5bps at 96.45, U5 -1bps at 96.575, Z5 flat at 96.615, Z6 +4bps at 96.575, Z7 +6.5bps at 96.485.
- SOFR falls back down to 5.33% as of Dec 5th from 5.37%, volumes rise to USD 1.792tln from 1.631tln.
- NY Fed RRP op demand at USD 0.847tln (prev. 0.834tln) across 85 counterparties (prev. 82).
- EFFR flat at 5.33% as of Dec 5th, volumes flat at USD 103bln.
- US sold USD 56bln of 17-week bills at 5.240%, covered 2.97x.

CRUDE

WTI (F4) SETTLES USD 2.94 LOWER AT 69.38/BBL; BRENT (G4) SETTLES USD 2.90 LOWER AT 74.30/BBL

Oil prices hit multi-month lows on Wednesday amid mixed inventory data and ongoing global growth woes, with OPEC action failing to stop the rot. WTI and Brent bottomed at USD 69.11/bbl and 74.11/bbl, respectively, in the NY afternoon after breaking through their November lows of USD 72.16/bbl and 76.60/bbl earlier on, which had held as support on Tuesday. While the EIA inventory data saw crude stocks draw 4.6mln bbls, much deeper than expected, the products saw a net build of 6.9mln bbls, and Cushing stocks built by 1.8mln bbls. Furthermore, the demand outlook was dimmed amid the tumble in the latest German factory orders reading and the US ADP employment report coming in on the soft side ahead of NFP on Friday. Elsewhere, Reuters' latest OPEC survey saw the cartel's output fall 90k BPD from October to November, the first M/M fall since July, due to lower shipments from Nigeria and Iraq in addition to ongoing supply cuts. Algeria's energy minister said separately that the country does not rule out extending voluntary oil cuts beyond Q1 or taking additional measures. Kuwait also said it supports the OPEC+ agreement and that it is committed to voluntary cuts. While in Brazil, Petrobras (PBR) announced it is to start drilling the much anticipated Rio Grande do Norte's equatorial margin in December.

EQUITIES

CLOSES: SPX -0.39% at 4,549, NDX -0.56% at 15,788, DJI -0.19% at 36,054, RUT -0.21% at 1,852.

SECTORS: Utilities +1.38%, Industrials +0.47%, Health +0.06%, Consumer Discretionary -0.04%, Materials -0.16%, Consumer Staples -0.22%, Real Estate -0.34%, Communication Services -0.47%, Financials -0.5%, Technology -0.93%, Energy -1.64%.

EUROPEAN CLOSES: DAX +0.75% at 16,656.44, FTSE 100 +0.34% at 7,515.38, CAC 40 +0.66% at 7,435.99, Euro Stoxx 50 +0.70% at 4,483.75, IBEX 35 +0.19% at 10,258.10, FTSE MIB +0.81% at 30,326.29, SMI +0.30% at 10,997.80.

STOCK SPECIFICS: **Exxon (XOM)** forecasted higher production and lifted buyback target. **Mastercard (MA)** authorised a USD 11bln share repurchase programme and boosted quarterly dividend by 16%. **Nvidia (NVDA)** CEO said the plan is to continue working with the US government to come up with a new set of products that comply with new chip export regulations. **Electronic Arts (EA)** shares moved from lows after The Information reported that some **Disney (DIS)** execs wanted to buy the gaming co. **Delta Airlines (DAL)** affirmed its outlook provided in October; said consumers are doing very well, they are continuing to prioritise travel, while the experienced economy is doing very, very well. **InMode (INMD)** lowered its FY EPS and revenue outlook. **Cleveland-Cliffs (CLF)** raised current spot market base prices for all carbon hot rolled, cold rolled and coated steel products, effective immediately with all new orders. **SentinelOne (S)** reported a shallower loss per share than anticipated and beat on revenue. Stellar Q4 and FY24 revenue guide. **Toll Brothers (TOL)** earnings beat. Exec said demand remains solid, consistent with normal seasonality, and is encouraged by the recent 75bps drop in mortgage rates. FY24 deliveries above forecast. **Brown-Forman (BF.B)** posted a slight miss on the top and bottom line; cut FY organic net sales and operating income growth view. **Shopify (SHOP)** was downgraded at Wedbush. **Citi (C)** CFO said revenue is expected to be on the lower end of guidance at around USD 78bln (exp. 79.9 bln); expects Q4 trading revenue to drop 15-20% vs Q3 (exp. flat). Added C will do around USD 500mln worth of buybacks during the quarter and expenses need to go down to USD 51-53bln to increase ROTCE to 11-12%. **Comcast (CMCSA)** is to raise the price of TV, internet and phone from next week, according to cost cutters news. **Apple (AAPL)** is reportedly readying the new iPads and M3 MacBook Air for a spring release. Muddy Waters announced it is short **Blackstone Mortgage Trust (BXMT)**. **Ford (F)** said it is unlikely the new Mustang Mach-E EVs will qualify for federal tax credits beginning in January.

CHIPS: **AMD (AMD)** launched its MI300X chip, the highest performing chip yet, where th Co. now forecasts the AI accelerator market at USD 400bln by 2027. AMD stated its new chip has equal training performance to the **Nvidia (NVDA)** H100 chips, but with 2.4x the memory of the H100 and 1.6x memory bandwith of the H100. Note, NVDA's H200 chip has 1.8x more memory than the NVDA H100 and 1.4x memory bandwidth. **Oracle (ORCL)** then announced it will use the new AMD chip in its cloud service while **Meta (META)** will also use the new chip in its data centres.

US FX WRAP

The Dollar was ultimately bid on Wednesday with DXY moving off from lows of 1.0386 seen in wake of a disappointing ADP jobs report and falling Q3 Unit Labor Costs, cushioned somewhat by the productivity beat. The recovery in the Dollar was seen when the risk tone started to sour where equities sold off after the US open, taking the DXY to highs of 104.23 heading into APAC trade.

The Euro saw a peak of 1.0804 vs the buck but it failed to hold above the level as the Dollar pared from lows with EUR /USD at lows heading into APAC trade. Eurozone data saw German Industrial orders tumble while retail sales slightly missed expectations, a full summary can be found in the Newsquawk European Data Wrap. Meanwhile, ECB speak saw Kazmir state a further rate hike is unlikely to be needed, but called market bets for Q1 rate cuts "science fiction". Kazaks also said to Econostream that there is no need to cut rates in H1, but if the situation changes then the ECB decisions might change. Villeroy reiterated the issue of possible rate cuts could be raised in 2024, but not right now.

The Yen was marginally weaker vs the buck with USD/JPY failing to stay beneath 147.00 but also capped ahead of 147.50, with lower UST yields limiting the currency's losses despite the recovery in the Dollar. During APAC hours, BoJ

Deputy Governor Himino said the BoJ will patiently maintain easy policy until sustained, stable achievement of the price target is in sight. The deputy governor also noted the Japanese financial system is likely resilient enough to weather stress from transition to higher interest rates.

Antipodes were mixed. AUD was flat vs the buck while NZD saw marginal gains. AUD underperformance followed weaker than expected growth metrics. AUD/USD remained sub 0.6600 while NZD/USD traded either side of 0.6150.

GBP was weaker vs the Dollar but flat vs the Euro. Cable fell sub 1.2600 to test 1.2550 ahead of APAC trade Thursday. Out of the UK, the latest Construction PMI data disappointed expectations, dipping marginally further into contractionary territory and the report via S&PGlobal/CIPS stated that "Residential construction activity has now decreased in each of the past 12 months and the latest reduction was still among the fastest seen since the global financial crisis in 2009." Elsewhere, BoE Governor Bailey noted in the Financial Stability Report press conference that the full effect of higher rates are yet to be felt, and reiterated that rates will likely need to remain around current levels. The FSR noted that the overall risk environment remains challenging, reflecting subdued economic activity, further risks to the outlook for global growth and inflation, and increased geopolitical tensions.

CAD was flat vs the buck despite tumbling crude prices while little reaction was seen post BoC with a largely dovish statement being offset by the hawkish maintaining of guidance that it is prepared to hike rates further if needed; Full Newsquawk BoC summary available here.

EMFX was mixed. BRL, MXN and CLP saw gains vs the Dollar but COP saw weakness on the downbeat crude price action. In Brazil, the latest IGP-DI inflation index for November printed 0.5%, beneath the 0.6% forecast and in line with the October pace while the primary budget balance surplus was narrower than forecast and the nominal budget balance was a greater deficit than forecast. Out of Mexico, Banxico's Heath said that headline inflation will not continue to decline, and it will be more difficult for the overall inflation trajectory to continue to decline, stressing that Q1 2024 inflation data will be important for future monetary policy decisions.

ZAR and TRY were flat but for the Lira attention lies on details from a meeting between the CBRT Governor and Turkish bank execs that took place on Wednesday.

In CEE, PLN and HUF were marginally weaker vs the Euro with the Polish NBP keeping rates unchanged as expected and reiterating that it may intervene in the FX market and future decisions will be based on data. Hungary's NBH minutes noted the 75bp cut to 11.5% was unanimous, and upcoming decisions will depend on economic data, CPI outlook, and risk management.