US Market Wrap

8th December 2023: Stocks shrug off higher yields on strong jobs report ahead of CPI and FOMC

- **SNAPSHOT**: Equities up, Treasuries down, Crude up, Dollar up.
- **REAR VIEW**: Solid US jobs report; Stellar Michigan sentiment survey; Inflation expectations drop; Soft consumption sparks concern at BoJ for tightening plans; LULU guidance disappoints; Regulators look into MSFT /OpenAI partnership.
- **WEEK AHEAD**: Highlights include FOMC, ECB, BoE, SNB; US CPI and China activity data are also due. To download the report, please click here
- **CENTRAL BANK WEEKLY**: Previewing FOMC, ECB, BoE, SNB; reviewing BoC, RBA, RBI. To download the report, please click here.

MARKET WRAP

Stocks made modest gains on Friday, reversing an initial hawkish reaction to the hot NFP report with participants preparing for next week's CPI and FOMC with a hesitation to miss out on the 'Santa Rally' too. The 199k jobs added in November exceeded the estimated 190k, whilst the unemployment rate also tumbled to 3.7% from 3.9%, despite rising participation, with mixed wage growth figures - doves point to the trend lower in the headline figures once you detract the returning UAW union workers. The figures saw rates bear-flatten with the aggressive Fed cut pricing in recent weeks seeing a notable unwind, with 110bps cuts priced across 2024 now vs 120bps beforehand, although the first rate cut priced remains for May. Note that the tumble in the Uni of Michigan consumer survey's inflation expectations reported after the jobs data had little sustained effect on price action, especially given the headline sentiment index surged. The Dollar ultimately caught a bid, albeit flows were choppy, with the Yen pulling back from its recent peaks - note BoJ sources via Reuters saying recent consumption data is a concern for policymakers who are "eyeing" an exit from NIRP, whilst adding that Ueda did not intend to signal anything about the timing of a policy change. The oil benchmarks saw short-covering after confirming their seventh week of consecutive losses. Gold prices tumbled after the jobs data, testing beneath the USD 2,000/oz figure.

US

NFP: The BLS' non-farm payrolls report saw 199k jobs added to the US economy in November, above the analyst consensus 180k (forecasts ranged from 100-275k), and up from the prior 150k, while the unemployment rate saw a notable move lower to 3.7% from 3.9%, even as the participation rate edged higher to 62.8% from 62.7%. Wages were also on the hot side, with M/M earnings accelerating 0.4% from the prior and expected 0.3% while the Y/Y earnings were in line at 4.0%, although the October Y/Y figure was revised down to 4.0% from 4.1%. While there was a substantial dip in unemployment, it is worth noting it is due to a large increase in the more volatile household survey, which surged 747k, more than offsetting the prior month's 348k decline. Oxford Economics highlights that the return of striking workers boosted job growth by c. 45k, and notes that excluding impact of strikers, payroll employment growth has decelerated notably over the last two months. Money markets have pared back their Fed cut pricing for 2024 in wake of the data to 110bps vs 120bps beforehand, with a March cut now implied at c. 50% vs 65% beforehand, with the May meeting still the first fully priced cut. Renaissance Macro comments, "the labor market is not the primary driver for monetary policy right now. Indeed, there is an asymmetry in the Fed’s policy reaction function: stronger employment will not push them away from a cut as much as weaker inflation will push them towards one" - CPI is due next Tuesday ahead of the FOMC on Wednesday.

MICHIGAN SURVEY: The preliminary University of Michigan consumer sentiment survey for December saw a huge beat. Headline sentiment rose to 69.4 from 61.3, above the 62.0 forecast and above the most optimistic forecast of 65.0, taking it to the highest print since July. The beat was led by gains in both current conditions and the forward-looking expectations sub-index, but the near 10 point jump in expectations was the main driver, rising to 66.4 from 56.8, above the 57.0 consensus. Current conditions rose to 74.0 from 68.3, well above the 68.5 forecast. The report highlights that the primary driver of increased optimism was on the expected trajectory of inflation. Meanwhile, a growing share of consumers, c. 14%, mentioned the potential impact of next year's elections, with this proportion of consumers expecting the election to yield favourable results to the economy. The Fed-followed consumer inflation expectations also saw welcome declines ahead of next week's FOMC and Dot Plot. The 1yr-ahead figure slumped to just 3.1% from 4.5% in

November, the lowest reading since March 2021, and just above the 2.3-3.0% range seen pre-pandemic. The long run 5-10yr expectations, that the Fed pays particular attention to, tumbled to 2.8% from 3.2%, matching the second lowest reading seen since July 2021 but remains above the pre-pandemic range of 2.2-2.6%. Note we get the NY Fed's consumer inflation expectations on Monday.

FIXED INCOME

T-NOTE (H4) FUTURES SETTLE 28+ TICKS LOWER AT 110-08+

Treasuries bear-flattened after the hot US jobs report saw aggressive Fed rate cut pricing reduced ahead of next week's supply, CPI, and FOMC. 2s +14.1bps at 4.721%, 3s +13.9bps at 4.460%, 5s +13.4bps at 4.246%, 7s +12.5bps at 4.281%, 10s +10.8bps at 4.237%, 20s +8.0bps at 4.499%, 30s +7.5bps at 4.321%.

INFLATION BREAKEVENS: 5yr BEI +6.3bps at 2.148%, 10yr BEI +5.6bps at 2.217%, 30yr BEI +4.7bps at 2.287%.

THE DAY: Treasuries moved lower gradually through the APAC session and European morning on Friday. T-Notes hit support at 110-26+ in the Tokyo morning, with further spillover from JGBs, although that level held through into the European morning, where renewed selling resumed to see contracts trundle to troughs of 110-21+ at the NY handover with the belly leading the downside ahead of the US data. Note some BoJ sources released late in Tokyo (via Reuters) that the recent softness in consumption data has presented itself as a source of concern for BoJ policymakers who are "eyeing" an exit from easy policy, also saying that there was no intention by Governor Ueda to signal "anything about the timing of a policy change".

The above forecast NFP figures with falling unemployment rate, rising participation, and mixed wage figures saw a kneejerk bear-flattener and sent T-Notes to session lows of 110-00+, marking WTD lows. But the moves were not sustained and the whole curve swiftly pared a significant amount of the move. T-Notes marked a post-NFP peak of 110-18 in reaction to the big tumble in the Michigan survey's consumer inflation expectations. Yields began to drift higher again into the NY afternoon, but it was only the 2yr yield that managed to stretch a new peak (4.74%) vs those seen right after the jobs report. Heading into the close, duration has relatively outperformed ahead of the 3s and 10s auctions on Monday, the dreaded 30yr and November CPI report on Tuesday, and the FOMC/SEPs on Wednesday.

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: 110bps of cuts are now priced across 2024 vs the near 130bps priced on Thursday, with the implied odds of a March cut now at 50% vs c. 65% beforehand. After NFP, the market has priced out cuts to a greater magnitude a bit further out the curve - particularly in late 2024/early 2025 - than in H1 2024, perhaps suggestive of a labour market report that has reduced the likelihood of a hard landing more than the chance of an administrative cut to keep real rates in check at some point in Q1 or Q2 next year, provided inflation continues its descent (CPI due next Tuesday).

STIRS:

- SR3Z3 -1.75bps at 94.618, H4 -8.5bps at 94.81, M4 -13.5bps at 95.12, U4 -17.5bps at 95.45, Z4 -19.5bps at 95.775, H5 -19.5bps at 96.07, M5 -19bps at 96.285, U5 -17.5bps at 96.415, Z5 -16.5bps at 96.46, Z6 -14bps at 96.435, Z7 -12.5bps at 96.345.
- SOFR flat at 5.32% as of Dec 7th, volumes USD 1.702tln (prev. 1.707tln).
- NY Fed RRP op demand at USD 0.821tln (prev. 0.826tln) across 82 counterparties (prev. 83)
- EFFR flat at 5.33% as of Dec 7th, volumes USD 102bln (prev. 103bln).

CRUDE

WTI (F4) SETTLES USD 1.89 HIGHER AT 71.23/BBL; BRENT (G4) SETTLES USD 1.79 HIGHER AT 75.84/BBL

Oil benchmarks saw short-covering on Friday after the seventh week of consecutive losses. The price action was gradual, rather than newsflow-induced, with WTI and Brent futures peaking at USD 71.63/bbl and 76.36/bbl, respectively, in the NY morning vs the multi-month troughs of USD 68.80/bbl and 73.60/bbl printed on Thursday. The benchmarks saw little sustained reaction to the strong US employment report, with the positive demand signal offset by the stronger Dollar. In terms of energy news, the DoE said the administration will continue refilling the SPR through at least May, saying they hope to buy 3mln bbls barrels of crude in March and will solicit bids for the following two months. In Nigeria, FT reported the Dangote refinery is edging closer to production after receiving its first batch of crude oil after years of delay, where full capacity would be 650k BPD, one of the world's largest. Meanwhile. the Baker Hughes US rig count saw oil rigs down two at 503 and Nat Gas up three at 119.

EQUITIES

CLOSES: SPX +0.41% at 4,604, NDX +0.39% at 16,085, DJI +0.36% at 36,248, RUT +0.67% at 1,881.

SECTORS: Energy +1.12%, Technology +0.9%, Financials +0.5%, Consumer Discretionary +0.43%, Materials +0.33%, Industrials +0.33%, Health +0.18%, Communication Services -0.16%, Utilities -0.22%, Real Estate -0.23%, Consumer Staples -0.65%.

EUROPEAN CLOSES: FTSE 100 +0.54% at 7,554.47, IBEX 35 +0.76% at 10,223.40, CAC 40 +1.32% at 7,526.55, AEX +0.71% at 781.85, PSI +0.58% at 6,567.11, FTSE 250 +0.45% at 18,701.99, DAX +0.78% at 16,759.22, FTSE MIB +0.94% at 30,403.90, SMI +0.95% at 11,071.77, Euro Stoxx 50 +1.08% at 4,522.25.

STOCK SPECIFICS: **Broadcom (AVGO)** beat on EPS although missed on revenue. AVGO expects to take charges of approximately USD 1.3bln through FY2025 for implementation of cost-reduction activities; will provide details of VMW acquisition-related restructuring costs as part of its financial reporting. **Lululemon (LULU)** beat on EPS and revenue although the midpoint of Q4 guidance was weaker than forecast. It also announced an additional USD 1bln buyback programme. UK CMA, US FTC and EU antitrust regulators announced they are seeking views on **Microsoft's (MSFT)** deal with OpenAI. **Lam Research (LRCX)** and **Qualcomm (QCOM)** were downgraded at Morgan Stanley. **Tesla (TSLA)** was named a top short idea for 2024 at Bernstein. **Apple Inc. (AAPL)** is to move key iPad engineering resources to Vietnam, according to Nikkei. Elsewhere, Apple is to increase iPhones made in India to over 50mln, via WSJ. **Honeywell Int'l Inc. (HON)** is to purchase **Carrier Global's (CARR)** security unit for USD 5bln, via WSJ. **Crown Castle (CCI)** announced its CEO is to retire, handing a win to Elliott who stated the leadership change is a step in the right direction. **Roblox (RBLX)** jumped after Nicki Minaj made an account on the platform. **Vertex (VRTX)** and **Crispr (CRSP)** received FDA approval for Casgevy, a treatment for sickle cell disease. **Bluebird Bio's (BLUE)** treatment of sickle cell disease, Lyfgenia, also received approval, but with a black box warning. **Eli-Lilly (LLY)** announced a 15% dividend increase to USD 1.30/shr for Q1 2024. **Phillips 66 (PSX)** announced its 2024 capital expenditure plans above expectations. **Endeavor Energy Partners (private)** is exploring a sale that could value the oil and gas producer in the Permian basin at between USD 25-30bln, according to Reuters sources. Teamsters Union announced **UPS (UPS)** agreed to reinstate Teamsters in Louisville; all affected workers will receive full back pay and return to their positions on their next scheduled work days. **Sunnova (NOVA)** tumbled after House Republicans sent a letter to DOE expressing concern about rewarding the co.

WEEKLY FX WRAP

DXY

Overall, a positive week for the broader Dollar and Index in a week characterised by a slew of US data and no Fed speak in the run-up to the final FOMC confab next week. The highlight of the week was the US jobs report for November, which saw 199k jobs added (vs exp. 180k), whilst the Unemployment rate unexpectedly fell to 3.7% from 3.9% (vs. exp. 3.9%), Earnings M/M ticked up to 0.4% from 0.2% (exp. 0.3%), and Participation rose to 62.8% (prev. 62.7%). The market was choppy with an initial reaction clearly hawkish, albeit fleeting, with DXY pulling back to pre-announced levels just after eking a fresh weekly high of 104.27. Fed pricing saw Jan implied probability of a 25bp cut fall to 5% from 13% before the data, March fall from 65% to 53%, with total cuts priced across 2024 falling from 120bps to 115bps although pricing hit lows of 110bps in the immediacy.

In terms of data throughout the week, the Durable Goods release was unrevised whilst Factory Orders printed below expectations, S&P Global PMIs were unrevised, ISM Services PMI topped forecast at 52.7 (exp. 52.0) while Prices Paid eased to 58.3 (from 58.6), and the JOLTS October metric missed forecasts at 8.733mln (exp. 9.3mln). ADP on Wednesday printed sub-forecasts, MBA Mortgage Applications printed at 2.8% (prev. 0.3%) while US international trade showed a larger-than-expected deficit. Challenger Layoffs ticked higher (45.51k vs prev. 36.836k) while Initial Jobless Claims were stable (220.0k vs. exp. 222.0k; prev. 218.0k, rev. 219k), and Continued Claims saw a downtick (1.861M vs. exp. 1.91M; prev. 1.927M, rev. 1.925M). On Thursday, the DXY was dragged lower by the notable JPY strength on that day (more below).

Looking at technicals, DXY looks to end the European week closer to the top of a 103.06-104.26 weekly parameter – failing to reach its 100 DMA (104.51) post-NFP, with the index around its 100 WMA and 21 DMA (103.87 and 103.86 respectively) at the time of writing. DYX is also set to end trade north of its 200 DMA (103.56). Ahead, next week’s highlight will be the FOMC whereby the consensus now thinks that the Fed is done with rate hikes, despite Chair Powell stating before the pre-meeting blackout that the central bank was prepared to tighten policy further if it becomes appropriate to do so.

JPY

The substantial JPY strength seen on Thursday was attributed to a surge in JGB yields coupled with commentary from BoJ Governor Ueda, who although maintained a dovish stance, also provided options on policy targets upon the end of NIRP. Furthermore, the Governor suggested that "handling of monetary policy would get tougher from the end of the year" – a comment which has sparked speculation of a live December 18-19th meeting following last year's surprise December YCC tweak. Ueda also met with PM Kishida on Thursday but nothing substantial about their discussion was released to the press. Analysts at ING suspect that speculation of a BoJ move at the December meeting is "premature since there is no accompanying Outlook Report - a report that could show CPI sustainably hitting 2% and justifying an end to negative rate policy… The size of the drop in USD/JPY and the volatile intraday price-action is a clear consequence of the heavy short positioning on the yen into this round of hawkish speculation on Japanese rates", said the desk at ING following Thursday's Yen strength.

On Friday, Reuters sources suggested the recent softness in consumption has presented itself as a source of concern for BoJ policymakers who are "eyeing" an exit from easy policy. The sources add there was no intention by Governor Ueda to signal "anything about the timing of a policy change". Data-wise in Japan, the currency failed to react to softer-than-expected Tokyo CPI metrics overnight - which is seen as a leading indicator of the national trend. Some of the hawkish BoJ sentiment was also tempered on Friday amid downgrades to Japanese Q3 GDP metrics (Q/Q: -0.7% vs. exp. -0.5%; Y/Y -2.9% vs exp. -2.0%).

EUR, GBP

Both are set for hefty weekly losses largely as a function of the Dollar. The single currency felt pressure early in the week after ECB hawk Schnabel hit the wires remarking that the current level of restriction is sufficient, has increased confidence that the 2% target will be met in 2025 but the ECB must not declare victory prematurely, whilst further hikes are "rather unlikely" after November inflation data. This line that further hikes are "rather unlikely" after November inflation data echoes Villeroy on last Friday. Furthermore, ECB's Kazaks also suggested rate cuts in H1 are not needed at the moment, but a change in the situation could lead to another outcome, which deviates a touch from his usual hawkish hymn sheet. The single currency also digested dismal German factory data including Factory Orders and Industrial Production which underscored the fragility of Europe's largest economy. The revisions higher in Final Services and Composite PMIs from France and Germany provided a brief reprieve from the selling. Elsewhere, the EU-China summit this week provided no meaningful updates, whilst sources cited by the SCMP are doubtful that the summit will alter the downward trajectory of the relationship. EUR/USD looks to end the European week towards the bottom of a 1.0723-1.0895 weekly range, after falling through its 200 DMA (1.0821), 100 DMA (1.0761) and reaching levels close to its 50 DMA (1.0702). Participants now look ahead to next week's ECB.

Sterling similarly suffered despite a lack of pertinent catalysts. Early in the week, the latest YouGov/Citi survey which showed the British public's expectation for inflation in 5yr-10yr time rose to 3.5% from a prior 3.3% view in September, whilst UK BRC Retail Sales YY for November printed at 2.6% vs. Exp. 2.5% (Prev. 2.6%). Little reaction was seen to revisions higher in UK Services and Composite PMI Finals. The BoE Financial Stability Review and accompanying comments from Governor Bailey also did little to sway the currency. GBP/USD looks to end the European week towards the bottom of a 1.2502-2725 range as traders gear up for the BoE confab on Super Thursday.

AUD, NZD, CAD

The non-US Dollars are all set to end the week lower but off worst levels, largely as a function of the Dollar, although the Aussie was dealt a blow early in the week from an underwhelming RBA release, whilst there was little reaction to the mixed Chinese and Aussie trade data. To recap, the RBA kept the Cash Rate Target unchanged at 4.35%, as expected, while it reiterated its forward guidance that whether further tightening is required to ensure inflation returns to the target in a reasonable timeframe will depend upon data and the evolving risk assessment. Notably, the release did not include any hawkish undertones that some had hoped for following Governor Bullock's recent commentary. Sticking with central banks the BoC ultimately left its rate unchanged at 5.00% as expected, whilst dropping the October language regarding inflationary risks increasing, but reiterating that it is prepared to hike if needed. USD/CAD was largely unreactive to the decision.

AUD/USD fell from a 0.6691 to a 0.6525 weekly low but looks to finish the European session above the 0.6550 level, with the pair spending most of the week on either side of its 200 DMA (0.6569). NZD/USD is poised to end the week under its 50 WMA (0.6132) in a 0.6103-6226 weekly band with the next downside level the 200 DMA (0.6088). AUD /NZD recoiled from a post-RBA low of 1.0646 to levels closer to 1.0750. USD/CAD is set to end the European day closer to 1.3600 after notching a 1.3479-3619 weekly range.