US Market Wrap

21st December 2023: Stocks recover and Dollar tumbles after GDP revised lower

- **SNAPSHOT**: Equities up, Treasuries steepen, Crude down, Dollar down.
- **REAR VIEW**: US GDP revised down; Soft Philly Fed survey; Jobless Claims beneath expected; Angola leaves OPEC; Biden considering tariffs on Chinese goods; China to ban export of rare-earth materials; average 5yr TIPS auction; Strong CCL and MU earnings
- **COMING UP**: **Data**: Australian Broad Money, Japanese Chain Store Sales, UK GDP, Retail Sales, Spanish GDP (Final), Italian Trade Balance, Industrial Sales, US Personal Income, Core PCE, US Durable Goods, UoM Inflation Expectations (Final), Canadian GDP
- **SERVICE NOTICE**: Please click here for the Newsquawk Holiday hours.

MARKET WRAP

Stocks pared some of their losses on Thursday after the unexplained flurry of selling late on Wednesday. The downward revision to Q3 GDP to 4.9% from 5.2% and also the PCE and consumer spending figures, combined with the weak Philly Fed manufacturing survey, was enough to ignite a dovish reaction, despite the beneath forecast jobless claims figures. There are now 155bps of Fed cuts priced for 2024 vs sub-150bps before the data. As a result, Treasuries steepened with the long end leading a pullback from earlier highs into the close. The Dollar was lower amid the ramp in Fed rate cut pricing post-data and with desks pointing to early month-end selling before liquidity dries up further. Oil prices were lower after Angola (accounts for 2% of OPEC+ production) announced its departure from OPEC, although losses were pared significantly as the Dollar continued falling. In stocks, cruise liners were well supported after Carnival's (CCL) earnings, while semiconductors did well after Micron's (MU) earnings. Global trade was also an area of focus amid WSJ reports the US was mulling the easing of tariffs on consumer goods (potentially deflationary), whilst also mulling the ramp-up of restrictions on EVs and clean energy-related goods; China separately announced more restrictions on rare earth mineral exports.

GLOBAL

US GDP (Final): The final Q3 GDP data was revised down from the second estimate to 4.9% (prelim. 5.2%), despite expectations for it to be left unrevised. The revision primarily reflected a downward revision to consumer spending. Meanwhile, the deflator was revised to lower to 3.3% from 3.5% (exp. 3.6%) with the GDP sales being revised down marginally to 3.6% from 3.7%. Consumer spending was revised down to 3.1% from 3.6% while personal income rose by USD 196.2bln in Q3, which was downwardly revised by USD 22.1bln from the second estimate. Q3 personal income was supported by increased compensation, nonfarm proprietors income and personal interest income, which was partly offset by a fall in personal current transfer receipts. Disposable income rose USD 143.5bln, down USD 0.5bln from the prior estimate. On prices, Q3 Core PCE was revised down to 2.0% from 2.3%, despite the unchanged forecast. The headline PCE was revised down to 2.6% from 2.8%. Overall, Q3 saw robust growth and easing price pressures, a welcome sign for the Fed. There had been some concerns that if the strong growth were to continue it would hamper the Fed's ability to return inflation back to the 2% target. However, the strong growth seen in Q3 is unlikely to continue into Q4 with the Atlanta Fed GDPNow estimate tracking growth at 2.7% for Q4. With prices easing, participants will be turning their attention to the November US PCE report due on Friday for a timelier picture of the inflation environment, albeit November's CPI was relatively in line with expectations, the PPI was much softer. Fed Chair Powell also suggested the Fed expect November Core PCE to rise 3.1% vs the Wall St consensus of 3.3%.

US JOBLESS CLAIMS: In the week ending 16th December, initial jobless claims marginally rose to 205k (prev. 203k) but shy of the expected 215k and outside the lower bound of the forecast range (206k) leaving the 4-wk average at 212k from 213.5k. Meanwhile, Continued Claims (w/e Dec. 9th) was essentially unchanged at 1.865mln (prev. 1.866mln) and short of the consensus (1.888mln). Note, the seasonal factors had expected a decline of 11,368 (-4.6%) from the prior 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.

US PHILLY FED: The December Philly Fed survey saw a deeper than forecasted decline to -10.5 from -5.9, with expectations of a slight improvement to -3.0. Internally, Prices Paid soared to 25.1 from 14.8 while New Orders sank to

-25.6 (prev. 1.3). Employment dipped back into negative territory at -1.7 (prev. +0.8) and Capex extended further below 0 to -7.5 from -1.3. The 6-month index encouragingly improved to 12.1 from November's -2.1. Overall, the Survey details that indicators for current activity, new orders, and shipments were all negative. On balance, the firms continued to indicate overall increases in prices and mostly steady employment. Looking ahead, survey's broad indicators for future activity improved, suggesting more widespread expectations for growth over the next six months.

CHINA: The Biden administration is reportedly mulling raising tariffs on some Chinese goods, including EVs, WSJ sources said, in an attempt to bolster US clean energy against cheaper Chinese exports. Other targets for potential tariff-rate increases are Chinese solar products and EV battery packs, sources added. On the other hand, the US is mulling the easing of tariffs on consumer goods, a potentially deflationary force. Elsewhere, China is set to ban exports of some rare-earth processing technologies, according to Bloomberg. China later announced it will promote high-end applications of rare earths in aerospace, electronic information, new energy, and other fields in 2024. China will also support the development of battery swapping models for new energy vehicles and is to boost bulk consumption such as new energy vehicles and electronic products.

FIXED INCOME

T-NOTE (H4) FUTURES SETTLE 3+ TICKS LOWER AT 112-21+

Treasuries steepened in choppy, holiday trade amid downward revisions to GDP and soft Philly Fed against low jobless claims figures. 2s -1.7bps at 4.352%, 3s -1.4bps at 4.063%, 5s +1.0bps at 3.882%, 7s +1.6bps at 3.914%, 10s +1.8bps at 3.896%, 20s +3.0bps at 4.207%, 30s +3.2bps at 4.037%.

INFLATION BREAKEVENS: 5yr BEI -0.1bps at 2.201%, 10yr BEI +0.5bps at 2.205%, 30yr BEI +0.5bps at 2.204%.

THE DAY: Treasuries entered the stateside trade in a very choppy fashion on Thursday after bouncing into the risk off conditions late on Wendesday. T-Notes gyrated through the European session with little major catalysts to trade off and volumes on the weak side. The 'highlight' was ECB's de Guindos giving the standard pushback on ECB cut pricing. T-Notes hit interim troughs of 112-21 before recovering somewhat into the NY morning.

Markets were choppy in the immediate reaction to the 8:30 am ET data slate as the downward revisions to Q3 GDP (which includes lower PCE and consumer spending figures), alongside the fall in the Philly Fed manufacturing survey, were offset by the low jobless claims. T-Notes chopped between 112-23+ and 113-01+ in the minutes after the release, before extending to peaks of 113-04+ as the dust settled. However, contracts pared back lower into the NY afternoon, led by the long end, seeing T-Notes mark fresh troughs of 112-18+ ahead of settlement and close out the day in the red, as opposed to the front end which held in the black.

5YR TIPS AUCTION: The USD 20bln 5yr TIPS auction went down without a hitch, nor a reaction. The high yield of 1.71% was the same as the WI, better than the prior 2bp tail, although worse than the six-auction avg. 1.6bp stop-through. The auction was covered 2.55x (prev. 2.36x; avg. 2.61x). Dealers were left with 6.1%, well beneath the prior 9.2% and avg. 10.8%.

AHEAD: Friday sees PCE, Durable Goods, Michigan survey, and new home sales. 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.

NEXT WEEK'S AUCTIONS: US to sell USD 57bln of 2yr notes on Dec 26th, USD 58bln of 5yr notes on Dec 27th, and USD 40bln of 7yr notes on Dec 28th; all to settle on Jan 2nd. US to sell USD 26bln of 2yr FRNs (reopening) on Dec 27th; to settle on Dec 29th. US leaves 42-day, 13-, 26-, and 52-week bill auction sizes unchanged at USD 70bln, 75bln, 68bln, and 44bln, respectively; all to be sold on Dec 26th and settle on Dec 28th.

STIRS:

- SR3Z3 +0.5bps at 94.635, H4 +2bps at 94.995, M4 +3bps at 95.475, U4 +3bps at 95.88, Z4 +3bps at 96.235, H5 +3bps at 96.53, M5 +3bps at 96.73, U5 +2.5bps at 96.83, Z5 +2bps at 96.86, Z6 -0.5bps at 96.795, Z7 -1.5bps at 96.695.
- SOFR at 5.31% (prev. 5.31%), volumes at USD 1.678tln (prev. 1.757tln).
- NY Fed RRP op demand at USD 0.778tln (prev. 0.779tln) across 85 counterparties (prev. 95).
- EFFR at 5.33% (prev. 5.33%), volumes at USD 97bln (prev. 96bln).
- US sold USD 80bln of 1-month bills at 5.265%, covered 2.68x; sold USD 80bln of 2-month bills at 5.270%, covered 2.74x.

CRUDE

WTI (G4) SETTLES USD 0.33 LOWER AT 73.89/BBL; BRENT (G4) SETTLES USD 0.31 LOWER AT 79.39/BBL

Oil prices were lower on Thursday after Angola announced its departure from OPEC. The announcement was made at the London/NY handover and ignited a sell off that saw WTI and Brent futures sold to lows of USD 72.44/bbl and 77.81/bbl, albeit contracts recovered somewhat later in the NY morning. Angola is leaving OPEC amid its disagreements over its production quotas, specifically, what is considered its baseline production levels, an issue that Nigeria and the Republic of Congo also had. Angola today said the proposed cuts in its production would be against its own goals. At 1.1mln BPD of production, which equates to around 2% of total OPEC+ production, the departure is not seen as a major blow to the cartel. Elsewhere, in the US, the latest weekly Baker Hughes rig count saw oil rigs down three to 498 and nat gas up one to 120.

LNG: Reuters reported Russia's Novatek, the country's largest LNG producer, informed clients of a force majeure over future supplies from its Arctic LNG 2 project -- a key component of Russia's efforts to become a fifth of the global LNG market by 2030 vs the 8% share it currently has -- after the US imposed sanctions in November. The project was scheduled to begin production either this month or early next year for deliveries in Q1 next year.

EQUITIES

CLOSES: SPX +1.03% at 4,747, NDX +1.23% at 16,757, DJI +0.87% at 37,404, RUT +1.73% at 2,017.

SECTORS: Consumer Discretionary +1.44%, Health +1.2%, Communication Services +1.11%, Technology +1.08%, Industrials +1.06%, Materials +1.01%, Real Estate +0.92%, Financials +0.87%, Consumer Staples +0.69%, Energy +0.38%, Utilities +0.13%.

EUROPEAN CLOSES: CAC 40: -0.16% at 7,571.40, FTSE 100: -0.27% at 7,694.73, FTSE 250: -0.30% at 19,570.97, IBEX 35: +0.03% at 10,104.30, FTSE MIB: -0.29% at 30,274.26, Euro Stoxx 50: -0.22% at 4,523.85, DAX: -0.27% at 16,687.42, SMI: -0.17% at 11,125.90.

STOCK SPECIFICS

- **Micron Technology (MU)** +9%: Results for the quarter were more-or-less inline with slight beats, but next quarter guidance was strong and gave upbeat commentary.
- **Boeing (BA)** +1%: China approved the first Boeing 787 delivery since April 2021.
- **Apple (AAPL)** -0.1%: Pulled watches from online store to meet the US-ordered ban, according to Bloomberg.
- **CarMax (KMX)** +5%: Surpassed expectations on profit and resumed share repurchases in the quarter. Note, revenue missed.
- **Cintas (CTAS)** +6.5%: EPS, revenue, and gross margin beat alongside lifting FY profit outlook. Raised quarterly cash dividend 17%.
- **BlackBerry (BB)** -13%: Q4 sales guidance fell short. Note, surprise profit per share and beat on revenue.
- **Spotify (SPOT)** +2%: Upgraded at Pivotal; said recent CFO change could be a sign Co. will focus more on generating FCF in the future.
- **Salesforce (CRM)** +3%: Upgraded at Morgan Stanley; said it sees a “bridge to better growth” in 2024, with data cloud a “key foundational layer” for generative AI-related apps.
- **Carnival (CCL)** +6%: Shallower loss per share and adj. net loss than expected and beat on revenue and adj. EBITDA. Guidance was mixed – Q1 adj. EBITDA and EPS light, FY EPS in line and FY ABITDA better-than-expected.
- **Warner Bros Discovery (WBD)** -2% CEO Zaslav reportedly not ready to make a deal for **Paramount (PARA)** -2%; Zaslav met with PARA CEO Bakish on Tuesday, according to FBN's Gasparino.

US FX WRAP

The Dollar sold off on Thursday in quiet trade with desks pointing to month-end flows ahead of the holidays. Barclays' month-end model shows strong USD selling against all major, particularly EUR, GBP and AUD. US data was mixed on Thursday, the final US GDP for Q3 was revised down, beneath expectations while Core PCE prices also eased. The jobless claims metrics were beneath expectations at 205k, while the Philly Fed fell further into contractionary territory.

AUD outperformed after the weaker-than-expected US GDP metrics with month-end likely also a factor. **NZD** also saw gains, but not to the same extent as the Aussie, with AUD/USD rising back above 1.08. **JPY** also performed well, falling sub 143.00 to test 142 after the US data amid Fed cut pricing ramping further; six Fed cuts in 2024 are now fully priced; Japan CPI data is due Friday. **CAD** saw gains with the latest Canadian retail sales beating on the core but missing on the headline. **GBP** only saw mild gains vs the buck but lagged its G7 peers ex the Dollar with the soft CPI overhang, limiting sterling upside ahead of UK GDP on Friday. **EUR** attempted to reclaim 1.10 posting a high of 1.1002 but failed to hold above the level, technicians suggest a close above the psychological level would be a bullish signal; de Guindos was the latest ECB official to pushback on market cut pricing.

EMFX was mixed. BRL and MXN saw gains while CLP and COP saw losses vs the Greenback. Strength in the MXN came amid mixed half-month inflation figures in December; headline figures were hotter than expected but core was softer. Elsewhere, the TRY was ultimately weaker after the latest CBRT rate decision which hiked rates by 2.5% as expected, while it noted that policy tightness is significantly close to the level required to establish the disinflation course, noting it expects to complete the tightening course as soon as possible. CNH was relatively flat. The Chinese Government announced several measures, where the Ministry of Finance said it is adjusting the import tax for some goods and adjusting import/export tariffs from January 1st. It is to also cut export tariffs on high-purity aluminium. It has also banned exports of some rare-earth processing technologies. Note also WSJ reports that the US is mulling easing tariffs on some consumer goods whilst raising them on items linked to EVs and clean energy. CZK was weaker after the CNB voted to cut rates by 25bps, as expected.