



## US Market Wrap

### 2nd January 2024: Dollar rips and Stocks dip as Big Tech starts 2024 on the back foot

- **SNAPSHOT:** Equities down, Treasuries down, Crude down, Dollar up.
- **REAR VIEW:** Deluge of corporate debt issuance; Downward PMI revision; Heightened Red Sea troubles; Senior Hamas official killed in suspected Israeli drone strike in Beirut; AAPL downgraded at Barclays; BA downgraded at GS; ASML cancels some shipments to China; Atlanta Fed GDPNow Q4 revised lower; Weak PMIs in Europe and China.
- **COMING UP: Data:** German Unemployment, US MBAs, ISM Manufacturing PMI, JOLTs, Australian Services & Composite Final **Events:** Fed Minutes **Speakers:** Fed's Barkin **Supply:** Germany **Earnings:** JD Sports, Bellway.

## MARKET WRAP

Stocks were sold on Tuesday, with big tech leading the losses, exhibited by the equal-weight S&P 500 outperforming the market cap-weighted benchmark. There was not one singular reason for the stock weakness, with desks pointing to both fundamental and technical factors such as ongoing rotation, Barclays' downgrade of Apple (AAPL), Middle East troubles, and downbeat PMIs, to name a few. Treasuries were sold across the curve, with participants making room for the deluge of corporate debt issuance for the new year, which included over 15 issuers in the Dollar IG market on Tuesday alone. However, the downward revision to S&P's manufacturing PMI managed to cap the bond selling for the rest of the session but hardly led to a recovery. Oil prices were ultimately sold after strong gains overnight - amid Red Sea tensions - were reversed in the US session, likely seeing some pressure from the broader risk aversion and Dollar strength, but there was no clear fundamental reason for the sharp pullback. The Dollar saw a strong bid to start the year, with weakness most pronounced in activity currencies (particularly Kiwi) and also the Euro after the region's downbeat PMI and money and lending data.

## GLOBAL

**FOMC MINUTES PREVIEW:** The minutes will be eyed to view the Fed's appetite on rate cuts in 2024 after the 2024 dot plot in the SEP implied three rate cuts from current levels throughout the year. Powell and Waller have sounded somewhat dovish, which has seen money markets price in c. 150bp of cuts throughout the year, more than the 75bp of cuts implied by the Fed's median SEP. Fed speakers have attempted to dial back these expectations since the latest Fed meeting, with Williams and Mester both noting the focus is still on determining whether policy is in the right place. Although the median dot looks for the target level for the FFR at 4.6% by the end of 2024 (currently 5.4%), the range of the dot plots was wide with eight participants pencilling a rate above 4.6% and five pencilling a rate beneath that level. The minutes will be viewed by the market to gather more information on the FOMC's thinking, but it is worth noting the minutes will only incorporate the information up to the latest meeting, therefore any development since the December 13th meeting, ie even more dovish market pricing, cooler than expected November PCE, cooler than expected Final Q3 GDP and the attempted pushback on market pricing from the FOMC, will not be incorporated. To download the full preview, please [click here](#).

**ISRAEL:** Saleh al-Arouri, a Senior Hamas leader, was killed on Tuesday in an explosion at one of the group's offices in Beirut, which is a Hezbollah stronghold. Lebanon has blamed the attack on an Israeli drone strike - Israel has neither confirmed nor denied the attack. FT reports that the attack, if confirmed, would mark Israel's first targeted attack against a Hamas leader outside of Palestinian territories since the initial October 7th assault. That would increase the likelihood of a full-scale confrontation between Israel and the Iran-backed Hezbollah. The attack also risks the framework for a long-term truce between Israel and Hamas that was put forward last week by the Qataris. Hezbollah released a statement later on Tuesday saying the assassination would not go unpunished. Note that before the attack, Hezbollah leader Nasrallah had been scheduled to speak publicly on Wednesday - it's currently unclear whether that will still go ahead.

## FIXED INCOME

**T-NOTE (H4) FUTURES SETTLED 19 TICKS LOWER AT 112-09+**



**Treasuries sold off on Tuesday amid a deluge of New Year corporate debt issuance before the downward PMI revision capped the losses.** 2s +8.0bps at 4.330%, 3s +9.9bps at 4.102%, 5s +9.4bps at 3.924%, 7s +8.8bps at 3.950%, 10s +8.6bps at 3.946%, 20s +6.8bps at 4.249%, 30s +6.7bps at 4.085%.

**INFLATION BRAKEEVENS:** 5yr BEI +3.7bps at 2.195%, 10yr BEI +4.0bps at 2.214%, 30yr BEI +4.0bps at 2.199%.

**THE DAY:** The APAC session and European morning had seen one-way traffic lower for Treasuries on Tuesday, tracking lower with global peers and futures showing decent volumes despite Japan being absent. The main newsflow item has been the renewed flare-up of Red Sea tensions, leading oil to spike, while the lacklustre Eurozone manufacturing PMIs and depressed money and lending data out of the bloc failed to alter the flow. At the same time, participants were busy making room for the expected flood of corporate debt issuance to start the new year with over 15 issuers in the IG Dollar market on Tuesday alone.

The return of stateside traders for the new year initially saw an extension of the govies selling, with T-Notes going on to print session lows of 112-04. However, with the corporate deal announcements (and associated hedging flows) entering the rearview and oil prices paring their initial strength, the downward revision to the S&P manufacturing PMI (Dec) was enough to cap the losses for the rest of the session. Nonetheless, there was no meaningful recovery either, with T-Notes failing to breach back past 112-16.

**AHEAD:** On Wednesday, FOMC minutes, Fed's Barkin (voter), ISM mfg., JOLTS, and German unemployment. On Thursday, ADP, jobless claims, 3yr, 10yr, and 30yr auction announcements, and German and French CPI. On Friday, NFP, ISM Services, factory orders, Fed's Barkin, German retail sales, Italian and EU CPI, and Canadian employment.

#### STIRS:

- SR3H4 -4bps at 94.975, M4 -6bps at 95.425, U4 -8bps at 95.825, Z4 -9.5bps at 96.175, H5 -10.5bps at 96.475, M5 -11bps at 96.68, U5 -11.5bps at 96.785, Z5 -11.5bps at 96.82, H6 -11.5bps at 96.815, H7 -9bps at 96.755, H8 -6.5bps at 96.635.
- SOFR falls to 5.38% as of Dec 29th from 5.40%, volumes at USD 1.702tln (prev. 1.832tln).
- NY Fed RRP op demand at USD 0.705tln (prev. 1.018tln) across 78 counterparties (prev. 102).
- EFFR flat at 5.33% as of Dec 29th, volumes at USD 59bln (prev. 81bln).
- US sold USD 80bln of 3-month bills at 5.245%, covered 2.71x; sold USD 72bln of 6-month bills at 5.045%, covered 3.06x; sold USD 70bln of 42-day CMBs at 5.290%, covered 2.72x.
- 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 Jan 4th and 17-week bills on Jan 3rd; all to settle on Jan 9th.

## CRUDE

**WTI (G4) SETTLED USD 1.27 LOWER AT 70.38/BBL; BRENT (H4) SETTLED USD 1.15 LOWER AT 75.89/BBL**

**Oil prices were ultimately lower on Tuesday after the initial strength on Red Sea troubles reversed in the US session.** WTI and Brent futures climbed to peaks of USD 73.64/bbl and 79.06/bbl, respectively, at the London/NY handover before strong selling was seen after cash energy products opened from 09:00ET. The main driver being cited for the earlier strength had been developments in the Red Sea after the US destroyed three Houthi ships, Iran sent a warship to the area, and Maersk (MAERSKB DC) suspended sailings until further notice after one of its ships was attacked on Dec. 30th. However, there was no obvious catalyst behind the pullback lower as stateside trade got underway Tuesday; the downside in broader risk appetite (stocks) was likely a factor, while some desks pointed to the weak PMIs seen in both Asia and Europe (despite oil not falling at the time of their release). The selling extended through into the futures settlement. Note the weekly US energy inventory data (both the private and the EIA figures) has been delayed by a day on account of the market holiday on Monday.

## EQUITIES

**CLOSES:** SPX -0.57% at 4,742, NDX -1.68% at 16,543, DJI +0.07% at 37,715, RUT -0.70% at 2,012.

**SECTORS:** Technology -2.58%, Industrials -0.95%, Communication Services -0.91%, Consumer Discretionary -0.92%, Materials -0.2%, Financials +0.39%, Real Estate +0.93%, Energy +1.19%, Consumer Staples +1.15%, Utilities +1.38%, Health +1.76%.

**EUROPEAN CLOSES:** DAX +0.11% at 16,769.36, FTSE 100 -0.15% at 7,721.52, CAC 40 -0.16% at 7,530.86, Euro Stoxx 50 -0.21% at 4,511.95, AEX -0.47% at 783.11, IBEX 35 +0.79% at 10,182.10, FTSE MIB +0.57% at 30,524.63.



## STOCK SPECIFICS:

- **Apple (AAPL)** -3.5%: Downgraded at Barclays; cited weak iPhone 15 volumes, along with Macs, iPads, and wearables.
- **Boeing (BA)** -3.5%: Downgraded to 'Buy' from 'Conviction Buy' at Goldman Sachs; removed the shares from its Conviction List as part of its monthly "Directors' Cut" update.
- **Tesla (TSLA)** flat: Q4 deliveries were more or less in line.
- **Rivian (RIVN)** -10%: Q4 deliveries fell short of expectations.
- Chinese auto names, **XPeng (XPEV)**, **NIO (NIO)**, **Li Auto (LI)**, saw weakness after its quarterly and FY delivery updates.
- **ASML (ASML)** ADR -5.5%: Cancelled shipments of some of its machines to China after a request from the US, weeks before an export ban came into effect.
- **PNM Resources (PNM)** -6%: Announced the termination of its merger agreement with Avangrid (AGR).
- **Baidu (BIDU)** -3% **Joyy (YY)** -14.5%: Baidu terminated its proposed USD 3.6bln acquisition of Joyy Group's live-streaming business in China.
- **Corcept Therapeutics (CORT)** -25.5%: **Teva Pharmaceuticals (TEVA)** won a patent infringement lawsuit against CORT relating to Concept's Cushing syndrome treatment Korlym.
- **Estee Lauder (EL)** -0.5%: Downgraded at Deutsche Bank; said it sees near-term risk if EL's China inventory and economic rebound is delayed and the US market slows down.
- **Moderna (MRNA)** +13%: Upgraded at Oppenheimer; said MRNA's multiple product launches in the next 12 to 18 months should help top-line sales start to grow in 2025.
- **GoodRx (GDRX)** -16%: Bank of America downgraded the stock, citing increased competition from the large pharmacy benefits managers.

## US FX WRAP

**The Dollar** was firmer to start 2024, seeing the index hit a peak of 102.22, with little fresh fundamental newsflow behind the move but more a function of firmer yields (initially driven by crude gains and heavy US corporate supply) and possible technicals (across pairs) ahead of the week's risk events. As mentioned, headline-driven trade was light on Tuesday, but geopolitical tensions continue to mount in both the Red Sea and Israel/Lebanon, while the US S&P Global Manufacturing PMI Final (Dec) was revised lower to 47.9 from 48.2. Looking ahead, market participants will be awaiting ISM Mfg., JOLTs, and FOMC Minutes on Wednesday ([Newsquawk preview here](#)), ahead of ADP, IJC (Thurs) and NFP, ISM Services (Fri).

**All G10 peers (ex-Dollar) saw weakness** amid the broad Buck strength and risk-aversion, to see the **NZD** underperform with NZD/USD hitting a low of 0.6250 vs earlier peaks of 0.6326. Its Antipodean counterpart **AUD** initially 'outperformed' as it was propped up by iron ore and the AUD/NZD cross, but it eventually fell foul to the general risk sentiment and buoyant Dollar to see AUD/USD hit a trough of 0.6759 vs the earlier 0.6839 peak. **CAD, JPY, EUR, and GBP** all saw weakness to differing levels against the Buck, with the GBP noticing the greatest losses. The Loonie failed to benefit from the initially firmer crude prices on Red Sea troubles which later reversed in the US session. As such, Cable dipped to a low of 1.2612 (vs peak of 1.2759) while USD/CAD topped out at 1.3333 (vs trough of 1.3230). **The Yen** spent the entire session on the backfoot vs. the Greenback - note Japan is away from market until Thursday. **Euro** was weaker and EUR/USD fell beneath 1.0950 amid the aforementioned themes, accentuated by the weak EZ PMI and M3 data earlier on. ECB's De Cos noted uncertainty over data remains high and inflation is expected to continue its downward trend.

**EMFX** was also exclusively weaker on the surging buck. Yuan was weighed on by Chinese NBS PMIs (Dec) Manufacturing falling to 49.0 (exp. 49.5, Prev. 49.4), with non-Manufacturing 50.4 (Prev. 50.2). Meanwhile, Caixin Manufacturing PMI Final (Dec) marginally rose to 50.8 (exp. 50.4, Prev. 50.7).

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