US Market Wrap - 26th November 2024

Israel approves ceasefire with Lebanon's Hezbollah; FOMC minutes offer little guidance for December

- **SNAPSHOT**: Equities mixed, Treasuries mixed, Crude down, Dollar down
- **REAR VIEW**: Israel cabinet approves ceasefire deal with Lebanon; Trump to tariff on all products coming in from China, Mexico, and Canada, crude is not exempt on Canadian and Mexican imports; FOMC Minutes offer little on the outcome of December meeting; Strong US 5YR note auction; OPEC+ is reportedly beginning talks on delaying an oil production restart again; US New Home Sales fall more than anticipated; US Consumer Confidence beats expectations; Ukraine reportedly hit Russia with US-made ATACMS twice in the last three days, Russian Defence Ministry is preparing retaliatory measures; Trump team weighs direct talks with North Korea's Leader Kim Jong Un; Biden proposes Medicare/Medicaid coverage of obesity drugs.
- **COMING UP**: **Data:** Australia CPI (Oct), US PCE (Oct), PCE Prices Prelim (Q3), Initial Jobless Claims (23 Nov, w/e), Durable Goods (Oct), GDP 2nd Estimate (Q3), Advance Goods Trade Balance (Oct), German GfK Consumer Sentiment (Dec). **Events:** RBNZ Policy Announcement. **Speakers:** ECB's Lane. **Supply:** Australia, Japan, US. **Earnings:** easyJet, Pennon.

MARKET WRAP

Price action in stocks was mixed, with large caps outperforming, driven by strength in Communications and particularly Utilities, while Materials and Energy lagged. Meanwhile, small caps, RUT -0.8%, were hurt by a higher US yield environment in response to resumed chatter on US tariffs from President-elect Trump on all products from Canada, Mexico and China. Highlights in the equity space include Amgen's (AMGN, -4.8%) Maritide study falling short of expectations and Wells Fargo's (WFC, +0.6%) asset cap likely to be lifted in H1 25, after being implemented due to the fake accounts scandal. That said, drivers for the equity space were fairly sparse, with newsflow-driven moves occurring elsewhere. As previously mentioned, yields bounced off weekly lows on the tariff news; note, little reaction was seen to the strong 5-year note auction. Elsewhere, crude had a choppy session but ultimately settled lower following the Israeli Cabinet approval of the ceasefire deal with Lebanon's Hezbollah, which is set to begin in the early hours of November 27th. Earlier peaks in the crude complex came from reports that OPEC+ is reportedly beginning talks on delaying an oil product restart again, yet the upside eventually pared. In FX, Yen's outperformance followed a hotter-than-expected Japanese PPI report, helping the case for the BoJ to resume normalisation. As such, JPY's upside was enough to offset the high-beta FX weakness (MXN, CAD, and Antipodes hit, while GBP and EUR saw lesser downside) resulting in DXY falling below the 107 handle before a series of US data on Wednesday. US data on Tuesday had little sway over markets, where FOMC Minutes offered little insight into the direction of the FFR at the December meeting. Moreover, US Consumer Confidence rose above expectations on labour market optimism, while New Home Sales dropped below forecasts. Looking ahead, Wednesday will see PCE (Oct), Initial Claims, GDP 2nd Est (Q3), and Durable Goods (Oct) ahead.

US

FOMC MINUTES REVIEW: Minutes of the FOMC's November 7th meeting, where the central bank slowed the pace of rate cuts to a 25bps increment, stated that participants emphasised gradual easing towards a neutral stance due to uncertainty about the neutral rate. While some suggested holding restrictive rates if inflation remains high, others proposed accelerated easing if the labour market or economic activity weakens. Most agreed risks to price stability and maximum employment were balanced. Participants noted that inflation has eased substantially from its peak, though core inflation remains elevated. Most believe data supports inflation returning to 2%, with disinflation observed broadly. A few noted the process could take longer than expected. Many observed diminished risks of excessive cooling in the jobs market compared to September. Analysts said the minutes provide limited clarity on whether a 25bps rate cut or a pause will be seen at the Fed's December meeting; much will depend on the upcoming employment and CPI data. The minutes said that some participants felt that the Fed should pause easing if inflation remains elevated, while others suggested easing could accelerate if labour or economic conditions deteriorate, though employment and growth risks had diminished. October's inflation data was slightly higher, and payrolls were weak; the minutes suggested that most participants saw employment and inflation risks as balanced. In wake of the release, markets were ultimately little changed; money markets are currently discounting around 58% chance of a 25bps rate cut at the December meeting.

CONSUMER CONFIDENCE: US Consumer Confidence rose to 111.7 (exp. 111.3) from the upwardly revised prior of 109.6, supported by continued labour market optimism. In the report, the Present Situation Index increased by 4.8 points to 140.9, highlighted by a downturn in consumers who said business goods were "bad" while the percentage of consumers expecting business conditions to improve rose in November, supporting the Expectations Index's 0.4 points move higher to 82.3. On the report, Chief Economist Peterson at the Conference Board said "Compared to October, consumers were also substantially more optimistic about future job availability, which reached its highest level in almost three years. Meanwhile, consumers' expectations about future business conditions were unchanged and they were slightly less positive about future income." OxfordEco notes the outcome of the election did not sway headline consumer confidence, and while a labour market differential still indicates that the unemployment rate will stay above 4% in the near term, the details do not signal a rise in permanent layoffs.; "This bodes well for our outlook that consumer spending growth will remain solid in the coming year."

NEW HOME SALES: New single-family home sales in October fell by 17.3% M/M to 610k from 738k, beneath the 725k forecast and lower than the most pessimistic forecast of 700k. On prices, the median sales price of new houses sold was USD 437.3k, with an average sales price of USD 545.8k. On inventory, the seasonally-adjusted estimate of new houses for sale at the end of October was 481k, representing a supply of 9.5mths at the current sales rate vs the 7.7mths in September. Despite the notable drop in New Home sales, Pantheon Macroeconomics highlights it should be treated with caution as a substantial share of the decline likely reflects Hurricanes Helene and Milton, with the drop in sales due to an especially large fall in the South. Also, Pantheon warns that the data is exceptionally volatile and data is subject to huge margins of error, noting the 17.8% decline comes with a 90% confidence interval of +/-12.8%. The consultancy also highlights that the rise in inventory took the 3mth average to 8.5mths, the highest since early 2023 "although this jump mostly reflected lower sales rather than a big increase in the absolute number of homes on the market".

FIXED INCOME

T-NOTE (Z4) FUTURES SETTLED 6+ TICKS LOWER AT 110'10+

T-note sold across the curve as Trump announces tariff plans for Mexico, China and Canada. At settlement, 2s +0.6bps at 4.258%, 3s +1.2bps at 4.219%, 5s +2.3bps at 4.195%, 7s +3.8bps at 4.242%, 10s +4.3bps at 4.306%, 20s +3.9bps at 4.574%, 30s +3.6bps at 4.483%.

INFLATION BREAKEVENS: 5yr BEI +0.9bps at 2.380%, 10yr BEI +0.1bps at 2.299%, 30yr BEI -0.1bps at 2.271%.

THE DAY: T-notes sold off overnight on Trump's proposed tariffs on Mexico, China and Canada, where the President-elect posted on Truth Social that he would charge Mexico and Canada a 25% tariff on all products coming into the US and would charge China an additional 10% tariff, above any additional Tariffs. T-notes then meandered throughout the Asia session before picking up in the European morning, but once US trade was underway the selling pressure resumed ahead of the 5yr note auction and 2yr FRN and FOMC minutes. There were further sources on the Trump tariffs from Reuters, noting they do not exclude oil, which saw a brief move higher in crude but Treasuries were unphased. The 5yr note auction was strong but the 2yr FRN at the same time was not as well received, nonetheless, there was little follow-through in price action but the strong 5yr demand follows on from the strong 2yr offering from Monday, ahead of the 7yr on Wednesday, alongside a plethora of data releases ahead of Thanksgiving. The minutes were largely in line with recent Fed commentary, keeping options open depending on how the economy evolves, but it did not that some said it may be appropriate in the future to consider resetting the overnight reverse repo rate to the bottom of the Fed Funds target range of 4.50% from the current rate of 4.55%.

5YR: The US Treasury sold USD 70bln of 5yr notes at a high yield of 4.197%, stopping through the When issued by 0.2bps, a stronger sign of demand vs the prior 1.6bps tail and six auction average for a 0.7bps tail and follows the solid 2yr offering on Monday. The Bid-to-Cover rose to 2.43x, up from the prior 2.39x, also above the 2.37x six auction average. The strong demand was led by an increase in direct bidders, which took home 24.58% of the auction, up from the prior 9.5% and above the 16% average. Indirect demand however fell to 64.12% from the prior 76.4%, falling beneath the 69.7% six-auction average. Nonetheless, the stellar direct demand was enough to see dealers take home a below-average below-average 11.3%.

THIS WEEK SUPPLY: US to sell USD 44bln of 7yr notes on Nov. 27th; to settle Dec 2nd.

STIRS/OPERATIONS

- **Market Implied Fed Rate Cut Pricing: December 15bps (prev. 13bps), January 20bps (prev. 19bps), March 33bps (prev. 33bps).**
- US sells USD 80bln of 1yr bills at high rate of 4.19%, B/C 3.26x; USD 80bln of 41-day CMBs at high rate of 4.53%, B/C 2.61x
- US to sell USD 64bln in 17wk bills, USD 95bln in 4wk bills and USD 90bln in 8wk bills on 27th November, to settle 3rd December
- NY Fed RRP op demand at USD 149bln (prev. 187bln) across 51 counterparties (prev. 57)
- SOFR at 4.58% (prev. 4.57%), volumes at USD 2.206tln (prev. 2.188tln).
- EFFR at 4.58% (prev. 4.58%), volumes at USD 103bln (prev. 100bln)

CRUDE

WTI (F5) SETTLED USD 0.17 LOWER AT USD 68.77/BBL; BRENT (F5) SETTLED USD 0.20 LOWER AT USD 72.81/BBL

The crude complex finished lower on Tuesday as the Israeli cabinet approved the ceasefire deal. Nonetheless, prices were choppy surrounding updates regarding Ukraine/Russia, the Middle East, OPEC+ and Trump tariffs. Earlier reports pointed towards increased war efforts by Ukraine towards Russia where Russia stated Ukraine hit them with US-made ATACMS twice in the last three days and the Russian defence ministry said it is preparing retaliatory measures, resulting in brief upside in the complex. Peaks for WTI and Brent (USD 70.30/bbl, USD 74.36/bbl) came after Bloomberg reported, that OPEC+ is reportedly beginning talks on delaying an oil production restart again. This follows the OPEC+ announcement at the start of November to delay the December oil output increase by one month, according to a Reuters source, while OPEC confirmed that Saudi Arabia, Russia, Iraq, UAE, Kuwait, Kazakhstan, Algeria and Oman extended the 2.2mln bpd voluntary adjustments for one month until the end of December. That said, in recent sessions the consensus from various desks has been that OPEC+ would delay its production increase once again. The likes of Commerzbank expect a delay until at least Q1-2025; HSBC looks for April-2025. Weakness in the complex seemed to accelerate as the Israeli Cabinet meeting commenced, with fresh lows (WTI USD 68.05/bbl, Brent USD 72.09/bbl) set shortly after the approval of the ceasefire deal with Lebanon. However, tensions in the Middle East are likely to stick around for some time, highlighted by remarks from Israeli PM Netanyahu that the "Ceasefire deal now means they will focus on Iranian threat". Thereafter, Reuters reported via sources that President-elect Trump's plan to impose 25% tariffs on Canadian and Mexican imports doesn't exempt crude oil, which paved the way for a short-lived bounce.

Elsewhere, Vitol's CEO said at the Energy Intelligence Forum, they expect OPEC+ to manage the oil market for the next 2-3months, seeing an oil price of USD 70-80/bbl in 2025, while the Gunvor CEO noted OPEC+ has no room to increase production, expecting oil prices at USD 70/bbl this time next year. Ahead, private inventory data after-hours is the next scheduled catalyst, whereby current expectations are (bbls): Crude -0.6mln, Distillate +0.1mln, Gasoline -0.05mln.

EQUITIES

CLOSES: SPX +0.57% at 6,022, NDX +0.57% at 20,923, DJIA +0.28% at 44,861, RUT -0.73% at 2,424

SECTORS: Materials -0.67%, Energy -0.23%, Industrials +0.15%, Financials +0.21%, Health +0.45%, Real Estate +0.53%, Consumer Staples +0.65%, Technology +0.80%, Communication Services +0.81%, Consumer Discretionary +0.90%, Utilities +1.56%.

EUROPEAN CLOSES: DAX: -0.52% at 19,305, FTSE 100: -0.40% at 8,259, CAC 40: -0.87% at 7,195, Euro Stoxx 50: -0.79% at 4,762, AEX: -0.48% at 875, IBEX 35: -0.80% at 11,618, FTSE MIB: -0.78% at 33,168, SMI: -0.41% at 11,630, PSI: -0.36% at 6,415.

EARNINGS

- **Agilent Technologies (A):** Next quarter and FY25 EPS guidance disappointed.
- **Zoom Video Communications (ZM):** Citi notes While there were “no major issues” with the results, a steep gain for the shares headed into Monday’s earnings means the results may not attract new investors.
- **Analog Devices (ADI):** EPS and revenue topped expectations.
- **J. M . Smucker (SJM):** EPS and revenue beat with FY EPS guidance positive.
- **Best Buy (BBY):** Top and bottom lines missed.
- **Abercrombie & Fitch (ANF):** EPS and revenue surpassed expectations.
- **Kohl's Corp (KSS):** EPS and revenue missed; CEO to step down on January 15th.

STOCK SPECIFICS

- **Amgen (AMGN):** Maritide 52-week study results underwhelmed.
- **Intel (INTC):** US finalised a USD 7.86bln chip manufacturing award for Intel; Qualcomm's interest in Intel has cooled.

- **Wells Fargo (WFC):** Asset cap is likely to be lifted in H1 25, via Reuters.
- **Rivian Automotive (RIVN):** Secured a USD 6.6bln conditional loan from the US DoE to restart construction of its factory in Georiga.
- **Poseida Therapeutics (PSTX):** Roche plans to acquire the Co. for USD 9.00/shr; expected to close in Q1 25.
- **Morgan Stanley (MS):** Downgraded to 'Hold' from 'Buy' at HSBC with a USD 131 PT (prev. 128). The bank believes the shares no longer offer an attractive risk-reward profile with the bar rising after the recent rally.
- **Chevron (CVX):** Upgraded to 'Buy' from 'Neutral' at Citi with a USD PT of 185 (prev. 145). Citi says there is a valuation discount that should reach 20% to Exonn Mobile by 2026, "a historically wide gap between these two equities".

US FX WRAP

The dollar index headed lower on Tuesday, despite gaining versus the majority of major peers, as Yen's strength offset any potential upside. The highlight came via Truth Social, where the President-elect continues a pro-tariff agenda, namely, planning to raise tariffs on products from China, Mexico, and Canada, causing weakness in the high-beta FX. FOMC Minutes were a non-event, with uncertainty remaining over the next Fed rate decision in December. The Minutes suggested most participants view employment and inflation risks as balanced, emphasising gradual easing towards a neutral stance due to the uncertainty about the neutral rate. Upcoming employment and CPI data will be crucial to determining the next policy announcement, with Fed pricing currently discounting a ~ 58% chance of a 25bps rate cut. Elsewhere, US Consumer Confidence increased more than forecasts in November driven by growing optimism surrounding the labour market, the Richmond Fed Comp Index remained sluggish at -14, and New Home Sales Units dropped more than expected, below the low end of forecasts. Wednesday is a busy one for the US, with Core PCE (Oct), Initial Claims, GDP 2nd Est (Q3), and Durable Goods (Oct) ahead.

Activity currencies suffered on dollar strength, with the Aussie and CAD seeing large losses. On the latter, the previously mentioned Trump tariff talk, of a 25% tariff on all products coming into the US, did not help the Loonie, sending USD/CAD to peaks of 1.4177. It was later said, that the tariffs do not exempt crude oil, although, no notable reaction was seen in the CAD. Meanwhile, Antipodes, particularly the Aussie experienced selling, hurt from the tariff threats concerning China overnight, causing a move in AUD/USD to lows of 0.643 before Aussie CPI overnight, where the Weighted CPI component for October is expected to rise 2.3% M/M (prev. 2.1%). Looking ahead, NZD is of focus, which currently resides in the low end of the 0.58 handle, ahead of the RBNZ's rate decision overnight, which is expected to cut by 50bps to 4.25%.

Macro updates were light for the **Pound** and **Euro** where little was said from BoE's Pill. Cable retreated to troughs of 1.2508 before incurring a modest bounce. Similar to the BoE speak, little was said from ECB's Centeno and de Guindos. Regarding Rehn, the hawkish-leaning member, noted they maintain the risk of inflation moderating more slowly than expected and that the assessment in Europe is moving towards neutral rates during early spring. Separately, Villeroy, said the impact of Trump's economic policies on inflation is likely to be limited but interest rates could be impacted; EUR/USD heads into overnight trade in the mid-upper end of 1.04, with upcoming consumer confidence figures from France and Germany both expected to fall M/M.

Haven's performance was mixed, as Yen was the sole G10 currency to gain against the dollar while the CHF joined its peers in the red. On Yen outperformance (USD/JPY nears 152), a hotter-than-expected services PPI print, unexpectedly jumped in October, supporting the case for the BoJ to resume hikes. For reference, money markets have a 63% chance of a hike at the December meeting. Meanwhile, CHF gains versus the Euro continued, but trimmed weekly gains against the buck, resulting in USD/CHF peaking at 0.8894.

EMFX: Brazil's IPCA-15 CPI figures in November were hotter than expected, lending a hand to BRL amid EMFX weakness, albeit saw modest losses. To no surprise, MXN slumped on the tariffs news, causing USD/MXN to breach those post-US election highs. Regarding CEE, PLN was flat against the Euro, yet failed to escape dollar strength ahead of the Polish Unemployment rate on Wednesday (exp. unch at 5%). In Asia, October Industrial Production data from Singapore, fell short of street expectations, with downward revisions to the prior, leaving SGD weaker. The latest BoK Reuters poll showed 34/38 economists expect the BoK to maintain the base rate unchanged at 3.25% at its meeting this week and four expect a 25bps cut, while the median forecast is for the BoK to cut by 25bps each in Q1, Q2 and Q3; The rate is seen at 2.50% by end-2025 (prev. 2.75%).