newsquawk

US Market Wrap

5th January 2024: Dollar, Bonds, and Stocks whipsaw amid hot NFP and tumbling ISM Services

- **SNAPSHOT**: Equities mixed, Treasuries down, Crude up, Dollar flat.
- **REAR VIEW**: Hot US jobs report with internals mixed; ISM Services short, with employment cratering; Soft German retail sales; Decline in Eurozone core CPI while headline rises; Maersk announces indefinite Red Sea diversions; Hezbollah urges response to Israel; SNPS in talks to acquire ANSS; US moves closer to filing antitrust case against AAPL; Barkin has no problem "toggling" rates; SWN and CHK reportedly close to a merger.
- **WEEK AHEAD**: CPI releases from the US and China are the highlights; US earnings season also gets underway. To download the report, please click here.

MARKET WRAP

Stocks were little changed in choppy trade Friday as they digested the conflicting NFP and ISM Services reports and whipsawing yields. Stock and bond futures had been selling off in the pre-market, accelerating amid the hawkish reaction to the December NFP report - where headline jobs and earnings came in above expectations - that saw Fed cuts priced through 2024 fall from c. 135bps to just above 125bps, sending Treasury yields even higher. But the moves soon faded with attention on the downward revisions and decline in private payrolls growth. The tumble in the December ISM Services later in the NY morning, particularly the employment sub-index, saw stocks and bonds rally to session highs, with Fed 2024 cut pricing moving back higher towards c. 145bps. But stocks and USTs pared the move back lower as Europe closed up shop. The Dollar whipped similarly to the mixed data points. Meanwhile, oil prices rallied through the US session, aided by Maersk (MAERSKB DC) announcing it was diverting all vessels through the Red Sea for the "foreseeable future" and the Hezbollah chief giving an address urging on the need for a reaction to the assassination in Beirut. Apple (AAPL) was under pressure amid Foxconn reporting poor sales figures amid demand woes, and also after an NYT report that the DoJ is nearing an antitrust case against the Co.

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NFP: The US labour market added 216k jobs in December, up from the prior 173k (revised down from 199k), a surprise gain with expectations for a fall to 170k. In the household survey, the unemployment rate was unchanged at 3.7% despite expectations for a rise to 3.8% but the labour force participation saw a notable decline to 62.5% from 62.8%. Meanwhile, the number of those employed in the household survey tumbled 683k. The wages metrics were also on the hotter side, with M/M earnings rising 0.4% (exp. 0.3%), maintaining the pace in November while Y/Y earnings rose 4.1%, above the 3.9% forecast and accelerating from the 4.0% prior. On the face of it, the report was hotter than expected with the NFP and wages above expectations while the unemployment rate remained the same, albeit accompanied by a drop in the participation rate. However, some dovish aspects are the downward revision to the headline (again) and while government payrolls were strong, some suggest this is unsustainable. Also, WSJ's Timiraos highlights the latest revisions to payrolls shows the three month average for private sector hiring was 115k in December, matching the lowest level since the economy reopened in 2020. The sharp drop in the household survey employment also received a lot of attention. Markets have been leaning towards favouring a March cut, but the implied probability has decreased slightly since the data. At pixel time, markets are assigning a c. 60% probability of a 25bp cut in March, vs c 70% pre-data. The Fed will likely continue to hammer home that markets are ahead of themselves in Fed pricing but there is still plenty of data due with attention now turning to the US CPI next Thursday 11th Jan.

ISM SERVICES: ISM Services fell to 50.6 from 52.7 and was way beneath the expected (52.6) and outside the lower bound of the forecast range (50.7). Employment plunged into contractionary territory, printing 43.3 from 50.7, its lowest since July 2020 and a level only seen in recessions (ex-COVID), while new orders dropped to 52.8 from 55.5. Prices paid dipped to 57.4 (prev. 58.3), and business activity lifted to 56.6 (prev. 55.1). Inventories fell back beneath to 50 to 49.6 (prev. 55.4), while new export orders and imports dropped to varying degrees and backlog of orders ever-so-slightly rose. Qualitatively the report surmises, “The services sector had a pullback in the rate of growth in December, attributed to the decrease in the rate of growth for new orders and contraction in employment. Respondents’ comments vary by both company and industry. There are concerns related to economic uncertainty, geopolitical events and labor constraints.” Nonetheless, the past relationship between the Services PMI and the overall economy indicates the headline corresponds to a 0.3% increase in real GDP on an annualized basis. Pantheon Macroeconomics quips, "The upshot is that the December ISM data are consistent with the idea that the services sector is softening as the lagged effect of higher interest rates passes through, but the noise in the monthly numbers means it is too soon to draw any firm conclusions."

BARKIN (2024 voter), who gave comments to reporters after an appearance at Maryland Bankers Association, said he had no problem "toggling" rates to more normal levels as confidence is built in inflation falling, saying the Fed should normalize rates as the economy gets back to normal, Reuters reported. That was marginally more explicit, and dovishly so, than his speech earlier this week where he said the rate path would be determined by conviction in both lower inflation and the economy "flying smoothly". Barkin said Friday, post-NFP, that the labour market feels to be moving in a very steady softening pattern. The Richmond Fed President said the labour market is "normalizing nicely" given the level of rate increases the Fed has approved. And on real and neutral rates, Barkin said it's hard to identify what the real rate of interest is, given the uncertainty around the neutral rate and expected inflation.

FIXED INCOME

T-NOTE (H4) FUTURES SETTLED 8+ TICKS LOWER AT 111-23

Treasuries closed in a bear-steepener after fading both the post-NFP lows and the post-ISM Services highs. 2s +1.5bps at 4.397%, 3s +3.1bps at 4.180%, 5s +4.4bps at 4.017%, 7s +4.8bps at 4.044%, 10s +6.0bps at 4.051%, 20s +6.8bps at 4.363%, 30s +7.2bps at 4.207%.

INFLATION BREAKEVENS: 5yr BEI +0.4bps at 2.211%, 10yr BEI +0.9bps at 2.230%, 30yr BEI +1.7bps at 2.216%.

THE DAY: Treasuries and other govvies resumed their sell-off on Friday ahead of the US data with the curve entering stateside trade in a mild bear-steepener. There were two block 5yr sellers during APAC trade that were added to with broader momentum during the London morning. Higher oil prices and Red Sea supply chain concerns were top of mind in Europe with EGBs continuing to break through key support levels. Soft German retail sales and the decline in Eurozone core CPI failed to stop the rot. T-Notes themselves found interim lows of 111-18+ at the NY handover.

T-Notes tumbled from 111-22 to session lows of 111-06+ in wake of the above-forecast NFP and above-forecast AHE, but the downward revisions to the priors and concerns over lower trending private sector payrolls saw the move pare fairly swiftly. The miss in the ISM Services survey, but particularly the tumble in the Employment sub-index to 43.3 from 50.7, levels not seen outside of a recession ex-COVID, saw a massive bull-steepening impulse, with T-Notes shooting higher from 111-21 to session highs of 112-10. However, as Europe closed shop, the moves pared across the curve, but the curve kept its steepening bias with eyes to next week's auctions.

FED PRICING: A very choppy day for Fed pricing with 2024 cuts priced falling to near 125bps from 135bps after the NFP data, before spiking to north of 145bps after the ISM Services, only to pare back towards 135bps entering the close, marking no change on the day.

NEXT WEEK: The highlight next week will be the US CPI report on Thursday, wedged between the 10yr and 30yr auctions, with PPI due on Friday. Other data points of note include the NY Fed's SCE on Monday, with NFIB and international trade due on Tuesday. Fed Speak picks up a bit for the new year with scheduled appearances from Logan (nv) this weekend, Bostic (v) on Monday, Barr (v) on Tuesday, Williams (v) on Wednesday, and Kashkari (nv) on Friday. Bank earnings on Friday kick off the Q4 reports, whilst corporate issuance should recede from this week with many companies entering the earnings issuance blackout. Externally, highlights to watch include Swiss CPI and China trade data on Monday, Chinese inflation on Wednesday, BoJ's branch manager meeting and "Sakura report" on Thursday, and UK GDP on Friday.

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 +1bps at 94.93, M4 +0.5bps at 95.335, U4 -1.5bps at 95.715, Z4 -2.5bps at 96.055, H5 -3bps at 96.345, M5 -3.5bps at 96.545, U5 -4bps at 96.655, Z5 -4bps at 96.695, H6 -4bps at 96.69, H7 -5bps at 96.625, H8 -6bps at 96.51.
- SOFR falls to 5.32% as of Jan 4th from 5.39%, volumes rise to USD 1.930tln from 1.832tln.
- NY Fed RRP op demand at USD 0.694tln (prev. 0.665tln) across 83 counterparties (prev. 78).
- EFFR flat at 5.33% as of Jan 4th, volumes fall to USD 86bln from 87bln.

CRUDE

WTI (G4) SETTLED USD 1.62 HIGHER AT 73.81/BBL; BRENT (H4) SETTLED USD 1.17 HIGHER AT 78.76/BBL

Oil prices were firmer on Friday amid the above forecast NFP report and the continued risk of a widening Israel war. WTI and Brent futures hit their peaks of USD 74.24/bbl and 79.26/bbl, respectively, in the NY morning, with the upside coming in wake of the NFP report but also amid some rhetoric from Hezbollah chief Nasrallah who urged a response to the assassination in Beirut earlier this week. Meanwhile, the supply risk in the region was highlighted by Maersk (MAERSKB DC) announcing it would divert all vessels away from the Red Sea for the foreseeable future. However, the concerns on oil transit in the Red Sea may be somewhat overdone, with an FT article noting, "Oil markets have been less affected by the disruptions, with many companies still willing to traverse the Red Sea route, according to Vortexa, despite facing higher insurance costs." Elsewhere, Reuters reported the US' largest refinery, Motiva's Port Arthur (626k BPD) in Texas, is to shut its large CDU and coker for work early next week and is expected to take 45 days. In the latest week, Baker Hughes' rig count saw US oil rigs up one to 501 and Nat Gas rigs down two to 118, leaving the total down one to 621.

EQUITIES

CLOSES: SPX +0.18% at 4,697, NDX +0.15% at 16,305, DJI +0.07% at 37,466, RUT -0.34% at 1,951.

SECTORS: Financials +0.53%, Utilities +0.39%, Communication Services +0.34%, Consumer Discretionary +0.29%, Materials +0.21%, Industrials +0.21%, Technology +0.15%, Energy +0.07%, Health -0.02%, Real Estate -0.19%, Consumer Staples -0.24%.

EUROPEAN CLOSES: DAX -0.14% at 16,594.21, FTSE 100: -0.43% at 7,689.61, CAC 40 -0.40% at 7,420.69, Euro Stoxx 50 -0.24% at 4,463.45, IBEX 35 -0.18% at 10,164.50, FTSE MIB +0.12% at 30,440.95, SMI -0.34% at 11,186.50.

STOCK SPECIFICS

- **Costco (COST)** +1.2%: December comparable sales rose 9.9% Y/Y to USD 26.15bln driven by its e-commerce segment.
- **Tesla (TSLA)** -0.2%: China's Market Regulator said it recalled 1.62mln vehicles, including Model S, Model X, and Models 3 and Y.
- **Constellation Brands (STZ)** +2%: Beat on EPS but missed on revenue. Sees near-term headwinds in the wine market and updated FY24 reported EPS outlook beneath expectations.
- **Agilon Health (AGL)** -28%: Cut FY23 revenue view and now sees a FY adj. EBITDA loss. Revised guidance expectations for 2023 reflects higher-than-expected costs.
- **Palantir (PLTR)** -1.5%: Downgraded at Jefferies; said Palantir's AI advantage has been overhyped in the near-term and that the stock has soared to "unsustainable valuation levels."
- **Medical Properties Trust (MPW)** -29%: Working with Steward Health Care System, its largest tenant, to devise a strategy that allows it to strengthen its liquidity and recover about USD 50mln in unpaid rent.
- **Apple (AAPL)** -0.5%: Supplier **Foxconn (FXCOF)** reported December sales -26.89% Y/Y; January-December 2023 sales -6.98% Y/Y. Foxconn said Q4 revenue was slower due to flattish market demand. In other news, US moves closer to filing antitrust case against Apple's strategies to protect the dominance of the iPhone as soon as the first half of 2024, according to NYT.
- **Ansys (ANSS)** flat: **Synopsys (SNPS)** is reportedly in advanced talks to acquire Ansys for around USD 35bln or USD 400/shr in a stock-and-cash deal, according to WSJ citing sources. Note, Reuters sources reported before Christmas SNPS were in talks to acquire ANSS.
- **Southwestern Energy (SWN)** +7% **Chesapeake Energy (CHK)** +3%: SWN and CHK are reportedly close to a merger that would create a roughly USD 17bln company ranking as one of the largest natural-gas producers in the US, according to WSJ.

US FX WRAP

The Dollar was ultimately flat after two-way flows post data releases. The Dollar initially saw strength on Friday and was given a further boost after a hawkish headline NFP, which saw the DXY print a high of 103.10. As a brief summary, the US labour market added 216k jobs in December (prev. 173k, exp. 170k), while unemployment rate was unchanged at 3.7% despite expectations for a rise to 3.8%, and the wages metrics were also on the hotter side - M/M +0.4% (exp. 0.3%, prev. +0.4%), while Y/Y earnings rose 4.1% (exp. 3.9%, prev. 4.0%). Nonetheless, the Dollar started to scale back the move as participants digested the details of the NFP beat, with concern over persistent downward revisions and downward trending private payrolls. The Dollar then reversed lower after ISM Services, where the headline fell outside the bottom end of the forecast range alongside employment and new orders falling. The Dollar Index printed a low of 101.90 after that, but again faded the move with yields as traders position for next week's CPI CPI, UST auctions, Fed Speak, and earnings season.

G10 FX peers were choppy against the Dollar, dancing to its gyrations. As such, CHF, EUR, JPY, and CAD were all flat, with Antipodeans seeing marginal gains and GBP outperforming. Amid the moves, Cable fell to a low of 1.2612 before reclaiming 1.27, while AUD/USD and NZD/USD printed a low of 0.6641 and 0.6182, respectively, post-NFP before moving back above 0.67 and 0.62. Euro was initially weighed on by the broad USD strength before being dragged lower post-soft German retail sales. EZ CPI, which rose in the headline and fell in the core (as expected) had little follow-through. NFP pushed EUR/USD down to a session low of 1.0878 (lowest since Dec. 14th) before peaking post-ISM at 1.0998, only to close little changed at c. 1.0940. Yen managed to close little changed despite US and German yields closing higher (albeit off peaks).

EMFX was mixed, and also subservient to the Dollar's whips. CNH, BRL, MXN, and COP all closed with gains against the Dollar, while the TRY and CLP saw losses, weighed on by falling oil and copper prices. The Yuan managed to halt declines vs. the USD with USD/CNH back down to 7.1410 vs. a WTD peak of 7.1801. Reuters reported China's major state-owned banks have been seen active in USD/CNY swaps and selling USDs for Yuan in the spot-FX market during the week. The Real was supported from strong November industrial output data.