



## US Market Wrap

### 11th December 2023: Indices grind higher ahead of a plethora of risk events

- **SNAPSHOT:** Equities up, Treasuries steepen, Crude flat/up, Dollar flat.
- **REAR VIEW:** NY SCE sees 1yr ahead ease with 3 and 5yr unchanged; Dovish BoJ sources; Poor US 3 and 10yr auctions; CI cancels HUM merger plans; M receives USD 21/shr buyout offer;
- **COMING UP: Data:** Australian NAB Business Conditions, UK Employment, EZ & German ZEW, US NFIB, CPI, Japanese Tankan Index **Supply:** Australia, Japan, UK, US.
- **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 were predominantly higher on Monday with stocks catching a bid from the open and grinding higher until the close with outperformance in the Nasdaq. The upside came despite notable weakness in the heavyweight stocks but with notable upside in the Semiconductor space aside from Nvidia (NVDA). On data, the latest NY Fed Consumer Inflation expectations saw the volatile 1-year ahead forecasts ease while the 3 and 5-year forecasts were left unchanged. In FX, the Yen saw notable selling after the rally last week on dovish Bloomberg BoJ sources which downplayed the idea of an end to NIRP at the December meeting. The dollar was ultimately little changed with earlier upside reversing as yields sold off in the wake of the 3 and 10-year auctions ahead of 30-year supply on Tuesday. Oil prices were choppy but ultimately settled flat as markets still digest the latest OPEC+ production cuts while nat gas tumbled on more mild weather forecasts. It was very much calm before the storm on Monday ahead of a plethora of risk events later in the week, with eyes turning to US CPI, US 30-year auction, FOMC, ECB, SNB and BoE.

## FIXED INCOME

### T-NOTE (H4) FUTURES SETTLED 2 TICKS HIGHER AT 110-10+

**Treasuries were choppy on Monday, amid BoJ sources and poor 3yr and 10yr auctions not enough to sustain a more meaningful sell off, with market activity on the light side ahead of CPI.** At settlement, 2s -0.4bps at 4.723%, 3s -0.3bps at 4.463%, 5s -0.5bps at 4.250%, 7s -0.9bps at 4.277%, 10s -0.8bps at 4.237%, 20s +0.5bps at 4.508%, 30s +0.3bps at 4.329%

**INFLATION BREAKEVENS:** 5yr BEI -2.4bps at 2.136%, 10yr BEI -2.3bps at 2.207%, 30yr BEI -3.4bps at 2.266%

**THE DAY:** It had been a slow and small move lower for USTs throughout the APAC and European session on Monday. The downside resumed from Friday's post-NFP sell-off, but found some additional momentum after fresh BoJ sources on Monday in Bloomberg that the bank sees little need to end negative rates in December. T-Notes hit an interim low of 110-00+ in the NY morning, hovering near lows, and showing a lack of follow-through demand after the fall in the NY Fed's survey of consumer inflation expectations. The poor 3yr auction further scuppered any recovery attempt before a session low of 109-31+ was printed on the back of the poor 10yr auction. But, prices swiftly reversed off the lows heading into settlement with a lack of appetite to chase the downside ahead of CPI and the 30yr auction on Tuesday in addition to the FOMC on Wednes

**3YR AUCTION:** A poor USD 50bln 3yr auction from the Treasury with the 1.7bp tail of the When Issued yield for a stop of 4.490% well above the six-auction average tail of 0.1bps and the prior stop-through of 0.1bps. The 2.42x bid/cover ratio was beneath the prior 2.67x and the average 2.74x. Dealers were left with a chunky 26.2% of the offering, well above the prior 16.3% and average 16.1%, amid a tumble in Indirects participation to 52.1% from 64.6% last month.

**10YR AUCTION:** The USD 37bln 10yr reopening from the Treasury was not well received either. The auction stopped at 4.296%, marking a 1.4bp tail of the When Issued, worse than the prior 0.8bps and above the six-auction average 0.9bps. The auction was covered 2.53x, which was better than the prior 2.45x and average 2.49x. However, Dealers were



left with 17.3% (prev. 15.1%; avg. 14.6%), with Indirects participation falling M/M to 63.8% from 69.7%. While the poor 3yr and 10yr auctions are in fitting with the recent trend of increased offerings from the Treasury seeing weaker demand, it's likely that the demand picture has been further muddled ahead of CPI on Tuesday and the FOMC on Wednesday. The 30yr on Tuesday will at least benefit/suffer from the CPI data being in the rear view, but note it has been the 30yr auctions that have seen the worst turnouts across the curve in recent months.

**STIRS:**

- SR3Z3 -0.5bps at 94.610, H4 -0.5bps at 94.805, M4 +0.0bps at 95.115, U4 +0.5bps at 95.450, Z4 +1.0bps at 95.775, H5 +0.0bps at 96.060, M5 -1.0bps at 96.270, U5 -1.5bps at 96.390, Z5 -1.5bps at 96.440, Z6 -1.5bps at 96.420, Z7 +0.0bps at 96.345.
- SOFR flat at 5.32% as of Dec 8th, volumes fall to USD 1.610tln (prev. 1.702tln).
- NY Fed RRP op demand at USD 0.839tln (prev. 0.821tln) across 82 counterparties (prev. 82).
- EFFR flat at 5.33% as of Dec 8th, volumes fall to USD 101bln (prev. 102bln).
- US sold USD 69bln of 6-month bills at 5.190%, covered 3.03x.

**CRUDE**

**WTI (F4) SETTLED USD 0.09 HIGHER AT 71.32/BBL; BRENT (G4) SETTLED USD 0.19 HIGHER AT 76.03/BBL**

**The crude complex was marginally firmer to start the week in a day of thin newsflow and lack of drivers ahead of the key risk events later in the week.** While oil-specific headlines were light, over the weekend China experienced rising disinflationary pressures with the November PPI and CPI declining more-than-expected. On the day, WTI and Brent trundled to session lows of USD 70.35/bbl and 75.01/bbl, respectively in lack of any fundamental catalyst before paring the move throughout the US session to hit highs of 71.81/bbl and 76.50/bbl. Elsewhere, Citi writes that OPEC+ will need to maintain cuts next year to balance the market, adding OPEC+ can keep prices supported at USD 70-80/bbl. Reuters citing analysts and traders later said OPEC+ oil output cuts of 2.2mln BPD in Q1 may not be long enough as crude oil physical and futures show increasing signs of surplus ahead of their implementation. Looking ahead, the week is packed with risk events, including US CPI (Tues), FOMC (Wed), BoE, ECB, and SNB (Thurs).

**OCCIDENTAL:** On energy M&A, Occidental Petroleum (OXY) agreed to acquire privately held energy producer CrownRock for ~USD 12bln. Following this, OXY later said it expects Permian production of 750k BPD of oil and gas in 2024 and plans to grow Permian oil production 0-5% per year.

**EQUITIES**

**CLOSES:** SPX +0.39% at 4,622, NDX +0.85% at 16,221, DJIA +0.43% at 36,404, RUT +0.15% at 1,883.

**SECTORS:** Consumer Staples +0.97%, Industrials +0.9%, Materials +0.71%, Financials +0.68%, Utilities +0.67%, Health +0.61%, Technology +0.42%, Real Estate +0.33%, Energy +0.12%, Consumer Discretionary +0.12%, Communication Services -1.04%.

**EUROPEAN CLOSES:** DAX +0.21% at 16,794.43, FTSE 100 -0.13% at 7,544.89, CAC 40 +0.33% at 7,551.53, Euro Stoxx 50 +0.36% at 4,539.65, IBEX 35 -0.25% at 10,198.00, FTSE MIB +0.07% at 30,426.58, SMI +0.47% at 11,124.20.

**STOCK SPECIFICS:** **Cigna (CI)** cancelled merger plans with **Humana (HUM)** due to a disagreement over financial terms, opting for a big stock buyback instead. CI reaffirmed FY23/24 guidance, and raised its buyback programme by USD 10bln, bringing the total to USD 11.3bln. Arkhouse Management and Brigade Capital Management proposed a USD 5.8bln buyout offer or USD 21/shr offer to take **Macy's (M)** private. Note, M closed Friday at USD 17.39/shr. **Occidental (OXY)** agreed to acquire privately held energy producer CrownRock for ~USD 12bln; OXY intends to increase quarterly dividend to USD 0.22/shr (prev. 0.18). **Boeing (BA)** appointed Stephanie Pope as executive VP and COO; positioning her as the potential successor to CEO Calhoun. **Nvidia (NVDA)** aims to establish a semiconductor base in Vietnam. Separately, CFO said he would love to have a third foundry partner and expressed the possibility of outsourcing chipmaking to Intel (INTC), according to DigiTimes. **Pinterest (PINS)** was upgraded at RBC Capital; said co. "stands out" as a way to play the shift of internet-based advertising platforms chasing impulse shopping's USD 241bln ad spend. **Nike (NKE)** was upgraded at Citi; more optimistic about Nike's ability to protect earnings in FY24/25 despite a "choppy" macro environment. **Snap (SNAP)** and **Best Buy (BBY)** were upgraded at Wells Fargo and Jefferies, respectively. **Hollysys (HOLI)** to be acquired by Ascendant Capital Partners for USD 1.66bln or USD 26.50/shr in cash. Note, HOLI closed Friday at USD 22.70/shr. US Commerce Secretary Raimondo said **Nvidia (NVDA)** "can, will and should sell AI chips to China" for commercial purposes. The Commerce Department is in talks with Nvidia about AI chip sales to China and said NVDA wants to do the right thing when it comes to AI chip sales to China.



## US FX WRAP

**The DXY** was ultimately flat on Monday with price action tracking Treasuries with DXY falling from peaks of 104.26 back to c. 104.00 as yields eased off best levels in wake of the 10yr auction. Attention turns to US CPI and the 30-year bond auction on Tuesday ahead of the FOMC on Wednesday, with particular attention on the median 2024 dot.

**The Yen** saw notable weakness driven by a dovish BoJ sources piece from Bloomberg that stated the BoJ is said to see little need to end negative rates in December, with now just a 5% probability of a 10bp hike being priced in vs a 20% probability last week. As such, USD/JPY saw a high of 146.58 against an earlier low of 144.82.

**The Euro** was flat and traded either side of 1.0750 ahead of the ECB on Thursday. Meanwhile, on the German fiscal situation, Goldman Sachs suggests the fiscal drag is not as bad as feared. GS expects a funding shortfall of c. EUR 17-19bln and they expect the eventual economic impact to be less meaningful than the headline suggests. GS have lowered their 2023 and 2024 growth forecasts by 0.2% and 0.1%, respectively, and see two-sided risks depending on the evolution of the nature of the political situation.

**The Yuan** saw mild weakness vs the Dollar after the latest inflation report out of China saw CPI and PPI come in cooler than expected with CPI M/M declining 0.5% (exp. -0.1%), with Y/Y -0.5% (exp. -0.1%), while the PPI fell 3.0% (exp. 2.8%). Meanwhile, Chinese leaders reportedly started a closed-door meeting on Monday to discuss economic targets and map out stimulus plans for 2024, according to Reuters sources.

**Antipodes** were mixed with AUD seeing marginal weakness vs the Dollar while NZD saw marginal strength as the upside in equities likely helped keep the Aussie from falling further. AUD/NZD saw further downside to just above 1.07 on Monday.

**GBP** saw slight gains vs the Buck and the Euro with focus turning to the BoE rate decision on Thursday. CAD saw strength vs the Dollar amid choppy crude prices which ultimately settled flat with USD/CAD falling sub 1.3600 to test 1.3550.

**Scandis** were softer vs the Euro with SEK the underperformer of the two currencies. In Norway, Norwegian CPI was cooler than expected in November. Meanwhile, for the SEK, Riksbank's Bunge said inflation is on the way down, but a weak SEK is contributing to uncertainty. Bunge said the central bank needs to monitor the exchange rate closely, and noted that economic conditions in Sweden relative to the rest of the world indicate the SEK will strengthen. Bunge also noted the SEK can strengthen relatively quickly once there is a turnaround, suggesting "maybe we are already there".

**EMFX** was mixed vs the Buck. BRL was flat while MXN saw mild weakness with both the BCB and Banxico rate decisions due later this week. BCB is expected to continue its easing cycle in 50bp increments while Banxico is expected to keep rates unchanged, although one analyst expects a 25bp rate cut. COP saw mild gains vs the Dollar but CLP tumbled as copper prices tumbled.

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