US Market Wrap

7th December 2023: Stocks gain on AI optimism while Yen surges on BoJ speculation

- **SNAPSHOT**: Equities up, Treasuries steepen, Crude flat, Dollar down.
- **REAR VIEW**: Hawkish BoJ Governor Ueda comments; Soft European data; Initial jobless claims steady but continued claims fall; Challenger layoffs accelerate; Awful 30yr JGB auction; JBLU raises guidance amid upbeat commentary; GOOGL unveiled Gemini; ABBV to acquire CERE.
- **COMING UP**: **Data**: German CPI (Final), US NFP, UoM Inflation Expectations Survey **Events**: BoE Inflation Attitudes Survey.

MARKET WRAP

Stocks were bid on Thursday with upside led by the Communication sector, particularly Google (GOOGL) as the stock surged on AI prospects after unveiling its latest AI model, Gemini. Tech also surged amid strong gains in semiconductor names, particularly AMD (AMD) after its latest chip unveiling with Meta (META), Oracle (ORCL), and Open AI (MSFT) all noting they will use the latest chip. Bonds had managed to pare the overnight downside sparked by hawkish commentary from BoJ Governor Ueda and a weak 30-year JGB auction. The Yen surged in the wake of the Ueda comments throughout the Asia, Europe and US sessions to see USD/JPY post its largest one-day decline since December 2022, when the BoJ surprised the market by widening its YCC target. Money markets are currently pricing in a 20% probability of a 10bp hike in Japan on 19th December in wake of the commentary and the carry trades saw the largest weakness vs the JPY (MXN, BRL, COP and HUF) on speculation of a BoJ policy shift. Crude prices ultimately settled flat with the upside in Europe paring in the US session. US labour market data on Thursday was mixed, Jobless Claims were steady at 220k but Continued Claims saw a notable decline while Challenger Layoffs accelerated. Attention turns to the US NFP report on Friday for a clear update on the labour market ahead of next week's US CPI and FOMC.

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CHALLENGER LAYOFFS: November Challenger Layoffs rose to 45.5k, accelerating from the 36.8k in October. Meanwhile, employees announced plans to hire 15.5k workers, the lowest YTD total for announced hiring plans since 2015. Meanwhile, for seasonal hires, through November, seasonal employers have announced 573k hires, the lowest total since 518k seasonal hiring plans announced in 2013. Andrew Challenger, labour expert and Senior Vice President of Challenger, Gray & Christmas, Inc states “The job market is loosening, and employers are not as quick to hire. The labor market appears to be stabilizing with a more normal churn, though we expect to continue to see layoffs going into the New Year,”

JOBLESS CLAIMS: Initial jobless claims in the week ending December 2nd rose 1k to 220k while the 4wk moving average rose by 500 to 220.75k. Note, the seasonal factors had expected an increase of 92,007 (or 46.1%) from the prior week. Continued claims, however, saw a notable decline to 1.861mln from 1.925mln, beneath the expected 1.861 mln. The move lower pares a large portion of the jump seen in the previous week from 1.841mln to 1.925mln. It is worth noting that this time of the year the jobless claims data can be quite noisy given the holiday period. However, analysts at Oxford Economics write that looking past the noise, "initial claims remain at a level that is consistent with relatively low layoffs, while the continued claims data suggest that some unemployed individuals may be finding it more difficult to find new jobs".

NFP PREVIEW: While the headline rate of payrolls is seen picking up in November, analysts have cautioned against interpreting it as a sign of labour market resurgence. Indeed, labour market proxies released in the month allude to a slowing of labour market conditions: the weekly initial jobless claims and continuing data for the survey week that coincides with the BLS jobs data ticked up; the ADP's gauge of payrolls, while a poor predictor of the official NFP data, missed expectations; business surveys have also noted that slowdown in hiring. Additionally, the JOLTS data series for October saw a large decline, confirming that the labour market is coming into what Fed officials call "better balance"; officials do not seem concerned about the slowdown, and have suggested that labour market conditions are still very strong. Meanwhile, average hourly earnings are seen rising in the month, but the annual rate is expected to fall slightly. Officials have indicated that they would like to see slower growth and further softening in labour market conditions to help bring inflation back to target. To download the full Newsquawk preview, please click here.

FIXED INCOME

T-NOTE (H4) FUTURES SETTLED HALF A TICK HIGHER AT 111-05

Treasuries were choppy Thursday after initial selling post-BoJ commentary and the 30yr JGB auction reversed into the US session. At settlement, 2s -1.9bps at 4.584%, 3s -1.2bps at 4.326%, 5s -0.6bps at 4.117%, 7s +0.5bps at 4.161%, 10s +1.3bps at 4.134%, 20s +2.2bps at 4.421%, 30s +2.3bps at 4.247%.

INFLATION BREAKEVENS: 5yr BEI +0.5bps at 2.099%, 10yr BEI +1.2bps at 2.173%, 30yr BEI +1.3bps at 2.251%.

THE DAY: It was a busy APAC and European session for rates on Thursday with hawkish BoJ Governor Ueda comments, an awful 30yr JGB auction, and soft European data to contend with. The front end initially led the downside in the Tokyo morning after BoJ Governor Ueda opened the door to a rate hike as early as December, but duration soon took the bearish baton in further spillover from JGBs - with 10yr and 30yr yields showing their largest one-day move since December 2022 and 5yr JGBs the largest since 2013 - after a record tail on the 30yr JGB auction and lowest bid /cover ratio since 2015. T-Notes bottomed at 110-23 (ahead of Weds low at 110-20+) at the London handover before bouncing alongside the whole curve, aided by more weak European data in downward revisions to Q3 GDP and German industrial output showing a surprise fall in October.

T-Notes had been flirting either side of 111-00 heading into the NY session. The flat initial jobless claims figures alongside the reversal lower in the continued claims reading saw T-Notes kneejerk lower to match their earlier session lows at 110-23, but that proved a trap, with the move swiftly paring and led by the front end and aided by a 40k SR3U4 block short covering, while some block sales not long after (6.9k 2yr futs and 10k SR3U4) were gobbled up easily. Heading into the NY afternoon, duration caught up to the short end, flattening the curve and taking T-Notes back towards their globex peaks of 111-09+, just failing to clip figures heading into settlement. Note a chunky 21.2k ZT/9.4k TN block flattener in the NY afternoon adding to the duration bid, which appeared a stop out of a similar-sized steepener from Nov 30th.

Participants now look to Friday's NFP and Michigan survey. It's also worth flagging that we get next week's 3s, 10s, and 30s supply front-loaded across Monday and Tuesday (before FOMC on Wednesday) with no concession in sight, at least so far.

NEXT WEEK'S AUCTIONS: US to sell USD 50bln of 3yr notes and USD 37bln of 10yr notes (reopening) both on Dec 11th, and USD 21bln of 30yr bonds (reopening) on Dec 12th; all to settle on Dec 15th.

FED PRICING: 127bps of cuts are priced across 2024, similar to Wednesday.

STIRS:

- SR3Z3 +0.3bps at 94.633, H4 +0.5bps at 94.890, M4 +2.5bps at 95.255, U4 +3.0bps at 95.620, Z4 +3.0bps at 95.965, H5 +2.0bps at 96.255, M5 +1.5bps at 96.465, U5 +1.0bps at 96.580, Z5 +0.0bps at 96.615, Z6 -0.5bps at 96.570, Z7 -1.0bps at 96.465.
- SOFR fell to 5.32% as of Dec 6th (prev. 5.33%), volumes at USD 1.707tln (prev. 1.792tln).
- NY Fed RRP op demand at USD 0.826tln (prev. 0.846tln) across 83 counterparties (prev. 85).
- EFFR flat at 5.33% as of Dec 6th, volumes flat at USD 103bln.
- US sold USD 80bln of 1-month bills at 5.285%, covered 3.08x; sold USD 80bln of 2-month bills at 5.275%, covered 2.82x.
- Treasury leaves 42-day, 13-, and 26-week auction sizes unchanged at USD 70bln, 75bln, and 68bln, respectively; 13- and 26-week bills sold on Dec 11th, 42-day CMBs sold on Dec 12th; all to settle on Dec 14th.

CRUDE

WTI (F4) SETTLED USD 0.04 LOWER AT 69.34/BBL; BRENT (G4) SETTLED USD 0.25 LOWER AT 74.05/BBL

The crude complex was choppy on Thursday, but settled more-or-less flat, on a lack of oil-specific newsflow. On the day, WTI and Brent hit highs of USD 70.48/bbl and 75.48/bbl, respectively, in the European morning amid some corrective price action after Wednesday's slump and broad Dollar weakness. Nonetheless, oil fell from highs throughout the US session, with some desks citing the weak global economic outlook, to see 6-month lows in the front-month futures of USD 68.80/bbl and 73.60/bbl for WTI and Brent respectively. In terms of energy specific newsflow, Saudi and

Russia praised the "successful efforts" of OPEC+ in boosting stability of global oil markets, while Iraqi Oil Minister noted the country renews its support for OPEC+ agreement and commitment to voluntary cut (currently 220k BPD for Q1). Looking ahead, all participants await the pivotal US jobs report on Friday, before the weekly Baker Hughes rig count.

EQUITIES

CLOSES: SPX +0.80% at 4,585, NDX +1.48% at 16,022, DJIA +0.17% at 36,117, RUT +0.87% at 1,868.

SECTORS: Communication Services +3.22%, Technology +1.28%, Consumer Discretionary +0.9%, Materials +0.67%, Financials +0.4%, Consumer Staples +0.32%, Real Estate +0.09%, Industrials +0.06%, Health -0.08%, Utilities -0.24%, Energy -0.61%.

EUROPEAN CLOSES: DAX -0.16% at 16,628.99, FTSE 100 -0.02% at 7,513.72, CAC 40 -0.10% at 7,428.52, Euro Stoxx 50 -0.21% at 4,473.65, IBEX 35 -1.09% at 10,146.00, FTSE MIB -0.67% at 30,121.77, SMI -0.30% at 10,968.10.

STOCK SPECIFICS: **Google (GOOGL)** unveiled Gemini, an AI model with Ultra, Pro, and Nano tiers, and plans a paid chatbot version in 2024. Google said Gemini Ultra outperformed GPT-4 on most tests. **AbbVie (ABBV)** is to acquire **Cerevel Therapeutics (CERE)** for ~USD 8bln or USD 45/shr, focusing on neurological drugs like those for Parkinson's. CERE closed Wednesday at 36.93. **JetBlue (JBLU)** raised guidance amid upbeat commentary; noted demand for travel remains healthy and experienced strong operational performance during November. **Bristol Myers Squibb (BMY)** lifted its dividend ~5% to USD 0.60/share and announced an additional USD 3bln share buyback programme. **Dollar General (DG)** Q3 earnings beat with SSS declining less than expected; reiterated FY23 guidance. Post earnings, DG said customers continue to say they are feeling significant pressure on their spending; it also anticipates constrained spending heading into 2024. In the near term, expect continued overall pressure on the sales line and particularly in the non-consumables categories. **Western Digital (WDC)** informed customers that prices for NAND flash memory may rise by up to 55% in the coming quarters, according to DigiTimes citing sources. **Chewy (CHWY)** marginally missed on revenue whilst active customers slightly declined. Q4 revenue guide short and lowered FY23 revenue view on weakening demand for pet products. **Take-Two (TTWO)** was downgraded at BofA; said the stock is in a "holding pattern" until the 2025 release of GTA 6. Investors digested the details of the new Instinct MI300X product that **AMD (AMD)** unveiled on Wednesday afternoon; chip is designed to take advantage of the boom in demand for computing power from AI. **Core & Main (CNM)** prices Spot Secondary at USD 35.80/shr. Note, CNM closed Wednesday at USD 37.20/shr. **Sprinklr (CXM)** FY25 guidance was light, although earnings beat while Q4/FY24 guidance topped expectations. **Boeing (BA)** is to slow 737 production ramp-up by about two months based on new supplier master schedule, according to Reuters sources; 737 production of 42 planes per month is now expected for Feb. '24 instead of Dec. '23. **Amazon (AMZN)** told Prime users Wednesday night that Pay with **Venmo (PYPL)** would no longer be available for checkout on their website.

US FX WRAP

The Dollar tumbled on Thursday as strength in the Yen dominated price action (see below). Stateside, data saw mixed labour market reports ahead of the November NFP on Friday. The Challenger Layoffs advanced in November while employee hiring plans hit the lowest YTD total since 2015. Jobless claims were stable at 220k but continued claims saw a notable decline, paring the majority of the spike seen in the prior week, but the jobless claims data can be noisy over the holiday period. DXY fell from highs of 104.20 overnight to lows of 103.25, primarily driven by moves in the Yen.

The Yen surged on Thursday to see its best day since December 2022, when the BoJ widened its YCC target band. The Yen strength was sparked by fresh speculation of a live December 18-19th meeting driven by commentary from BoJ Governor Ueda that the handling of monetary policy would get tougher from the end of the year. Ueda also noted that the BoJ has not made a decision on which interest rate to target once they end NIRP, but options include raising the rate applied to financial institutions' reserves at the BoJ or revert to policy targeting the overnight call rate. The comments saw the market pile on rate hike bets for December, with a c. 20% probability of a 10bp hike in December taking rates to 0.00% being priced in. Note, USD/JPY hit lows of 141.73 with a sharp move lower observed from c. 144.00, breaching beneath 143.00 and the 200d MA at 142.28, albeit the move was very quick and it had quickly pared back above the 200dma and above 143.00.

The move in the **Yen** has been most pronounced against carry currencies, UBS highlights that the move in the Yen implicates the carry strategy, adding it has been one of the best performing systematic strategies this year. The desk writes that "JPY has the most negative carry within liquid FX, systematic funds are heavily positioned for short JPY. However, if JPY strength continues given speculation of a BoJ policy shift, systematic funds are likely to further reduce their exposure on the carry strategy by selling liquid, high-carry currencies like COP, MXN, BRL and HUF".

The Euro firmed vs the buck, primarily as a function of Dollar weakness. EUR/USD managed to climb back above 1.08 heading into APAC trade from lows of 1.0756. Nonetheless, on data, the latest German Industrial output data disappointed, declining 0.4% in October, missing the +0.2% forecast and extending on the prior 1.4% decline. The weak industrial data follows the plethora of weak data out of Germany recently and is increasing recessionary fears. For more, please see the Newsquawk EU Data Wrap. Meanwhile, Goldman Sachs expects the ECB to cut by 25bp a meeting from April 2024 (vs. prev. view of 25bps a quarter) and sees the deposit rate reaching 2.25% by early 2025. The latest Reuters poll shows all 90 economists expect the ECB to keep the Deposit Rate at 4.00% at the December confab, with 51 out of 90 expecting a rate cut by the end of Q2 '24, with the remainder of economists expecting a rate cut in Q3 2024.

Cyclical currencies saw gains against the Dollar downside with strength seen in both Aussie and the Kiwi; AUD/USD regained 0.6600 heading into APAC trade while NZD/USD tested 0.6200 but failed to breach the level with upside in stocks also supporting the risk sensitive currencies. GBP also saw mild gains on the dollar weakness and upside in stocks while it only saw marginal gains vs the Euro with participants looking to next week's BoE rate decision; expected to hold but participants expect the BoE to cut to 5.00% in Q3 2024 from the current 5.25%, and then to 4.5% in Q4 '24.

A lot of the **EM** price action was a factor of carry trade unwind as mentioned above, with weakness seen in BRL, MXN and HUF. COP managed to catch a bid vs the weaker dollar however. ZAR saw notable gains as gold prices were bid but also as the current account data was a much smaller deficit than forecast. Note, in Mexico inflation data saw the headline and core inflation come in marginally on the softer side of expectations, also weighing on the Peso. Elsewhere, CLP was softer despite upside in copper prices, a wider than expected trade surplus in Chile, and hotter than expected inflation. In China, CNH and CNY firmed vs the weaker Dollar with the latest trade data seeing the first expansion in dollar denominated exports since April, while Imports saw a surprise decline, leaving China with a wider than expected trade surplus.

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