US Market Wrap

4th January 2024: Stocks chop and bonds tumble after hot European and US data ahead of NFP

- **SNAPSHOT**: Equities down, Treasuries down, Crude down, Dollar flat.
- **REAR VIEW**: Jobless claims fall back towards 200k; ADP beats but wage metrics ease; German CPI rises in line with expectations; Strong EZ PMI revisions; MBLY cuts guidance amid bloated customer inventories; WBA slashes dividend; DoE inventory data sees massive product builds.
- **COMING UP**: **Data**: Japanese Composite & Services PMI (Final), German Retail Sales, UK Halifax House Prices, EZ Construction PMI, CPI, Producer Prices, Canadian Leading Index, US NFP, Durable Goods, ISM Services Employment Index, Canadian Ivey PMI **Speakers**: Fed's Barkin.

MARKET WRAP

Stocks were choppy Thursday in a session where yields and central bank rate paths moved decisively higher with key data and positioning factors aligned. Stocks initially attempted to bounce on the cash open but that faded into the NY afternoon, closing in the red amid a chunky sell side imbalance. In rates, Bunds led the downside, paring back the large move higher seen into year-end, with upward revisions to European PMIs and a rise in French and German Y/Y headline inflation figures (albeit expected due to energy base effects) ignited sustained selling pressures that weighed on USTs too, the downside extended after the highest ADP employment growth since August and another below-forecast set of US jobless claims figures - the cash US 10yr yield is back up to 4% ahead of Friday's NFP. The Dollar Index was slightly firmer with strength in Euro and Sterling offset by the broad-based tumble in the Yen amid the widening rate differentials. Oil prices were lower after EIA reported more than a 20mln bbl net build in the products in the last week of 2023, despite a 5mln bbl crude stock draw. In stocks, Mobileye (MBLY) weighed on broader semiconductors after a poor Q4 preannouncement and guidance citing excess inventory at its customers. Walgreens (WBA) was sold despite above-forecast earnings after it slashed its dividend as part of cost-savings measures - the Co. also warned of a near-term consumer spending pullback. Finally, Bitcoin recovered a great deal of its Wednesday losses amid further anticipation of an ETF approval.

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NFP PREVIEW: Headline Nonfarm Payrolls are expected to rise by 170k, easing from the prior 199k which was buoyed by the return of striking auto workers. However, analyst expectations are wide, varying between 80k and 225k. The unemployment rate is seen rising to 3.8% from 3.7%, with ranges between 3.6-3.9%. On earnings, the M/M is seen rising 0.3%, easing from the 0.4% prior, with expectations between 0.1 and 0.4% while the Y/Y is expected to ease to 3.9% from 4.0%, with analyst forecasts ranging between 3.8% and 4.2%. Labour market proxies saw jobless claims hot around 206k while the 4wk average for December was 208k vs the 220k average in November. The ISM Manufacturing Employment print was above expectations but still in contractionary territory, but closer to neutral than what was seen in November. Challenger layoffs eased while the ADP report was hotter than expected on the headline, but the wages metrics had cooled. Meanwhile, the November JOLTS report showed a cooling labour market. The NFP data will be used by both Fed and market participants to gauge when it will be appropriate for the Fed to first cut rates, markets are currently leaning towards the first cut in March, but the Fed have been attempting to dial back these expectations. To download the full Newsquawk, please click here.

ADP: The ADP national employment report saw the headline beat at 164k (exp. 115k), accelerating from the prior 101k and towards the top end of the forecast range between 60-175k. Meanwhile, the wages components saw the median change in annual pay for job stayers ease to 5.4% from 5.6% while for job changers it eased to 8.0% from 8.3%. The report also added that "While wages didn't drive the recent bout of inflation, now that pay growth has retreated, any risk of a wage-price spiral has all but disappeared." However, it is worth noting that the ADP report does usually offer a strong guide to the NFP report due on Friday.

JOBLESS CLAIMS: Initial jobless claims for the week ending 30th December fell to 202k from the prior, upwardly revised, 220k and shy of the expected 216k. Meanwhile, the 4wk jobless claims average dipped to 207.75k from 212.5k, with continued jobless claims (w/e 23rd Dec.) declining to 1.855mln (exp. 1.883mln, prev. 1.886mln). Note, the seasonal factors had expected an increase of 17,136 (or 6.2%) from the prior week. As always, the usual caveats apply to the volatile holiday season figures and any potential distortions in addition to the fact it is the last reading of 2023 figures. Pantheon Macroeconomics further highlights the point noting “Claims numbers are always volatile around the turn of the year, so doubt that the latest numbers are indicative of the underlying trend.”

CHALLENGERS LAYOFFS: Challenger layoffs for December fell to 34.817k from 45.51k, ahead of the US payrolls report on Friday. Andy Challenger, workplace and labor expert and Senior Vice President of Challenger, Gray & Christmas, Inc said “Layoffs have begun to level off, and hiring has remained steady as we end 2023." Challenger added, "That said, labor costs are high. Employers are still extremely cautious and in cost-cutting mode heading into 2024, so the hiring process will likely slow for many job seekers and cuts will continue in Q1, though at a slower pace.”

FIXED INCOME

T-NOTE (H4) FUTURES SETTLE 17 TICKS LOWER AT 111-31+

Treasuries sold off hard on Thursday after strong US jobs data added to pick-ups in European inflation and PMI data. 2s +6.7bps at 4.385%, 3s +7.9bps at 4.149%, 5s +8.3bps at 3.975%, 7s +8.4bps at 3.996%, 10s +8.4bps at 3.991%, 20s +8.4bps at 4.296%, 30s +8.2bps at 4.139%

INFLATION BREAKEVENS: 5yr BEI +1.1bps at 2.210%, 10yr BEI +1.1bps at 2.225%, 30yr BEI +1.1bps at 2.206%.

THE DAY: After peaking at 112-20 on Wednesday post-FOMC minutes, T-Notes trundled slightly lower through the APAC Thursday session to interim lows of 112-11 before recovering to session peaks of 112-19 at the Tokyo/London handover ahead of the busy data slate. EGB-led weakness kicked in through the European morning after headline inflation rose in December in France and Germany (albeit this was expected due to base effects), but particularly after the upward revisions to the PMI data. 2s10s steepened amid the selling. As far as Treasuries were concerned, Citi's trading desk said, "Our [Tsys] cash desk highlights how accounts continue to question the selloff which probably provides some hint of positioning."

However, T-Notes extended to fresh lows sub 112-00 in the wake of the above forecast ADP employment report (ahead of NFP on Friday) but also after the lower-than-expected jobless claims figures, which continue to exhibit no evidence of a deteriorating labour market. More IG issuance had also been weighing on USTs in the NY morning. T-Notes, after failing a recovery attempt as Europe departed, ultimately bottomed at 111-27+ in the NY afternoon, just falling beneath Wednesday's 111-28 low with the cash 10yr yield flirting with 4.00% again.

FRIDAY: German retail sales, Italian and EU CPI, US and Canadian employment reports, ISM Services, US factory orders, and Fed's Barkin (2024 voter).

NEXT WEEK'S AUCTIONS: US to sell USD 52bln of 3yr notes on Jan 9th, USD 37bln of 10yr notes (reopening) on Jan 10th, and USD 21bln of 30yr bonds (reopening) on Jan 11th; all to settle on Jan 16th.

STIRS:

- SR3H4 -2.5bps at 94.915, M4 -6bps at 95.32, U4 -7.5bps at 95.72, Z4 -9bps at 96.075, H5 -10.5bps at 96.37, M5 -11.5bps at 96.58, U5 -11.5bps at 96.695, Z5 -11.5bps at 96.735, H6 -11.5bps at 96.73, H7 -11bps at 96.675, H8 -10bps at 96.57.
- SOFR falls to 5.39% as of Jan 3rd from 5.40%, volumes at USD 1.832tln (prev. 1.948tln).
- NY Fed RRP op demand at USD 0.665tln (prev. 0.720tln) across 78 counterparties (prev. 79).
- EFFR flat at 5.33% as of Jan 3rd, volumes rise to USD 87bln from 83bln.
- US sold USD 80bln of 1-month bills at 5.290%, covered 2.96x; sold USD 80bln of 2-month bills at 5.285%, covered 2.80x.
- US leaves 42-day, 13-week, and 26-week bill auction sizes unchanged at USD 70bln, 75bln, and 68bln, respectively; 13- and 26-week bills sold on Jan 8th and 42-day bills sold on Jan 9th; all to settle on Jan 11th.

CRUDE

WTI (G4) SETTLES USD 0.51 LOWER AT 72.19/BBL; BRENT (H4) SETTLES USD 0.66 LOWER AT 77.59/BBL

Oil prices were lower on Thursday as inventory data took the spotlight from geopolitical risk. WTI and Brent futures had extended their Wednesday rally into the Thursday session to see peaks of USD 74.00/bbl and 79.41/bbl in the European morning. However, downside picked up in the NY morning with the Dollar edging higher with yields on the strong US labour market data, accelerating after the 5mln bbl EIA-reported crude stock draw was overshadowed by the 21mln bbl net draw in the products - it remains possible that year-end factors could be at play. The product builds leave gasoline and distillate stocks at their highest level since Q1 2022. WTI and Brent futures troughed at USD 71.06/bbl and 76.50 /bbl, respectively, not long after the EIA data, but prices failed to extend lower from there and partially recovered into settlement. The partial recovery also found some support amid reports of missiles fired from Yemen's Taiz towards Bab Al Mandab, highlighting the precarious state in the Red Sea. Elsewhere, EOG Resources President spoke at a conference, saying US oil and gas production is not going to be able to continue to grow at the pace that it did last year - note US production fell to 13.2mln BPD from 13.3mln BPD in the EIA data, just off record highs.

EQUITIES

CLOSES: SPX -0.3% at 4,689, NDX -0.5% at 16,282, DJI +0.03% at 37,440, RUT -0.08% at 1,958.

SECTORS: Health +0.46%, Financials +0.24%, Industrials +0.1%, Consumer Staples -0.15%, Real Estate -0.27%, Utilities -0.33%, Materials -0.33%, Technology -0.64%, Communication Services -0.69%, Consumer Discretionary -0.97%, Energy -1.63%.

EUROPEAN CLOSES: DAX +0.48% at 16,617.29, FTSE 100 +0.53% at 7,723.07, CAC 40 +0.52% at 7,450.63, Euro Stoxx 50 +0.57% at 4,473.55, IBEX 35 +1.28% at 10,182.40, FTSE MIB +1.01% at 30,403.96, SMI +0.46% at 11,222.10

- **Mobileye Global (MBLY)** -24%: Provided 2024 outlook way beneath expectations amid excess inventory. Weighing on many semi names, especially those with auto exposure, such as **NXPI, ON, TXN, and ADI**.
- **Walgreens Boots Alliance (WBA)** -6%: Offered cautious commentary post-earnings - expects further consumer spending pullback and shifting behaviours with unfavourable US retail trends impacting Q2. Note, pre-market initially saw gains in excess of 3% after earnings beat but did say it is evaluating all strategic options and cut its quarterly dividend 48%.
- **Apple (AAPL)** -1.3%: Downgraded at Piper Sandler; cited valuation concerns and broader handset and macro weakness in H1 '24.
- **Callon Petroleum (CPE)** +3% **APA Corp (APA)** -7%: APA is to acquire CPE in an all-stock deal valued at USD 4.5bln or USD 38.31/shr. Note, CPE closed Wednesday at 33.65.
- **Conagra Brands (CAG)** -2%: Earnings were mixed but cut FY24 outlook citing slower than expected volume recovery.
- **Lamb Weston Holdings (LW)** +0.5%: Surpassed Wall St. expectations on the top and bottom line, raised quarterly dividend 28%, and lifted FY24 adj. EPS guidance.
- **McDonald's (MCD)** -0.8%: CEO noted Middle East war is causing 'meaningful' impact.
- **Sunrun (RUN)** -7.5% **SunPower (SPWR)** -10%: Downgraded at Raymond James and KeyBanc, respectively.
- **Micron (MU)** +0.5%: Upgraded at Piper Sandler; believes pricing momentum paired with HBM in H1 ’24 provides tailwinds.
- **Enphase Energy (ENPH)** -3.7%: Downgraded at KeyBanc; said the timing of recovery in demand is uncertain due to a "poorly quantifiable inventory glut in the channel."
- **General Motors (GM)** +0.8%: Upgraded at Wolfe Research; the firm noted investors are underestimating GM’s earnings and cash flow power.
- **Chegg (CHGG)** -3.5%: Negative mention at Bearcave.

US FX WRAP

The Dollar Index is relatively flat heading into APAC trade Friday, sitting just beneath 102.50. The buck hit lows of 102.14 in the European morning amid the Euro rallying before grinding higher to see a peak of 102.53 in the wake of the beneath-forecast Jobless Claims data, as well as an ADP beat as eyes turn to NFP on Friday; Newsquawk NFP preview available here. Money markets now see 138bps of Fed cuts across 2024 vs 146bps on Wednesday.

The Euro saw upside and was a G10 outperformer (ex SEK) as EGBs tumbled. On data, ahead of the Eurozone figures on Friday, German and French CPI figures saw an expected rise in the headline Y/Y figures on account of energy base effects, but the M/M figures and core readings were more in line with the disinflationary trend. The big upward revisions to the European PMIs accelerated the unwind of the December rally in EGBs. Money markets now see 148bps of ECB cuts across 2024 vs 155bps on Wednesday.

The Yen was the G10 underperformer with USD/JPY continuing its 2024 ascent to levels just shy of 145 on Thursday, from lows of 142.86 as US and European yields rose throughout the session; Yen weakened considerably too vs Euro and Sterling. Money markets currently see the BoJ exiting NIRP by July with a 20% implied probability of a 10bp hike adjustment at the March meeting. **AUD and NZD** lagged on choppy risk conditions while **CAD** was flat. **GBP** saw marginal gains, briefly reclaiming the 10dma at 1.2707 to a peak of 1.2729 in the London morning, aided by the PMI data, but it ultimately failed to hold the level. **NOK** was flat vs the EUR but SEK outperformed the Euro on strong Swedish PMI services data.

EMFX: **TRY** saw weakness after the Finance Minister said the country will transition to looser monetary policy from tighter policy in 2024. The **ZAR** was flat vs the buck with **BRL** seeing gains vs the Dollar. **MXN, COP and CLP** were lower. CLP was an EM laggard with both CLP and COP extending on the weakness in 2024 so far. In Colombia, the Finance Minister announced expectations for GDP growth of 1.8% in 2024 and sees interest rates closing the year at 8%, vs 13% currently. **CNH** saw marginal weakness vs the Dollar despite better than expected Caixin services & composite PMI data.