# US Market Wrap

## 12th December 2023: Treasuries and Stocks shake off CPI losses ahead of FOMC

- **SNAPSHOT**: Equities flat/up, Treasuries up, Crude down, Dollar down.
- **REAR VIEW**: US CPI largely in-line; Strong US 30yr auction; Rising geopolitical tensions; Mixed German ZEW report; UK wages ease; Epic Games wins Google Play antitrust fight; ORCL revenue & cloud revenue light.
- **COMING UP**: **Data**: UK GDP Estimates, Services, Manufacturing Output, EZ Industrial Production, US MBA, PPI, NZ GDP **Events**: Fed & BCB Policy Announcement **Speakers**: Fed Chair Powell Press Conference **Supply**: Italy, UK.

## MARKET WRAP

Stocks were ultimately firmer on Tuesday after the initial downside seen amid the release of the November US CPI figures unwound through the session. The Core CPI figures rose as expected -- 0.3% M/M and 4.0% Y/Y -- with upside coming from used vehicles and trucks in addition to a pick-up in shelter inflation; the headline M/M rose 0.1% (above exp. 0.0%), while the headline Y/Y lifted 3.1% as expected. The latest CPI figures are unlikely to see any last-minute changes to the Fed's Dot Plot due to be released on Wednesday. Meanwhile, the strong 30yr Treasury auction (first stop-through since June) later in the session supported the recovery in stocks into the close. It is worth noting that the NDX led the gains, while the Russell 2k small-cap index (which has been benefiting the most lately from the pricing of Fed easing) underperformed, closing flat. Fed pricing sits more hawkish to pre-data levels with 110bps of cuts priced across 2024 now vs 117bps before the data, with the first fully priced cut still remaining for May. Treasury yields are lower by a few bps in the belly and long end with the 2yr yield little changed. The Dollar Index saw modest losses, with the Yen seeing the biggest strength in the G10 space, but still tame vs. the moves seen in recent sessions as the currency finds its footing to the fluid BoJ outlook. Sterling failed to benefit from the Dollar's weakness after soft UK wage figures ramped dovish BoE pricing for 2024 ahead of the meeting on Thursday. In commodities, oil prices tumbled to their lowest since June, with the downside beginning late in the European morning and carrying through into the energy settlement in lack of an obvious catalyst aside from the usual global demand headwinds.

## US

**CPI**: Overall, CPI was in line with expectations. Headline M/M rose 0.1%, a touch above the expected and prior 0.0% print while the Y/Y rose 3.1%, in line with forecasts and down from the prior 3.2%. Core M/M was in line at 0.3%, accelerating marginally from the prior 0.2% while the Y/Y rose 4.0%, in line with the prior and forecast. Looking into the breakdown, the index for shelter continued to rise in November, +0.4% (prev. +0.3%), meanwhile used car prices also surged 1.6% in November, despite five months of consecutive decreases. Pantheon highlights the rise in used car sales and notes they have to expect a renewed sustained decline over the next few months. The consultancy also notes that the biggest contribution to the core was rents, but the consultancy does note that the rate of increase is slowing. The data will do little to alter the Fed's thinking for the December meeting, but it will be digested to help with their Dot Plot forecasts. However, likely, inflation is still too high for the Fed to consider declaring victory just yet, and they may opt to fight back against the aggressive cuts being priced in by the market.

**FED PREVIEW**: The Fed is all but certain to keep rates unchanged on Wednesday at 5.25-5.50% with focus on the accompanying SEPs ('Dot Plot') to gauge the magnitude of cuts in store for 2024 and beyond. The statement is expected to see minor tweaks but still maintain the optionality for further tightening. The SEPs will be the key focus, and there are expectations for a downward revision to the 2024 median Fed rate projection from the 5.1% seen in September on account of the faster progress than expected in the reduction of inflation and some signals of deteriorating economic growth, although the continued strength of the labour market will be capping the magnitude of any downward revision we may see. Chair Powell is expected to use his presser to push back against some of the recent aggressive pricing of rate cuts. To download the full Newsquawk preview, please click here.

## FIXED INCOME

### T-NOTE (H4) FUTURES SETTLED 7 TICKS HIGHER AT 110-17+

**Treasury yields close a few bps lower on the session after losses post-CPI were pared into and after the strong 30yr auction**. 2s +0.6bps at 4.733%, 3s -1.1bps at 4.431%, 5s -2.4bps at 4.227%, 7s -3.0bps at 4.248%, 10s -3.1bps at 4.208%, 20s -2.8bps at 4.480%, 30s -2.5bps at 4.305%.

**INFLATION BREAKEVENS**: 5yr BEI -4.2bps at 2.098%, 10yr BEI -2.9bps at 2.179%, 30yr BEI -2.4bps at 2.243%.

**THE DAY**: After recovering from the poor 3yr and 10yr auction on Monday, the upside for USTs continued in the APAC session on Tuesday with some geopolitical angst after the Russian Defence Ministry said a Ukrainian-launched tactical ballistic missile was shot down over the Belgorod region in Russia and the Yemen Houthis reportedly attacked a ship. The strong 5yr JGB auction added spillover strength. T-Notes entered the NY session at fresh highs after finding further tailwinds in London morning on the soft UK wage figures.

The in line Core CPI figures with mixed internals saw two-way flows in USTs, with T-Notes spiking to session highs of 110-31+ before swiftly reversing lower. Contracts stretched to session lows of 110-07+ later in the NY morning with an eye to the 30yr auction. But there was a lack of further concession with participants tetchy ahead of FOMC, and contracts were already drifting higher again heading into the afternoon. The first stop-through since June for the 30yr resulted in a bid across the whole curve, although the peaks from earlier were not tested with yields closing a few bps lower on the day.

**30YR AUCTION**: A strong 30yr bond reopening from the Treasury with USD 21bln sold at 4.344%, marking a stop-through of 0.3bps, the first stop-through since June whilst being night and day compared to last month's historically poor 5.3bp tail and the six-auction average of a tail of 2.1bps. The auction was covered 2.43x, above the prior 2.24x and average 2.40x. Dealers were left with 14.2%, down from the prior 24.7% and less than the average 15.2%, with both Indirects and Directs participation increasing. The auction will provide a sigh of relief to the Treasury after bucking the recent trend of very poor 30yr offerings, also offsetting the bad 3yr and 10yr auctions on Monday.

**FED PRICING** has shifted hawkishly post-CPI, with 110bps of cuts priced across 2024 vs 117bps just before the data. The implied probability of a March cut has fallen to 44% from 52%, while the first fully priced cut remains the May meeting.

**STIRS**:

- SR3Z3 -0.25bps at 94.61, H4 -1.5bps at 94.79, M4 -2bps at 95.10, U4 -2.5bps at 95.43, Z4 -1.5bps at 95.765, H5 -0.5bps at 96.06, M5 +0.5bps at 96.275, U5 +2bps at 96.415, Z5 +3.5bps at 96.475, Z6 +5.5bps at 96.475, Z7 +5bps at 96.395.
- SOFR flat at 5.32% as of Dec 11th, volumes at USD 1.577tln (prev. 1.61tln).
- NY Fed RRP op demand at USD 0.838tln (prev. 0.839tln) across 97 counterparties (prev. 82).
- EFFR flat at 5.33% as of Dec 11th, volumes USD 102bln (prev. 101bln).
- US sold USD 70bln of 42-day CMBs at 5.285%, covered 2.85x.
- US leaves 4-, 8-, and 17-week bill auction sizes unchanged at USD 80bln, 80bln, and 56bln, respectively; 4- and 8-week to be sold on Dec 14th and 17-week bills on Dec 13th; all to settle on Dec 19th.

## CRUDE

**WTI (F4) SETTLED USD 2.71 LOWER AT 68.61/BBL; BRENT (G4) SETTLED USD 2.79 LOWER AT 73.24/BBL**

**Oil prices tumbled to their lowest levels since June on Tuesday despite some rising geopolitical tensions**. The downside began late in the European morning and extended all the way into the settlement, seeing WTI and Brent break beneath their Dec 7th lows of USD 68.80/bbl and 73.60/bbl, respectively. There were no major energy-specific updates on Tuesday, although the EIA STEO did cut its 2023 and 2024 world oil demand forecasts slightly. There were a few geopolitical rumblings, with the Russian Defence Ministry saying a Ukrainian-launched tactical ballistic missile was shot down over the Belgorod region in Russia, in addition to reports of the Yemen Houthis attacking a ship. However, neither appeared to sustain any risk premium pricing in the oil benchmarks. Attention now falls on the weekly energy inventory data; this week's expectations (bbls): Crude -0.7mln, Gasoline +1.9mln, Distillate +0.6mln.

## EQUITIES

**CLOSES**: SPX +0.46% at 4,643, NDX +0.82% at 16,354, DJIA +0.48% at 36,577, RUT -0.13% at 1,881.

**SECTORS**: Technology +0.83%, Financials +0.72%, Materials +0.57%, Health +0.47%, Industrials +0.46%, Consumer Discretionary +0.4%, Consumer Staples +0.31%, Communication Services +0.2%, Real Estate -0.05%, Utilities -0.41%, Energy -1.36%.

**EUROPEAN CLOSES**: DAX -0.02% at 16,791.74, FTSE 100 -0.03% at 7,542.77, CAC 40 -0.11% at 7,543.55, Euro Stoxx 50 -0.10% at 4,535.75, IBEX 35 -0.78% at 10,118.70, FTSE MIB -0.28% at 30,342.15, SMI +0.15% at 11,146.70.

**STOCK SPECIFICS**: **Alphabet (GOOG)** lost its Google Play antitrust fight with Epic Games, but GOOGL said it will appeal the ruling. **Oracle (ORCL)** revenue and cloud revenue missed. **Apple (AAPL)** has offered to let rivals access its tap-and-go mobile payments systems used for mobile wallets in a move that could settle EU antitrust charges and fight off a possible fine. **Lucid Group (LCID)** CFO Sherry House resigned, effective immediately. **Hasbro (HAS)** will cut nearly 20% of the workforce amid sluggish sales as weak sales for toys and games persist even amid the holiday shopping period. **Boeing (BA)** is cutting at least 50% of strategy staff assigned to divisions as part of strategy reorganisation, while the strategy cuts go further and faster than initially expected. Separately, the FAA proposed three directives to mandate engine housing inspections and component replacements on Boeing (BA) 737 airplanes after the 2018 Southwest Airlines (LUV) fatal fan blade incident. **Centene (CNC)** raised stock repurchase programme by USD 4bln with FY24 revenue view above expectations. **Choice Hotels (CHH)** launched a hostile takeover offer for **Wyndham Hotels & Resort (WH)** with the offer unchanged from the prior proposal, which equates to USD 90/shr. Note, WH closed Monday at USD 79.56/shr. **AstraZeneca (AZN)** will acquire **Icosavax (ICVX)** for USD 15/shr, alongside 5/shr milestones, for a combined consideration of USD 1.1bln. **Walgreens (WBA)** revives discussions on GBP 7bln Boots exit with the talks at an early stage; deal to come next year at earliest, according to Bloomberg sources. **Johnson Controls (JCI)** missed on the top and bottom line alongside guidance for both next quarter and FY disappointing. **L3Harris (LHX)** details financial objectives and value creation strategy at 2023 investor day; forecasts through 2026, USD 23bln in revenue, 16% segment operating margins, and USD 2.8bln FCF. FY24 revenue view "about" USD 21bln (exp. 21.6bln).

## US FX WRAP

**The Dollar** was weaker on Tuesday and saw two-way action after the US CPI print, as it initially spiked higher before falling to its daily low of 103.48 a few minutes later, only to reverse higher again. On the report, headline CPI M/M rose 0.1% (exp. & prev. 0.0%) with Y/Y at 3.1% (exp. 3.1%, prev. 3.2%), while Core M/M and Y/Y were in line with expectations of 0.3% (prev. 0.2%) and 4.0% (prev. 4.0%), respectively. Within the report, the upside in inflation was driven by items such as used cars and trucks and shelter, with energy prices weighing (as expected). WSJ's Timiraos noted, "the six-month annualized rate [moved] down to 2.9% in November, from 3.2% in October.", which would be the first sub-3% 6m annualised reading in Core CPI since March 2021. Elsewhere, newsflow was fairly thin on Tuesday as participants await the FOMC on Wednesday (Newsquawk preview available here).

**Yen** was the G10 outperformer in wake of Monday's hefty losses after BoJ sources suggested the bank sees little need to end negative rates in December. USD/JPY printed a low of 144.75 on release of the CPI before tracking higher again with yields ahead of the Tankan survey on Wednesday.

**EUR and CHF** saw similar gains and traded within narrow ranges, EUR/USD 1.0760-0827 and USD/CHF 0.8726-88, ahead of the respective bank meetings on Thursday. Nonetheless, German ZEW data released Tuesday was better than expected for December, rising to 12.8 from 9.8, above the street 8.8 forecast. The current conditions rose to -77.1 from -79.8, but it was less than expected 76.0. The ZEW said despite the current budget crisis, the assessment of the situation and economic expectations for Germany have once again only slightly increased due to the fact that the share of respondents' expecting ECB rate cuts in the medium term doubled.

**AUD and CAD** saw similar losses, albeit not too deep against the Dollar, as while currency-specific newsflow was light the Loonie was weighed on by oil prices tumbling to their lowest levels since June. For the Aussie, RBA Governor Bullock said he does not think the RBA is falling behind on the inflation fight, adding they are taking a cautious approach and continue to watch the data. In terms of levels, USD/CAD hit a low of 1.3546 vs. a peak of 1.3618, while AUD/USD bottomed out at 0.6541.

**NZD and GBP** were flat. The latter saw its latest UK payrolls change decline 12k in November, vs the prior 33k gain, while the claimant count rose to 16k from a revised down 8.9k, above the 15k expectation. Moreover, wages were soft in October, with the average earnings (ex-bonus) rising 7.3%, easing from the upwardly revised 7.8% and beneath the 7.4% consensus. The average pace of earnings also slowed, easing to 7.2% (prev. 8.0%, exp. 7.7%). Overall, the soft wages helped keep a cap on GBP upside. Looking ahead, traders await BoE on Thursday where expectations are for the MPC to stand pat, maintaining its Base Rate at 5.25% for a third consecutive meeting as policymakers take stock of actions already taken.

**EMFX** was mixed against the Greenback, with ZAR, MXN, and CLP seeing gains, but COP, BRL, and TRY losing ground and the Yuan flat. The Chilean Peso is benefitting from the gains in copper, while Brazil's benchmark inflation index, IPCA, rose by 0.3% M/M in November, in line with the consensus with Y/Y dipping to 4.7%, from 4.8% in October, also in line with the consensus. Pantheon Macroeconomics notes, "disinflation is continuing in Brazil, thanks to subdued economic activity, low commodity prices and the drag from tighter financial conditions. We expect a favourable picture in the near term, with headline inflation likely ending the year at around 4.5%". Elsewhere, industrial output for October in Mexico saw notable beats. For the Yuan, Country Garden (2007 HK) is set to avoid a Yuan-bond default with most holders of a local note agreeing not to seek repayment this week, according to Bloomberg citing sources. China also released its 2024 priorities for policy, with leaders promising to increase government spending and monetary support for the economy; full details available here.