newsquawk

US Market Wrap

19th December 2023: Santa Rally continues while Yen and yields dip after BoJ stands pat

- **SNAPSHOT**: Equities up, Treasuries up, Crude up, Dollar down.
- **REAR VIEW**: BoJ maintained policy settings & forward guidance; Ueda said little chance for BoJ to say policy will change in January; Hot US Housing Starts; Hotter-than-expected Canadian CPI; Red Sea transit disruptions continue; Lufthansa orders up to 100 airplanes from BA; Bostic reaffirms cautious view; Barkin hesitant to give details on cuts; Atlanta Fed Q4 GDPNow tracker raised to 2.7% from 2.6%.
- **COMING UP**: **Data**: German GfK, UK CPI, PPI, EZ Consumer Confidence (Flash), US Consumer Confidence **Event**: PBoC LPR, BoC Minutes (Dec) **Speakers**: ECB's Lane; Fed's Goolsbee **Supply**: US.

MARKET WRAP

The Santa Rally continued on Tuesday but this time the Russell 2k and equal-weighted S&P led the NDX and SPX, with the lower yield environment helping after the BoJ stood pat. Treasuries (10yr yield -3bps at 3.93%) tracked JGBs firmer after Ueda gave little in the way of signs that January was in play for Japan exiting negative interest rates, but yields close off the lows after hot US housing starts and Canadian CPI data, not to mention the renewed bid for crude amid continued Red Sea transit uncertainty - note late Bloomberg source reports that the US is looking at a larger and deeper attack (beyond the Task Force) against Yemen's Houthis. The Dollar was ultimately sold, although the Yen still remains the G10 laggard, with USD/JPY currently holding around 144 vs earlier peaks just under 145. We had some more Fed rhetoric from two 2024 voters in Bostic (who repeated his relatively hawkish view from last Friday that he sees two Fed cuts in 2024) and Barkin (who was hesitant to get into details on rate cuts), but Fed pricing remains little changed at near six 25bp cuts priced across 2024. In wake of the housing starts data, the Atlanta Fed GDPNow tracker for Q4 was raised to a new high of 2.7% from 2.6%, which would mark a smaller fall in growth from Q3's 5.2% rate than many on Fed had expected for Q4.

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BOSTIC (2024 voter), speaking at a fireside chat, reiterated his relatively hawkish view from last Friday that he sees two Fed rate cuts in 2024, less than the Fed median of three, and is happy with Fed policy is right now. He said there "is not going to be urgency" to back away from the Fed's restrictive policy stance, highlighting the ways to go on inflation despite the large progress made, which requires policy to be "resolute and patient". He said he expects inflation to come down slowly and unevenly (he said on Friday he sees 2024-end inflation at 2.4%, in line with the Fed median). However, he did echo the party line that the Fed cannot wait to get to 2% inflation to cut rates or it will "overshoot", saying that is the strategy behind rate cuts. Nonetheless, Bostic said the market's response to the Fed has been "interesting", and he will have to watch how it plays out.

BARKIN (2024 voter), in a Yahoo Finance interview, said it is time to balance the focus on the Fed's mandate given the progress on inflation. On rate cuts, he would not explicitly say whether he sees any in 2024, but he did say, "If you're going to assume that inflation comes down nicely, then of course we'd respond appropriately". Bostic also played down the strong Q3 GDP figures, saying he wasn't hearing that kind of "froth" from his contacts, where he is seeing demand, employment, and inflation "normalising". On aggressive rate cut pricing, and loosening financial conditions, he said, "one of the things I've learned is I don't control markets and so they're going to do what they're going to do."

HOUSING STARTS/BUILDING PERMITS: Housing Starts surged 14.8% in November to 1.56mln (prev. 1.359mln), its strongest pace since May, well above the expected 1.36mln and upper bound of the forecast range (1.424mln). Building Permits declined 2.5% to 1.46mln (prev. 1.498mln), slightly shy of the forecasted 1.465mln. Single-family and multi-family starts both posted solid gains of 18% (to 1.143mln) and 6.9% (to 417,000), respectively. Oxford Economics think multi-family starts are more vulnerable to a decline, as recovering homebuilder sentiment and an ongoing need for inventory should cushion the downside for single-family starts. Overall, Oxford does not expect the November pace of starts to be sustained. But taken as a whole, the November data, along with the recent decline in mortgage rates below 7%, lend an upside risk to that forecast.

FIXED INCOME

T-NOTE (H4) FUTURES SETTLED 6 TICKS HIGHER AT 112-14

Treasuries caught a mild bid Tuesday amid the BoJ's indolence, but gains were capped by hot US housing starts and mixed Canadian CPI ahead of the 20yr auction. 2s -2.0bps at 4.437%, 3s -1.1bps at 4.142%, 5s -1.7bps at 3.933%, 7s -2.6bps at 3.954%, 10s -3.2bps at 3.924%, 20s -2.8bps at 4.215%, 30s -3.2bps at 4.037%.

INFLATION BREAKEVENS: 5yr BEI -1.3bps at 2.197%, 10yr BEI -1.5bps at 2.200%, 30yr BEI -1.7bps at 2.199%.

THE DAY: Treasuries were choppy during APAC trade on Tuesday with the lack of action from the BoJ seeing spillover strength from JGBs, but T-Notes failed to break above 112-15 at first, paring to session lows of 112-08 after the decision. However, new highs were made as European traders arrived, with Governor Ueda's press conference striking a dovish tone to match the statement. Note, there was little immediate reaction in EGBs to the German government's 2024 issuance plans of EUR 247.5bln, which is in line with expectations and down from the prior year's EUR 291bln.

T-Notes peaked for the session at 112-20+ here in the NY morning. Further upside was capped on the heels of a strong rise in US housing starts and the mixed Canadian inflation data, not to mention the renewed strength in oil prices on Red Sea transit risk. Contracts found support at 112-12 later in the NY morning that held into the close, with the long end slightly outperforming on the day despite the lack of concession into Wednesday's 20yr auction.

AHEAD: Attention is now on this week's 5yr TIPS and 20yr bond auctions in thinning trading conditions. After Goolsbee on Fox News later on Tuesday, there are no more scheduled Fed speakers remaining this week, although some pre-recorded comments from Goolsbee (again) speaking to the WSJ on Friday are expected to be released on Wednesday. On the data front, we get 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.

THIS 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.

STIRS:

- SR3Z3 +0.25bps at 94.6275, H4 +2bps at 94.945, M4 +3.5bps at 95.375, U4 +2.5bps at 95.76, Z4 +1bps at 96.105, H5 flat at 96.40, M5 +0.5bps at 96.61, U5 flat at 96.715, Z5 +0.5bps at 96.755, Z6 +2bps at 96.73, Z7 +3bps at 96.655.
- SOFR at 5.32% (prev. 5.32%), volumes at USD 1.665tln (prev. 1.776tln).
- NY Fed RRP op demand at USD 0.773tln (prev. 0.725tln) across 87 counterparties (prev. 86).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 95bln (prev. 101bln).
- US sold USD 70bln of 42-day CMBs at 5.270%, covered 3.02x.
- 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 21st and 17-week bills on Dec 20th; all to settle on Dec 26th.

CRUDE

WTI (G4) SETTLED USD 1.12 HIGHER AT 73.94/BBL; BRENT (G3) SETTLED USD 1.28 HIGHER AT 79.23/BBL

Oil prices were firmer again on Tuesday amid continued Red Sea transit disruptions and a softer Dollar. WTI and Brent had initially extended their paring lower from late on Monday into the Tuesday session, hitting session troughs of USD 72.14/bbl and 77.41/bbl, respectively, in the London morning. However, better buying resurfaced into stateside trade, finding some risk premium baking in after shipping Co. Euronav said it would avoid the Red Sea until there were convoys to protect ships. The upside was gradual from there, and also found tailwinds from the softening Dollar, to see WTI and Brent peak at USD 74.44/bbl and 79.67/bbl at midday in NY. We also heard from a Maersk executive in a CNBC interview who said that the US' Red Sea task force is to take a few weeks to get going and that the shipping major won't commit to a time to returning to transit. The exec said the long-run impacts will be minimal and absorbed but short-run effects will be greater. Elsewhere Tuesday, RIA reported Russian Deputy PM Novak saying there was no need for immediate action from OPEC+ given oil prices have increased and the market is being balanced. Traders are now looking to the weekly US energy inventory data, with the private release due later on Tuesday ahead of the EIA figures on Wednesday. Current expectations (bbls): Crude -2.3mln, Gasoline +1.2mln, Distillates +0.5mln.

EQUITIES

CLOSES: SPX +0.59% at 4,768, NDX +0.49% at 16,811, DJIA +0.68% at 37,557, RUT +1.94% at 2,020.

SECTORS: Energy +1.22%, Communication Services +0.92%, Materials +0.91%, Financials +0.77%, Industrials +0.73%, Real Estate +0.7%, Consumer Discretionary +0.7%, Health +0.67%, Utilities +0.56%, Technology +0.24%, Consumer Staples +0.22%.

EUROPEAN CLOSES: DAX +0.56% at 16,744.41, FTSE 100 +0.31% at 7,638.03, CAC 40 +0.08% at 7,574.67, Euro Stoxx 50 +0.32% at 4,535.55, IBEX 35 +0.52% at 10,106.70, FTSE MIB +0.41% at 30,363.53, SMI -0.08% at 11,146.43.

STOCK SPECIFICS:

- **Boeing (BA)** +1.2%: Deutsche Lufthansa (LHA GY) purchased 40 Boeing 737-8 MAX plus 60 options.
- **Accenture (ACN)** -0.2%: Next quarter revenue guide light, but beat on EPS and revenue alongside affirming FY24 outlook.
- **Tesla (TSLA)** +2%: Intends to raise hourly pay by 10% or more for Nevada Gigafactory workers in January to potentially deter union interest and collective bargaining efforts among its workforce.
- **FactSet Research Systems (FDS)** -2.2%: Lowered FY24 guidance.
- **Sunnova Energy (NOVA)** +15% and **Sunrun (RUN)** +8.4%: Upgraded at Piper Sandler.
- **Bluebird Bio (BLUE)** -20.3%: Public stock offering of USD 150mln, with a potential extra USD 22.5mln of shares.
- **UBS (ADR: UBS)** +5% and top performer in the SMI: Activist investor Cevian Capital amassed a EUR 1.2bln stake and is aiming to double its value in 3-5 years, according to FT.
- **Amgen (AMGN)** +1%: Upgraded at BMO; optimistic on Co.'s budding obesity treatment pipeline and revenue replacement potential.
- **CureVac (CVAC)** -30%: German patent court invalidated CureVac patent or mRNA after challenge brough by BioNTech (BNTX).
- **Affirm (AFRM)** +15.5%: Expands to self-checkout at Walmart (WMT) stores.

US FX WRAP

The Dollar was weaker on Tuesday printing a session low of 102.060 in thinning/holiday trade as participants start winding down for the year ahead of Core PCE (Fri), the only major scheduled risk event left in 2023 for the US. For the record, despite garnering little market reaction, Housing Starts (Nov) soared 14.8%, its strongest pace since May, while Building Permits fell 2.5%. Fed wise, Barkin (2024 voter) said it is time to balance the focus on the Fed's mandate given progress on inflation, and when asked about rate cuts, noted if inflation comes down as expected, the Fed would act appropriately. Bostic (2024 voter) reiterated his relatively hawkish view from last Friday that he sees two Fed rate cuts in 2024, less than the Fed median of three, and is happy with Fed policy as is right now.

Yen was the distinct FX laggard, seeing USD/JPY hit a high of 144.95, just failing to breach 145.00 before paring somewhat as stateside trade got underway, with the Yen weighed on after the BoJ meeting and following Ueda comments. To recap, BoJ unanimously left its rate and YCC unchanged, whilst forward guidance was also maintained with Ueda later adding there is little chance for BoJ to say policy will change in January. The cross is entering the APAC Wednesday session around 144, well off the earlier highs. Citi's FX desk commented earlier on, "with holiday/year-end markets in full swing, thin liquidity conditions exacerbated the move overnight and we are seeing limited follow-through."

Antipodeans were the G10 outperformers. **Aussie** benefitted from December RBA Minutes which suggested the Board considered whether to hike by 25bps or keep rates steady, while the **Kiwi** received support from NZ trade data. **CAD** strengthened on the hotter-than-expected inflation data, ahead of the BoC's December minutes on Wednesday, and also received tailwinds from the firmer crude prices. **EUR** and **GBP** saw similar strength benefitting from the broad Dollar weakness as opposed to anything currency-specific or central bank commentary. Note, EZ HICP Final (Nov) Y/Y was unrevised at 2.4%, while Germany announced 2024 debt issuance plans in line with forecasts.

EMFX was largely firmer against the Greenback. **ZAR** and **CLP** benefited from rising gold and copper prices, respectively, while **TRY** was the EM laggard on account of the aforementioned rising crude prices amid the ongoing Red Sea tensions. **HUF** closes firmer vs the buck and flat vs the Euro. While it initially strengthened after the NBH cut rates 75bps, as expected, to 10.75%, it soon pared significantly. **BRL** was supported after S&P raised Brazil’s rating to BB from BB-, Outlook Stable, following tax reform approval. For the **COP** watchers, Colombia Central Bank cut rates by 25bps to 13.00%, as expected, marking the first cut in three years.

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