US Market Wrap

3rd January 2024: Stock slide continues, oil climbs on geopolitics and supply risk

- **SNAPSHOT**: Equities down, Treasuries up, Crude up, Dollar up.
- **REAR VIEW**: FOMC Minutes balanced & highlight cuts likely over; Full shutdown of production at Libya's Sharara oilfield; Barkin refused to rule out hikes; JOLTS shows signs of cooling labour market; ISM Mfg. tops expectations, with prices paid falling & employment rising; Heightening geopolitical tensions; Blackwells Capital to nominate three directors for DIS; SCHW downgraded at GS.
- **COMING UP**: **Data**: Japanese Manufacturing PMI, Chinese Caixin Services, French CPI, Spanish, UK, Italian, German Services & Composite PMI (Final), German State and Nationwide CPI, US Initial Jobless Claims, Composite & Services PMI (Final) **Events**: BoE Monthly Decision Maker Panel **Supply**: UK, France, Spain & US **Earnings**: Walgreens Boots, Lamb Weston Holdings, Sodexo.

MARKET WRAP

Stocks continued the downward New Year trend after the Santa Rally towards the end of 2023 with the downside led by the Russell 2000. Crude prices saw upside on Wednesday with Geopolitical concerns still rife with Iran warning of a severe response to the terrorist attack that occurred on Wednesday. Meanwhile, Hezbollah has warned there will be no ceilings or rules to Hezbollah's fighting if Israel wages war against Lebanon. In the US, the November JOLTS revealed further signs of a cooling labour market ahead of December's NFP on Friday, while the ISM Manufacturing PMI rose more than expected on the headline led by a jump in unemployment but New Orders and Prices declined, with the latter falling more than expected. The data led to a revision higher to the Q4 '23 Atlanta Fed GDP estimate to 2.5% from 2.0% previously. The December FOMC Minutes were balanced but gave little indication of when rate cuts would start. The downbeat risk tone gave further support to the DXY which rose above 102.50 although gains were capped by lower yields and the soft JOLTS report. Meanwhile, Bitcoin slumped on a report that suggested the Spot Bitcoin ETF will not be approved in January.

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FOMC MINUTES REVIEW: The December Meeting Minutes had both dovish and hawkish aspects. The Minutes confirmed that members generally viewed the addition of the word "any" to comments on possible additional firming as relaying their judgement that rates were likely at or near the peak of the cycle. A number of participants highlighted uncertainty around how long restrictive policy would need to be maintained with participants pointing to downside risks the economy faces with an overly restrictive stance. Meanwhile, participants also noted that their outlooks were associated with an unusually elevated degree of uncertainty, and it was possible that the economy could evolve in a manner that would make further increases in the target range appropriate and several observed that circumstances might warrant keeping the policy rate at the current level for longer than currently anticipated. On the balance sheet, several suggested it would be appropriate to begin discussing the technical factors about slowing the balance sheet run-off, well before such a decision was reached. On the economy, participants forecast that upside risks to inflation have diminished, and several observed the ongoing rebalancing of labour supply and demand would help reduce core services inflation. Several also assed that housing services inflation would fall further over time. Several on the FOMC noted that longer-term inflation expectations remained well anchored, and that near-term inflation expectations of households had declined recently. Many highlighted the decline in job openings and a few remarked on the lower quits rate, several said that the risk if the labour market could transition quickly from a gradual easing to a more abrupt downshift in conditions. Meanwhile, the staff economic outlook was broadly similar to the projection prepared for the prior meeting. There was little within the minutes to suggest when rate cuts could start to occur, aside from what the SEP showed in December that almost all participants indicated their baseline implied a lower FFR would be appropriate by the end of the year.

ISM: ISM Manufacturing PMI for December rose to 47.4 from 46.7, above the expected 47.1, but remained in contractionary territory for the 14th consecutive month. The inflationary gauge of prices paid encouragingly declined more than forecasted to 45.2 (exp. 47.5, prev. 49.9), while employment rose to 48.1 from 45.8 (exp. 46.1) ahead of the US jobs report on Friday. New orders declined to 47.1 from 48.3, while production lifted back into expansionary territory (50.3, prev. 48.5). Supplier deliveries and inventories slightly rose and fell, respectively, with backlog of orders, new export orders, and imports all lifting to differing degrees, albeit all remaining below 50.0. The report notes, “The past relationship between the Manufacturing PMI and the overall economy indicates that the December reading (47.4%) corresponds to a change of -0.5% in real GDP on an annualized basis.” Overall, as ING quips, ISM manufacturing data suggests the sector continues to contract while job opening numbers point to a slower pace of hiring. Friday's jobs report will be key this week though, with the composition of jobs growth almost as important as the payrolls number itself in determining the prospect for rate cuts in 2024.

JOLTS: JOLTS Job Openings in November fell to 8.79mln from an upwardly revised 8.852mln, beneath expectations of 8.85mln, the third consecutive decline. Within the report, new hires declined 363k to 5.5mln and the quit rate fell to 2.2% from 2.3%. Analysts at Oxford Economics highlight the ratio of job openings to unemployed workers rose to 1.4 from 1.36. However, the consultancy looks at the three-month average as the denominator of the ratio using the number of unemployed in the household survey, which can be quite volatile M/M. The 3mnth average fell to 1.41 from 1.44 in October; the lowest since September 2021 but notes that it is still elevated; OxEco highlights a ratio of 1.0 is more consistent with a balanced labour market, "but the decline is consistent with weakening labor demand and a slower pace of hiring in the months ahead." Overall, the report is a dovish one and adds to signs of a cooling labour market after remarkable strength throughout the Fed's tightening cycle. OxEco suggest the data should allow the Fed to bring its first rate cut forward to May or June this year; currently, the market is pricing in the first rate cut in March with a c. 80% probability.

BARKIN (2024 voter) gave a speech titled "Heading for a Soft Landing?" in which he highlighted all the progress the Fed has made whilst warning the road ahead may be less clear, leaving the door open for both hikes and cuts - whilst in his post-speech Q&A he said that a March rate call is a pretty long way away. The Richmond Fed President drew attention to the six-month core PCE now running beneath the Fed's 2% target with the economy remaining healthy. He didn't give any specifics on the rate path ahead, but he said to focus instead on the data, saying conviction on both falling inflation and the economy "flying smoothly" will determine the path and timing of any rate changes. Barkin listed a slew of risks to the soft landing thesis, which included the delayed impact of high interest rates on credit, outside shocks, shelter and services inflation getting stuck at a high level, and strong demand. Specifically, he said he still hears too many businesses planning above-normal price increases, suggesting firms, especially those facing margin pressure, "won’t want to back down from raising prices until their customers or competitors force their hands." He warned, "If that’s the case, I fear more will have to happen on the demand side, whether organically or through Fed action, to convince price-setters that the inflation era is over." Barkin also alluded to a potential Fed response to the recent easing of financial conditions, "Longer-term rates have dropped recently, which could stimulate demand in interest-sensitive sectors like housing... That’s why the potential for additional rate hikes remains on the table."

FIXED INCOME

T-NOTE (H4) FUTURES SETTLED 7 TICKS HIGHER AT 112-16+

Treasuries were choppy Wednesday after more supply-led selling was pared after dovish ISM Mfg. and JOLTS data. At settlement, 2s -0.8bps at 4.320%, 3s -2.3bps at 4.076%, 5s -3.2bps at 3.892%, 7s -3.7bps at 3.912%, 10s -3.9 bps at 3.905%, 20s -3.7bps at 4.211%, 30s -2.8bps at 4.056%

INFLATION BREAKEVENS: 5yr BEI -0.6bps at 2.193%, 10yr BEI -0.8bps at 2.210%, 30yr BEI -0.8bps at 2.192%.

THE DAY: The govvie sell-off had initially continued on Wednesday with Japan still away. T-Notes stretched beyond the Tuesday low (112-04) to find support at at 112-00 in the London morning with not much new to go off, baring a smaller rise in German unemployment than expected and an OK German Schatz auction, with contracts hovering just above lows as stateside trade gets underway.

A renewed bout of selling in USTs was observed in the NY morning with another double-digit slew of IG Dollar debt issuers to make room for. T-Notes made session lows of 111-28. The fall in the ISM mfg. Prices Paid and New Orders indices, alongside the fall in the JOLTS job openings data, saw T-Notes spike to 112-09. However, contracts failed to hold or extend from there at first with the corporate supply pressures and rip in oil prices capping the recovery, seeing contracts retest session lows not long after. But, as the dust settled into the NY afternoon and the hedging for corporate supply entered the rearview, USTs extended higher again and T-Notes crossed into the black with the move extending once the minutes were out the way. Overall, the minutes were rather balanced and only saw a brief knock on the release before completely paring and extending higher to settle in the black.

AHEAD: On Thursday, German and French CPI data before US ADP, jobless claims, 3yr, 10yr, and 30yr auction announcements. On Friday, German retail sales, Italian and EU CPI, US NFP and Canadian employment, US ISM Services, factory orders, Fed's Barkin (voter).

STIRS:

- SR3H4 -3.5bps at 94.940, M4 -4.5bps at 95.375, U4 -3.5bps at 95.790, Z4 -1.5bps at 96.160, H5 +0.0bps at 96.470, M5 +1.5bps at 96.690, U5 +3.0bps at 96.810, Z5 +3.5bps at - 96.850, H6 +3.5bps at 96.845, H7 +4.0bps at 96.790.
- SOFR rises to 5.40% as of Jan 2nd from 5.38%, volumes at USD 1.948tln (prev. 1.702tln).
- NY Fed RRP op demand at USD 0.720tln (prev. 0.705tln) across 79 counterparties (prev. 78).
- EFFR flat at 5.33% as of Jan 2nd, volumes rise to USD 83bln from 59bln.
- US sold USD 56bln of 17-week bills at 5.200%, covered 3.09x.

CRUDE

WTI (G4) SETTLED USD 2.32 HIGHER AT 72.70/BBL; BRENT (H4) SETTLED USD 2.36 HIGHER AT 78.25/BBL

Oil prices ripped higher on Wednesday on the threat of a widening Israel conflict and on supply troubles in Libya. The upside occurred out of the European session and through the NY morning, seeing WTI and Brent peak at USD 72.90/bbl and 78.41/bbl, respectively. That coincided with Iran declaring it is to give a swift and severe response to the "terrorist attack" which killed over 100 people in Kerman, Iran. Meanwhile, Reuters reports there has been a full shutdown of production at Libya's 300k BPD Sharara oilfield on the back of protests. Whether it made an impact in the rally is hard to tell, but it is worth noting that OPEC+ released a brief statement saying the group reaffirms its commitment to unity, full cohesion and market stability. Later on, the monthly Bloomberg OPEC survey saw the group's December production little changed at 28.05mln BPD ahead of the new production cuts. Traders now look to the weekly US energy inventory data with the private release due later Wednesday ahead of the EIA figures on Thursday. Current expectations (bbls): Crude -3.7mln, Distillate +0.6mln, Gasoline -0.2mln.

EQUITIES

CLOSES: SPX -0.80% at 4,704, NDX -1.06% at 16,368, DJIA -0.76% at 37,430, RUT -2.66% at 1,959.

SECTORS: Energy +1.52%, Utilities +0.39%, Communication Services +0.1%, Health -0.14%, Consumer Staples -0.71%, Financials -0.81%, Technology -1.02%, Materials -1.11%, Industrials -1.51%, Consumer Discretionary -1.88%, Real Estate -2.35%.

EUROPEAN CLOSES: DAX -1.38% at 16,479.92, FTSE 100 -0.51% at 7,650.30, CAC 40 -1.58% at 7,380.06, Euro Stoxx 50 -1.43% at 4,432.75, IBEX 35 -1.26% at 10,038.10, FTSE MIB -1.39% at 30,013.92, SMI +0.23% at 11,136.10.

STOCK SPECIFICS:

- **Disney (DIS)** +1%: Blackwells Capital is to nominate three directors to the board of Disney. Prior to this, DIS came to an agreement with ValueAct Capital on strategic consultation during Disney's transformation.
- **Charles Schwab (SCHW)** -3%: Downgraded at Goldman Sachs; said lower rate outlook could hurt Schwab's earnings.
- **Verizon (VZ)** +0.7%: Upgraded at KeyBanc; sees wireless industry competitive intensity being low in 2024, which makes it want more wireless exposure.
- **SoFi Technologies (SOFI)** -14%: Downgraded at KBW; cites a combo of the stock's recent outperformance and a re-underwriting of the firm's model, which slightly reduced estimates, leaving it materially below consensus.
- **PGT Innovations (PGTI)** +3.7%: Received an unsolicited proposal from Miter Brands to acquire all outstanding shares of PGT Innovations' common stock for USD 41.50/shr in cash.
- **Cigna (CI)** -2%: Reportedly nears a deal to offload Medicare business for between USD 3-4bln, according to WSJ.
- **Barrick Gold (GOLD)** -3%: Spoken with some of First Quantum's major investors to gauge their support for a possible takeover, according to Bloomberg.
- **Ford (F)** -3.6%: 2024 F-150 Lightning Pro and F-150 Lightning XLT 311A prices raised by USD 5,000 and 10,000, respectively, to USD 54,995 and USD 64,995. F-150 Lightning Platinum prices decreased by USD 7,000 to USD 84,995.
- **Xerox (XRX)** -12%: Targets 15% workforce reduction and announces new operating model.
- **Eli Lilly (LLY)** +4.3%: Bank of America named LLY a top pick; said Co. is "well positioned to weather competitive threats."
- Crypto names such as **Coinbase (COIN) and Marathon Patent Group (MARA)** saw weakness as Bitcoin continued its descent lower. In the EU morning downside was attributed to a Matrixport report who project a January rejection for Bitcoin Spot ETFs by the SEC, cautioning traders to hedge long exposure. Since then, SEC

is holding meetings today with the exchanges (Nasdaq, CBOE, NYSE) to finalize comments on the 19b-4s submitted by the Bitcoin Spot ETF issuers, via Fox's Terrett.
- **MicroStrategy (MSTR) -**8%: Co-founder Michael Saylor started to sell USD 216mln worth of MicroStrategy stock options.

US FX WRAP

The Dollar was firmer and continued its strong start to 2024. The Buck was initially supported by firmer yields in the EU morning and general risk-averse sentiment, but the Greenback managed to maintain its bid despite two-way action in Treasuries in the wake of the FOMC Minutes. On this, they were largely balanced and participants viewed the policy rate as likely at or near its peak and generally reaffirmed it would be appropriate for policy to remain restrictive until inflation was 'clearly moving down sustainably'. Treasuries saw an initial dip lower with Dollar rising to session highs of 102.730, but the initial move soon reversed to see stocks and bonds drift higher while the DXY slipped back beneath 102.50. Elsewhere, the Dollar saw intra-day weakness on the back of the US JOLTS report. JOLTS Job Openings (Nov) printed 8.79mln (exp. 8.85mln) against the prior, revised higher, 8.852mln. Meanwhile, the ISM Manufacturing PMI data saw the headline lift to 47.4 (prev. 46.7, exp. 47.1), marking contractionary territory for the 14th consecutive month. Prices paid declined more than forecasted to 45.2 (exp. 47.5, prev. 49.9), while employment rose to 48.1 from 45.8 (exp. 46.1) ahead of the US jobs report on Friday. Meanwhile, On the Fed footing, Barkin (2024 voter) refused to rule-out more rate hikes. Looking ahead, market participants will be looking at the US ADP, Challenger Layoffs, IJC (Thurs) and NFP, ISM Services (Fri).

GBP was the G10 outperformer against the Buck, as Cable found support just above 1.26, rallying off Tuesday and Wednesday lows of 1.2612 and 1.2619, respectively, benefiting from a slight bid in early US trade as rising UK gilt yields outpaced US Treasuries. **CHF** was flat, while **NZD** and **EUR** saw slight losses amid the broad Buck bid and risk-souring sentiment. EUR/USD hit a low of 1.0894, albeit back above the round 1.09 at pixel time. **AUD** and **CAD** were hit by the aforementioned themes, as opposed to anything currency-specific, although the buoyant Crude prices, amid the geopolitical tensions, could not lend the Loonie a helping hand. AUD/USD and USD/CAD traded between 0.6703-6770 and 1.3318-71, respectively. **JPY** was the distinct underperformer to see USD/JPY hit a high of 143.73 and take out the 200DMA of 143.17 on the way. Analysts note the cross also has more technical scope to correct the November-December plunge, but will need US data to keep Treasury yields rebounding to get past resistance at 144.58.

EMFX largely saw losses against the Greenback, although the **BRL** and **CLP** outperformed and saw slight gains. For the **BRL**, Current Account (Nov) posted a deficit of 1.6bln (exp. -0.4bln, prev. -0.23bln), while FDI was 7.8bln, much greater than the expected (3.95bln) and prior (3.306bln). **TRY** was weighed on by numerous factors, namely risk-off sentiment and rising oil prices. Turkish CPI M/M was 2.93% (exp. 3.13%, prev. 3.28%) and Y/Y 64.77% (exp. 65.1%, prev. 61.98%). **ZAR** was hit by falling bullion prices.