# US Market Wrap

## 20th December 2023: Stocks snap winning streak as risk sours in late trade ahead of holidays

- **SNAPSHOT**: Equities down, Treasuries up, Crude flat, Dollar up.
- **REAR VIEW**: Strong US consumer confidence; US existing home sales beat; UK CPI tumbles; Weak German PPI; ECB officials push back on rate cut pricing; Harker alludes to cuts; Surprise US crude inventory build; EU Finance Ministers reach agreement on fiscal rules; Weak 20yr bond auction.
- **COMING UP**: **Data**: UK PSNB, US GDP Final, PCE, Philly Fed Business Index, IJC, Canadian Retail Sales, Japanese CPI **Events**: CBRT Policy Announcement, ECB 5-yearly Capital Key Adjustment **Speakers**: ECB's Lane **Supply**: US

## MARKET WRAP

Stocks ultimately sold off on Wednesday amid a large vol spike in the NY afternoon with SPX and RUT catching up to the earlier big tech/NDX underperformance. The downside came in the absence of a fresh catalyst, with desks instead pointing to technical factors (fingers were pointed at the 0DTE option crowd) and positioning in "holiday thinning trade". In stocks, FedEx (FDX) tumbled after its poor earnings and guidance, consumer staples were pressured after a poor General Mills (GIS) report, while Google (GOOGL) was a standout outperformer in Big Tech amid reports it was planning a restructuring of its ad sales. The key macro stimulus for the session earlier on had been the tumble in the UK CPI data that ramped up not just BoE cut pricing, but also pricing of cuts for peers such as the Fed and ECB, with soft German PPI data adding to the latter. Treasuries bull-steepened, and the surge in the US consumer confidence, hot existing home sales data, and poor 20yr bond auction only saw a mild pullback for Treasuries, that ultimately faded into the close, aided by the late stock sell off. We had remarks from Fed non-voter Harker, who did allude to the likely need to cut rates in 2024 without giving specifics, whilst appearing more downbeat on the economy than many of his peers. We had more ECB pushback on aggressive cut pricing from the likes of Lane, Knot, Nagel, and Kazaks. The late risk aversion saw a bid for the Dollar, with Sterling the largest G10 underperformer amid the dovish BoE repricing. Oil prices were ultimately little changed with strength out of Europe faded after bearish US inventory data.

## US

**HARKER (2023 Voter)**: In a WHYY radio appearance, Harker indicated he is happy with the current policy stance, but looking ahead he said "it's important that we start to move rates down," adding, "we don't have to do it too fast, we're not going to do it right away, it's going to take some time" **-** he didn't get into the specifics on the timing. While he noted the job on inflation is not done, he did say, "things are starting to look better and better." On a soft landing scenario, the Philly Fed President said it's quite possible but a lot of things could thwart it. He warned that the economy appears to be slowing faster than the government data suggests, given the figures are backward-looking. Harker also highlighted the cost of capital as being the biggest challenge to companies right now.

**CONSUMER CONFIDENCE**: Consumer Confidence for December rose to 110.7, well above the expected 104.0, and prior 101.0. Present Situation and Expectations leapt to 148.5 (prev. 136.5) and 85.6 (prev. 77.4), respectively, with the sharp rise bringing expectations back to the levels of optimism last seen in July. Average 12-month inflation expectations slightly declined to 5.6% (prev. 5.7), while on the jobs footing, those who thought jobs were plentiful rose to 40.7% (prev. 38.6%) and those who thought jobs are hard to get eased to 13.2% (prev. 15.6%). Overall, the report adds, “December's increase reflected more positive ratings of current business conditions and job availability, as well as less pessimistic views of business, labor market, and personal income prospects over the next six months.”

**EXISTING HOME SALES**: Existing home sales rose 0.8% in November to 3.82mln (prev. 3.79mln), surpassing the forecasted 3.77mln, breaking the cycle of five consecutive declines. Looking at the internals, inventory of homes for sale printed 1.130mln units or 3.5 months' worth (prev. 3.6 months), while national median home price rose 4% Y/Y to USD 387.6k. Pantheon Macroeconomics highlight the headline fall was largely driven by the late summer rise in rates and the succeeding renewed fall in mortgage applications, but PM highlights that mortgage rates are now falling rapidly and demand is picking back up. As such, the consultancy adds, mortgage apps. signal a further modest rise in existing home sales, but that would still leave activity at an extremely low level. Pantheon concludes, “In short, existing home sales are past the worst, but the recovery will be slow.”

**CURRENT ACCOUNT**: The US Q3 current account deficit narrowed by USD 16.5bln to USD 200.3bln with the main driver being a reduced deficit in goods. Overall, the deficit was 2.9% of current-dollar GDP, down from the 3.2% in Q2. Exports of goods and services to, and income received from, foreign residents increased USD 33.0bln to USD 1.18tln, while imports of goods and services from, and income paid to, foreign residents increased USD 16.5bln to USD 1.38tln. Exports of goods increased USD 19.1bln to USD 516.4bln, imports of goods increased by USD 4.6bln to USD 777.4bln. The report highlights "The increase in exports was led by industrial supplies and materials, primarily petroleum and products". Meanwhile, the "increase in imports was led by automotive vehicles, parts, and engines, primarily passenger cars and other parts and accessories. Partly offsetting this increase was a decrease in imports of nonmonetary gold". On services, exports rose by USD 2.7bln to USD 252.2bln, reflecting an increase in travel, which was partly offset by a decrease in technical, trade-related, and other business services. Imports decreased USD 1.9bln to USD 176bln, reflecting a decrease in transport, primarily sea freight.

## FIXED INCOME

**T-NOTE (H4) FUTURES SETTLE 11 TICKS HIGHER AT 112-25**

**Treasuries bull-steepened after UK CPI tumbled, with the spike in US consumer confidence and poor 20yr auction faded**. 2s -7.4bps at 4.363%, 3s -7.1bps at 4.072%, 5s -6.7bps at 3.867%, 7s -6.2bps at 3.890%, 10s -5.2bps at 3.870%, 20s -4.4bps at 4.170%, 30s -3.9bps at 3.997%.

**INFLATION BREAKEVENS**: 5yr BEI -0.7bps at 2.199%, 10yr BEI -0.4bps at 2.197%, 30yr BEI -0.3bps at 2.198%.

**THE DAY**: Ahead of stateside trade on Wednesday, Treasuries had been grinding higher, with the soft inflation data in the UK and Germany accelerating the front-end bid during the European morning. There was initial spillover strength from JGBs, with desks citing APAC catch-up to the late Ueda comments after Tuesday's BoJ meeting, not to mention soft Japanese trade data. The soft November UK CPI figures (core rose 5.1% Y/Y, down from 5.7% Y/Y and against exp. 5.6% Y/Y) and November German PPI figures (fell 7.9% Y/Y vs prior decline of 11% and expected decline of 7.5%) saw the short-end leap higher - BoE pricing now sees the first full cut priced for May vs June before, seeing Fed pricing for 2024 rise back above 150bps of cuts.

T-Notes peaked at 112-25+ in the NY morning with the curve already in a bull-steepener ahead of the 20yr auction. The strong US consumer confidence ignited some pullback - T-Notes found support at 112-14+ - ahead of the auction, which saw a weak demand turnout. However, with the auction in the rear window, Treasuries gravitated back towards their highs going into the close.

**20YR AUCTION**: A rare weak auction for the 20yr, with USD 13bln sold in the reopening auction at 4.213%. The lack of concession into the auction, and the greater than 50bp rally since last month, was accompanied by a tail of 1.5bps, worse than the six-auction avg. 0.6bps tail and the prior month's 1bp tail. The bid/cover ratio fell to 2.55x from 2.58x vs the avg. 2.71x. Dealers were left with a larger 12.9% vs the prior 9.5% and avg. 10.1%, with a rise in Directs participation to 20.7% from 16.5% more than offset by a fall in Indirects participation to 66.4% from 74.0%.

**AHEAD**: On the data front for the rest of this week, we get final Q3 GDP and Philly Fed survey on Thursday and PCE, Durable Goods, Michigan survey, and new home sales on Friday. For next week, with Christmas on Monday, we get 2s, 5s, and 7s auctions on Tues, Weds, and Thurs, respectively. There are no major US data releases next week, barring some regional surveys.

**STIRS**:

- SR3Z3 +0.5bps at 94.63, H4 +3bps at 94.975, M4 +6.5bps at 95.44, U4 +9bps at 95.85, Z4 +9bps at 96.20, H5 +9bps at 96.495, M5 +9bps at 96.70, U5 +8.5bps at 96.805, Z5 +7.5bps at 96.835, Z6 +6.5bps at 96.795, Z7 +6bps at 96.71.
- SOFR at 5.31% (prev. 5.32%), volumes at USD 1.757tln (prev. 1.665tln).
- NY Fed RRP op demand at USD 0.779tln (prev. 0.773tln) across 95 counterparties (prev. 87).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 96bln (prev. 95bln).
- US sold USD 56bln of 17-week bills at 5.220%, covered 2.99x.

## CRUDE

**WTI (G4) SETTLES USD 0.28 HIGHER AT 74.22/BBL; BRENT (G4) SETTLES USD 0.47 HIGHER AT 79.70/BBL**

Oil prices were ultimately modestly firmer on Wednesday after bearish inventory data unwound the initial bid out of Europe. The upside gained momentum in the European morning with desks pointing to the ongoing Red Sea issues following on from reports late on Tuesday that the US was considering greater military action against Yemen's Houthis beyond the task force. WTI and Brent futures peaked for the session at USD 75.37/bbl and 80.60/bbl, respectively, in the NY morning. But, the gains faded into the NY afternoon, accentuated by the EIA weekly US inventory data which saw crude stocks build 2.9mln bbls (exp. draw of 2.3mln), with the products also seeing net build of 4.2mln bbls. Elsewhere, Reuters reported Russia's Rosneft is to discuss possible German assets sale with the German Economy Ministry in Berlin on Friday, where Shell (SHEL LN) and Eni (ENI IM) currently own 37% and 8% in the Schwedt refinery, respectively, and Rosneft's assets include a 54.2% stake in the Schwedt refinery.

## EQUITIES

**CLOSES**: SPX -1.47% at 4,698, NDX -1.53% at 16,554, DJI -1.27% at 37,082, RUT -1.89% at 1,983.

**SECTORS**: Consumer Staples -2.02%, Utilities -1.98%, Consumer Discretionary -1.74%, Financials -1.72%, Industrials -1.64%, Technology -1.54%, Materials -1.48%, Health -1.46%, Real Estate -1.31%, Energy -0.97%, Communication Services -0.05%.

**EUROPEAN CLOSES**: DAX -0.07% at 16,733.05, FTSE 100 +1.02% at 7,715.68, CAC 40 +0.12% at 7,583.43, Euro Stoxx 50 -0.03% at 4,534.15, AEX +0.15% at 793.69, IBEX 35 -0.06% at 10,101.00, FTSE MIB -0.01% at 30,361.21, SMI -0.01% at 11,144.88, PSI -0.32% at 6,344.54.

**STOCK SPECIFICS**

- **FedEx (FDX)** -12%: Missed on EPS and revenue alongside cutting FY24 revenue growth view. In sympathy, UPS (UPS) -3.3%.
- **General Mills (GIS)** -4%: Revenue light and cut FY24 organic revenue guidance reflecting a slower volume recovery in FY24. Saw a slower-than-expected volume recovery in the quarter amid a continued challenging consumer landscape.
- **Salesforce (CRM)** -1%: Downgraded at Wells Fargo.
- **Aon (AON)** -6%: To acquire NFP for USD 13.4bln in cash and stock deal (USD 7bln cash, USD 6.4bln of Aon stock) with accretion seen in 2027.
- **Warner Bros. Discovery (WBD)** -6% reportedly in talks to merge with **Paramount Global (PARA)** -2%, according to Axios citing sources.
- **Toyota Motor's (TM)** -2%: Daihatsu unit will halt shipments of all of its vehicles after a safety scandal investigation found issues involving 64 models, incl. almost two dozen sold under Toyota's brand.
- **Argenx (ARGX)** -26%: ADDRESS study did not meet the primary endpoint.
- **Google (GOOGL)** +1%: Plans to reorganize a big part of its ad sales unit as automation booms, The Information reports.
- **Winnebago (WGO)** -6%: Missed on profit, adj. EBITDA, and operating revenue.
- **Union Pacific (UNP)** -2%: Sees in excess of USD 200mln in goods, wages, and transportation costs lost each day as El Paso and Eagle Pass border crossings remain closed.

## US FX WRAP

The **Dollar** saw gains on Wednesday, predominantly in the risk off trade in the NY afternoon as stocks tumbled in a lack of fresh newsflow at the time. Earlier in the session, the buck was still slightly bid after the strong consumer confidence data and hotter-than-expected existing home sales figures. There was more half-hearted push back on market pricing from Fed officials, this time from Harker who said the Fed will not cut rates right away, but he does see rate cuts in 2024 and also appeared concerned about more meaningful economic weakness than many of his colleagues. Meanwhile, WSJ's Timiraos highlighted that officials' recent commentary suggests some are uncomfortable with the high probability markets have put on a cut in March.

**GBP** underperformed after cooler-than-expected CPI data with money markets now fully pricing in a cut in May, with a 50% probability of an earlier cut in March. Goldman Sachs brought forward its rate cut call from the BoE to May from June. **EUR** was weaker with EUR/USD drifting further away from 1.10 with German Producer Prices falling by more than expected. ECB speakers, similarly to the Fed, have been trying to dial back the dovish market expectations for rate cuts with Lane, Nagel, Kazaks, and Knot all throwing some cold water on Wednesday. **The Antipodes** were relatively flat vs the buck in a choppy risk tone. **CAD** was non-reactive to the BoC minutes with the broad activity currency weakness into the close following the sell-off in equities in thin trading conditions. **JPY** was flat vs the buck with some Yen strength seen as stocks tumbled into the closing bell. There was little reaction to a Nikkei article which noted Japanese incomes will rise faster than inflation in FY24, noting per capita income will increase by 3.8% next year on a combination of lower taxes and higher wages. **EMFX** was mixed with CLP, BRL and MXN weaker, particularly the former, while COP saw gains. CLP was the laggard after the central bank cut rates by 75bps on Tuesday, deeper than the 50bp cut forecast. ZAR was flat while TRY saw marginal weakness.





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