US Market Wrap

14th December 2023: Stocks chop and Buck flops after hawkish ECB and BoE meetings

- **SNAPSHOT**: Equities mixed, Treasuries up, Crude up, Dollar down.
- **REAR VIEW**: BoE, ECB, SNB leave rates unchanged; Norges Bank surprises with hike; Hot US retail sales; Initial Jobless Claims slump; Import/export prices ease, but not as much as forecast; ECB sources disagree with market pricing; Atlanta Fed GDP jumps; Weak ADBE guidance; GPN mulling FOUR acquisition.
- **COMING UP**: **Data**: UK GfK Consumer Confidence, Chinese Retail Sales, Industrial Production, Unemployment Rate Urban Area, Japanese, French, German, EZ, UK, US, Italian PMI (Flash), French CPI (Final), EZ Trade Balance, US Capacity Utilisation, Industrial Production, NY Fed Manufacturing **Events**: Quad Witching, CBR Policy Announcement **Speakers**: BoE's Ramsden; BoC's Macklem.

MARKET WRAP

Stocks were mixed on Thursday with the Russell 2k (+2.7%) continuing to rip post-FOMC whilst the SPX (+0.3%) and NDX (-0.2%) were subdued in comparison. There were a slew of moving pieces for participants to consider with the BoE (held rates and retained its tightening guidance) and ECB (held rates; dovish statement tweaks; hawkish PEPP guidance; Lagarde said not discussing cuts; sources pushed back on market cut pricing) meetings both failing to live up to the dovishness of Wednesday's FOMC and Powell presser - not to mention a surprise Norges rate hike, dovish SNB statement tweaks after it left rates on hold, and a lack of movement on rate cuts from the Banxico. That all led to a divergence in policy signals that saw EGBs and Gilts underperform USTs (10yr yield -12bps at 3.91%), although the hot US retail sales figures and stubbornly low initial jobless claims figures, which contributed to the Atlanta Fed's GDPNow Q4 tracker jumping to 2.6% from 1.2%, did cap the rally in USTs to an extent, particularly at the short-end which saw a more meaningful fade; note the major stock indices faded lower after Europe left (before recovering somewhat into the close), coinciding with the Atlanta Fed release but also the hawkish ECB sources in Bloomberg, who pushed back against market cut pricing. Note that Fed cut pricing has actually stretched further on the day to 150bps of Fed cuts priced across 2024 vs 143bps priced just after the FOMC on Wednesday. In FX, the Dollar was sold broadly vs major peers, particularly Sterling and the Euro. In commodities, oil prices saw a big recovery from their six-month lows on Wednesday amid the Dollar's tumble, IEA demand growth upgrades, and simmering geopolitics with more ship attacks in the Red Sea by Yemen's Houthis. Metals saw broad support too, with Gold nearing USD 2,050/oz at its best.

CENTRAL BANKS

ECB REVIEW: As expected, the ECB opted to stand pat on rates for a second consecutive meeting with the main policy adjustment coming via the balance sheet. The Governing Council has decided that reinvestments under PEPP will run at current levels during H1 (vs. previous guidance of "at least until the end of 2024), after which, it intends to reduce the PEPP portfolio by EUR 7.5bln per month on average. Elsewhere, the statement reiterated that "policy rates will be set at sufficiently restrictive levels for as long as necessary". However, the policy statement omitted the prior judgement "inflation is still expected to stay too high for too long". The accompanying macro projections saw 2023 inflation downgraded to 5.4% from 5.6%, 2024 cut to 2.7% from 3.2% and 2025 held at 1.9%. Note, the forecasts drew criticism in some quarters given the November 23rd cut-off date, which has prompted suggestions that the 2024 core inflation projection of 2.7% is too high given recent economic developments. On the growth front, 2023 and 2024 projections were cut with GDP next year seen at just 0.8% with the 2025 forecast held steady at 1.5%. At the follow-up press conference, when questioned on the Bank's plans for rate cuts next year, Lagarde stated the decisions will be data dependent, not time dependent, adding that policymakers will not let their guard down. Furthermore, Lagarde was clear in stating that the Governing Council did not discuss rate cuts this week with policy set for a "plateau of hold". Lagarde also noted that the Bank will need to see more evidence on wage growth given that current data shows that wages are "not declining". When questioned on the balance sheet, the President noted that there were differing views on PEPP whereby some governors wanted different tapering, earlier or later. Overall, market pricing has moved in a hawkish direction with a March hike now seen at circa 60% vs. 80% pre-announcement and 147bps of cuts seen by the end of next year vs. circa 160bps. In wake of the meeting, Bloomberg sources suggested the ECB is largely united on forecasting rate cuts later than what markets are expecting. The sources also added that officials do not expect to revise their stance before March, when the ECB will receive an update on the outlook for growth and inflation.

BOE REVIEW: As expected, the MPC opted to stand pat on rates for a third consecutive meeting via a 6-3 vote with hawkish dissent once again from Greene, Haskel and Mann. The decision to stand pat on rates was based on the judgement that although “some of the news in key data had been to the downside since the MPC’s previous decision, economic developments had been relatively limited overall”. Overall, the key takeaway from the release, however, was the decision to maintain the phrase that policy will need to be restrictive for an “extended” period of time; some desks has touted an outside chance of a softening of this language. Furthermore, it remains the case that further tightening would be required if there were evidence of more persistent inflation pressures. Indeed, some of the language within the minutes leaned hawkishly by noting that “it was too early to conclude that services price inflation and pay growth were on a firmly downward path.” That being said, the inflation path was somewhat lower than projected in November, reflecting softer energy prices. Elsewhere, the MPC judges that the November Fiscal Plan will boost GDP by 0.25% in the coming years. In response to the announcement, pricing has shifted hawkishly from 114bps of cuts priced across 2024 to 107bps, with the first cut pushed back to June from May beforehand, with a May cut priced at 80% implied probability and a March cut falling to less than 30% implied vs 40%. ING concludes that it expects wage growth and services inflation to fall to 4% next year, setting the BoE up for an August rate reduction.

SNB REVIEW: Largely as expected from the SNB with the key rate maintained at 1.75% and the emphasis on selling foreign currency removed. Most pertinently, the inflation forecasts have seen relatively modest downward adjustments and while this does see CPI within the 0-2% band for 2024 as a whole, inflation is still seen rising in Q2/Q3-2024; though, this is now to just the top of the band, rather than September's guidance for it to eclipse it. Overall, the statement still holds the assessment that "uncertainty remains high" around inflation and as such has not guided us towards the direction of the next move, merely stating they remain ready to adjust policy as necessary. Given this, participants will remain focused on upcoming inflation prints for insight into the development of the rental rate of inflation. From the press conference, Chairman Jordan underscored the FX tweak and more pertinently said that December’s discussion did not cover rate reductions and that further ahead the current forecasts do not see any tightening. In short, the SNB is barring a marked upward shock seemingly at the policy peak and the timing for a first rate-cut will likely be driven by the assessment/observation of inflation across Q2/Q3-2024, where it is forecast to rise to 2.0% once again.

NORGES BANK REVIEW: Norges Bank defied consensus by triggering the hike that they flagged in November's meeting as "likely" to occur in December. However, consensus was for unchanged given the development of inflation and growth since then and the optionality at that meeting to leave rates unchanged if "the Committee becomes more assured that underlying inflation is on the decline". December’s hike appears to have been spurred by the NOK (marked recent currency depreciation was the sole factor in favour of a hike in the run-up to the announcement). Interestingly, the repo path and statement do not rule out further tightening. With around a 20% chance of a 25bp move by Q2-2025 implied. However, given the recent pivot from the Fed and pronounced market pricing for global easing today's 4.50% rate is likely the peak. The subsequent press conference from Governor Bache added little.

BANXICO REVIEW: The Banxico left rates unchanged as expected at 11.25%, however, it was received hawkishly by giving away little signal on future rate cuts as it maintained guidance that rates need to stay at the current level for some time. It maintained its view that inflation risks are biased to the upside, and it raised several of its inflation forecasts, with the 2024 headline and core inflation being lifted, as was the Q4 core inflation view. The decision was unanimous. The statement also acknowledged that headline inflation increased slightly but core inflation continued to decrease and noted the disinflation process is expected to continue, but current forecasts incorporate a more gradual decline in both food merchandise inflation and services inflation. Banxico acknowledged that, for this reason, their forecasts for headline and core inflation have been revised upwards for some quarters. Nonetheless, Banxico is expected to start cutting rates, perhaps in Q1 2024, joining LatAm peers and also after the Dovish Fed twist on Wednesday. However, when Banxico officials have spoken on rate cuts, many have alluded to it being non-consecutive, and only gradual - the minutes on Jan 4th will be eyed for more clues on the timing of rate cuts.

US DATA

RETAIL SALES: Overall, the Retail Sales data was hot in November, in fitting with the Bank of America credit and debit card spending data released on Tuesday. Headline retail sales rose 0.3%, above the -0.1% expected although the prior was revised down to -0.2% from -0.1%. The Core (ex-autos) retail sales rose by 0.2%, above the -0.1% forecast and accelerating from downwardly revised unchanged print (initially +0.1%). Ex Gas and Autos saw a notable acceleration of 0.6% vs the prior 0.1%. The control metric, which feeds into the US GDP report, was strong, rising 0.4% (exp. 0.2%), but the previous was also revised down to 0.0% from 0.2%. Looking into the details, the largest gains were seen in Good services and drinking places (+1.6%) and sporting goods/hobbies (+1.3%), while nonstore retailers also saw decent growth (+1%). On the flipside, the greatest decline was seen in the volatile gasoline stations (-2.9%) as gas prices fell while miscellaneous store retailers saw a 2.0% drop, in addition to electronic and appliance stores dipping 1.1%. The data is strong and bodes well for Q4 growth, although the downward revisions to October will offset some of the strength. However, given the dovish Fed pivot on Wednesday, it is unlikely to alter the Fed's thought process but some may be concerned if growth remains strong it could slow the Fed's progress to 2% inflation. In addition, as always with

November Retail sales data, it is worth caveating the usual holiday season variables, with Thanksgiving weekend, Black Friday, Cyber Monday and early Christmas spending incorporated into the data set.

JOBLESS CLAIMS: In the week ending 9th December, initial jobless claims fell to 202k from 221k, short of the expected 220k and even outside the lower bound of the forecast range (203k) to see the lowest print since October 19th. The headline slump saw the 4-wk average fall to 213.25k (prev. 221k). Continued claims (w/e 2nd Dec) ticked higher to 1.876mln from 1.856mln, but beneath the forecasted 1.887mln. Note, the seasonal factors had expected a decline of 23,834 (-8.1%) from the previous week. As always at this time of the year, it is worth factoring in the potential seasonal factors around the Christmas period which tends to see volatile claims data.

IMPORT/EXPORT PRICES: US import prices in November fell 0.4%, albeit not as fast as the prior revised -0.6% (initially -0.8%) and also less than the expected 0.8% drop, still, declines are supportive in lowering domestic CPI and PPI. Looking within, fuel imports declined 5.6% (prev. -3.7%), the largest drop since February 2023 with lower petroleum prices offsetting higher gas prices. Ex-fuel, import prices rose 0.2%, despite the -0.2% drop seen for the last three months, marking the first positive increase since February. Higher prices for foods, feeds, and beverages and nonfuel industrial supplies and materials more than offset lower prices for automotive vehicles. Export prices declined 0.9% vs the -1.0% expectation, matching the prior upwardly revised -0.9% from -1.1%. Lower prices for nonagricultural exports in November more than offset higher agricultural prices. Prices for each of the major finished goods export categories declined in November. Consumer goods prices fell 0.2% (prev. -0.4%). The price index for capital goods edged down 0.1%, the first 1-month decline since November 2022. Automotive vehicles prices also declined 0.1%, the first monthly decrease since April. The November drop was led by lower prices for parts, engines, bodies, and chassis.

FIXED INCOME

T-NOTE (H4) FUTURES SETTLE 20 TICKS HIGHER AT 112-16+

Treasuries close in a bull-flattener after hot retail sales and low jobless claims figures, alongside a less dovish ECB, capped the front-end's post-FOMC rip. 2s -9.1bps at 4.390%, 3s -9.2bps at 4.096%, 5s -9.7bps at 3.906%, 7s -10.3bps at 3.937%, 10s -11.0bps at 3.923%, 20s -12.8bps at 4.212%, 30s -14.1bps at 4.043%.

INFLATION BREAKEVENS: 5yr BEI +6.1bps at 2.197%, 10yr BEI +3.9bps at 2.228%, 30yr BEI +0.6bps at 2.249%.

THE DAY: The post-FOMC Treasury bid extended through the APAC Thursday session, despite a weak 30yr JGB auction, and into the European morning, where T-Notes hit an interim peak of 112-23. Contracts hovered near highs into the BoE meeting where a bit of spillover selling pressure was seen after the Bank left rates unchanged whilst maintaining its hawkish tilt. The mixed reaction to the ECB meeting later on -- where it brought forward its PEPP unwind guidance but made some dovish statement tweaks -- saw lows of 112-06+ printed, which is a fair-sized pullback from the peaks but still significantly above the pre-FOMC levels sub-111.

Short-end yields continued to move off the lows as stateside trade got underway in wake of the above forecast retail sales and low jobless claims figures, with block 20k SOFR sellers in the June and September 2024 contracts weighing. Lagarde's comments in her presser about rate cuts not being discussed also supported the pullback in the short-end, although T-Notes and duration in general have remained better supported, with T-Notes peaking later on at 112-28. However, short-end yields failed to make a run on fresh lows in the NY afternoon after some ECB sources pushed back on market rate cut pricing, not to mention a big upgrade to the Atlanta Fed's GDPNow Q4 tracker to 2.6% from 1.2%.

AHEAD: Attention is now on Friday's Empire State survey, IP data, and Flash PMIs, which should give a spot check of the current soft landing path. Otherwise, attention to next week's 5yr TIPS and 20yr bond auctions in thinning trading conditions. Bostic, the outspoken dove, is the only Fed speaker on the calendar next week (Tuesday, taking part in a fireside chat) for now. We also get some economic data in Tuesday's housing starts, Wednesday's consumer confidence and existing home sales, Thursday's final Q3 GDP and Philly Fed survey, and Friday's PCE, Durable Goods, Michigan survey, and new home sales.

NEXT WEEK'S AUCTIONS: US to sell USD 13bln of 20yr bonds (reopening) on Dec 20th, to settle on Jan 2nd; to sell USD 20bln of 5yr TIPS (reopening) on Dec 21st, to settle on Dec 29th.

FED PRICING shifted slightly more dovishly Thursday from the post-Fed levels, with 149bps of cuts now priced across 2024 vs 143bps of cuts just after the FOMC. The implied probability of a March cut is little changed at 90%, while the Jan meeting has crept up slightly to 18%.

STIRS:

- SR3Z3 +0.75bps at 94.63, H4 +2.5bps at 94.965, M4 +5.5bps at 95.41, U4 +7.5bps at 95.81, Z4 +10bps at 96.175, H5 +12bps at 96.475, M5 +13bps at 96.675, U5 +12.5bps at 96.775, Z5 +11.5bps at 96.80, Z6 +9.5bps at 96.73, Z7 +9bps at 96.635.
- SOFR at 5.31% (prev. 5.31%), volumes at USD 1.635tln (prev. 1.713tln).
- NY Fed RRP op demand at USD 0.769tln (prev. 0.823tln) across 92 counterparties (prev. 95).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 106bln (prev. 106bln).
- US sold USD 80bln of 1-month bills at 5.270%, covered 2.86x; sold USD 80bln of 2-month bills at 5.275%, covered 2.83x.
- 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 18th, 42-day CMBs sold on Dec 19th; all to settle on Dec 21st.

CRUDE

WTI (F4) SETTLES USD 2.11 HIGHER AT 71.58/BBL; BRENT (G4) SETTLES USD 2.35 HIGHER AT 76.61/BBL

Oil prices saw big gains on Thursday after hitting six-month lows the day before, benefitting from the weaker Dollar and simmering geopolitics. WTI and Brent futures moved higher steadily through the whole session to hit peaks of USD 72.46/bbl and 77.35/bbl, respectively, before settlement. The continued fall in the Dollar on the easier Fed policy outlook has all been stimulative for oil and commodities on the demand side. Note also that the IEA hiked its 2024 world oil demand growth forecast by 120k BPD to 1.1mln BPD, albeit cutting its 2023 forecast by 90k BPD to 2.3mln BPD. Meanwhile, there could be an element of geopolitical risk premium in the tape action after a Maersk ship was the latest to be attacked in the Red Sea, not to mention a Russian drone crater found in Romania amid a Russian attack on Ukraine, while six Chinese and Russian military aircraft reportedly entered South Korea's Defense Identification Zone. On the sell side, JPMorgan expects oil to trade in a wide USD 20/bbl range next year and not very different from what transpired in 2023.

EQUITIES

CLOSES: SPX +0.27% at 4,720, NDX -0.15% at 16,538, DJI +0.43% at 37,248, RUT +2.72% at 2,000.

SECTORS: Energy +2.94%, Real Estate +2.62%, Materials +1.68%, Industrials +1.23%, Consumer Discretionary +1.08%, Financials +0.93%, Communication Services -0.04%, Technology -0.34%, Health -0.55%, Utilities -1.28%, Consumer Staples -1.49%.

EUROPEAN CLOSES: DAX -0.08% at 16,752.23, FTSE 100 +1.33% at 7,648.98, CAC 40 +0.59% at 7,575.85, Euro Stoxx 50 +0.20% at 4,539.05, IBEX 35 +0.75% at 10,171.70, FTSE MIB +0.21% at 30,359.06, SMI +0.14% at 11,204.30.

STOCK SPECIFICS

- **Adobe (ADBE)** -6%: Guidance disappointed, but it did beat on EPS and revenue.
- **Moderna (MRNA)** +9%: Announced positive data in trial of melanoma treatment with **Merck’s (MRK)** Keytruda.
- **United Airlines (UAL)** +5% **Delta Airlines (DAL)** +3%: Goldman Sachs named the Cos. top airline picks going into the new year.
- **Occidental Petroleum (OXY)** +2.6%: **Berkshire Hathaway (BRK.B)** acquired ~10.5mln shares for USD 588.7 mln, bringing its total stake to about 27%.
- **Foot Locker (FL)** +10%: Upgraded at Piper Sandler; said it is one of the best situated “turnaround stories.”
- **Live Nation (LYV)** +6%: Upgraded at MS; thinks LYV can generate double-digits earnings growth in the next few years as it expands its venue portfolio and moves into global markets.
- **Disney (DIS)** +1% confirmed Trian Fund Management provided notice of its intent to nominate two individuals for election to the co. board.
- **General Motors' (GM)** +7%: Cruise cuts 24% of self-driving car workforce in sweeping layoffs, according to TechCrunch.
- **Intel (INTC)** +1% unveils the GAUDI 3 processor that will vie with **Nvidia (NVDA)** chips.
- **Global Payments (GPN)** -3%: Reportedly considering an acquisition of **Shift4 Payments (FOUR)** +5%, according to Bloomberg.
- **Ameren (AEE)** -8% and **Exelon (EXC)** -7%: Illinois board rejected grid plans, according to Bloomberg.
- **Apellis (APLS)** -18%: Expects CHMP to adopt a negative opinion on MAA for pegcetacoplan.

US FX WRAP

The **Dollar** weakness continued on Thursday in the fallout of the dovish pivot from the FOMC on Wednesday with DXY hitting a low of 101.76, the lowest since August. US data was strong, the November Retail Sales print topped expectations on the headline, core and control group, a strong sign for GDP. Incorporating the November NFP, CPI , PPI, Retail Sales and Import/Export prices data, the Atlanta Fed GDPNow tracker was raised to 2.6% from 1.2%. Initial jobless claims saw a notable decline back down towards 200k, although claims data is usually quite volatile over the holiday period.

The **EUR** and **GBP** outperformed after the ECB and BoE rate decisions. The BoE left rates unchanged although three members opted to hike rates, in fitting with expectations, while it reiterated that policy will need to be restrictive for an extended period of time. The ECB was largely as expected, rates were left unchanged while it adjusted its PEPP reinvestment guidance, and intends to continue to fully reinvest principal payments from maturing PEPP securities during the first half of 2024 (prev. end-2024). ECB sources via Bloomberg also noted the central bank is largely united on forecasting rate cuts later than market bets and officials do not expect to revise their stance before March. **CAD** was bid as oil prices surged off six month-lows. **JPY** benefited from the falling UST yields. **NOK** massively outperformed **SEK** after a surprise Norges Bank hike while Swedish inflation was softer than expected. **CHF** was choppy around the SNB, which was broadly as expected. It maintained the key rate at 1.75% while it removed the emphasis on selling foreign currency. **AUD and NZD** saw gains vs the softer buck but not to the same extent as counterparts despite a strong Aussie jobs report overnight with a downbeat risk tone keeping the cyclical currencies capped. **MXN** appreciated after the Banxico rate decision which left rates unchanged and lifted its inflation forecasts for 2024 while also maintaining rate guidance that rates need to remain at current levels for "some time". **BRL** saw gains despite softer than expected retail sales. **ZAR** saw huge gains as gold continues to benefit from the dovish FOMC; note, South African PPI was cooler than forecast.