

### Stocks and Bonds chop to South Korea martial law updates ahead of Fed Chair Powell

- **SNAPSHOT:** Equities mixed, Treasuries steepen, Crude up, Dollar flat
- **REAR VIEW:** South Korean President imposes martial law, then reverses decision; JOLTS above expectations; Fed's Kugler, Daly, Goolsbee keep options open; China bans export of "Dual-use items" to US; US imposes Iran sanctions; Israel/Hezbollah tensions rise; T announces strategic plan; AMZN announces slew of AI updates; MSFT AI software sales & OpenAI deal targeted in FTC probe; Barnier to face no-confidence vote on Wednesday, Macron will not resign before his mandate ends in 2027
- **COMING UP:** **Data:** Australian GDP (Q3), US ADP, ISM Services PMI & Factory Orders, Fed Discount Rate Minutes. **Events:** Fed Discount Rate Minutes; French Government no confidence motion. **Speakers:** RBNZ's Orr, BoE's Bailey, Fed's Powell, Musalem; ECB's Lagarde, Cipollone. **Supply:** UK.

### MARKET WRAP

US equity futures saw pressure in the US morning while T-notes caught a bid after South Korean President Yoon implemented martial law to clear out pro-North Korean elements. The move in stocks had started to pare and once it was clear the law would likely be reversed, with both stocks and bonds paring the initial move as the President and Cabinet ultimately reversed the decision. T-notes went on to settle at lows with the curve steepening as markets still digest the dovish Waller comments from Monday while the initial SK-induced upside was capped by a hotter-than-expected JOLTS print for October. Stocks ultimately finished mixed with the Nasdaq outperforming while Russell lagged. Sectors were predominantly lower with only Communication Services, Tech and Consumer Discretionary closing green. The Dollar finished flat and traded in a narrow range vs recent sessions with FX price action relatively mundane on Tuesday, except for the KRW. Crude prices were bid with several bullish factors, including concerns around the Israel/Hezbollah truce, expectations of OPEC+ extending supply cuts, refinery outages and fresh Iranian sanctions. Aside from the South Korea updates and JOLTS, the focus was on Fed speak, which saw Kugler, Daly and Goolsbee stick to the script. Meanwhile, China's MOFCOM announced a ban on exports of "dual use items" relating to gallium, germanium, antimony and super-hard materials to the US. Elsewhere, France is to hold a no-confidence vote on Wednesday at 15:00GMT/10:00EST.

### US

**JOLTS:** Headline JOLTS rose to 7.744mln, up from the prior 7.372mln, which was revised down from 7.443mln, above the expected 7.475mln but within the forecast range of 7.2-7.9mln. The vacancy rate ticked up to 4.6% from 4.4% (revised down from 4.5%), while the quits rate rose to 2.1% from 1.9%. Although the data is for October, analysts at Oxford Economics highlight that the difference between hires and separations lends downside risk to their forecast for a sizable rebound in the November nonfarm employment - noting the data points to a still strong, albeit cooling, labour market.

**WILLIAMS:** FOMC Vice Chair Williams largely towed a neutral line, stressing optionality based on the data but he does expect more rate cuts to happen over time while monetary policy remains in a restrictive stance. Williams said the economy is in a good place, and the the labour market is solid and in balance. He expects inflation to continue to gradually ebb to 2%, adding that the job market is unlikely to be a source of higher inflation. Williams also provided some forecasts (note, the prev. will be referring to his prior forecasts on 21st November), he sees US GDP at 2.5% this year (prev. 2.5% or a little bit higher for 2024). Unemployment between 4-4.25% over the coming months (prev. unemployment will get to 4.25%). Sees US inflation around 2.25% for 2024 (prev. 2.25% for 2024).

**KUGLER:** Governor Kugler stated that current Fed policy is well-positioned to deal with uncertainties and she will vigilantly monitor for risks and negative supply shocks that may undo progress in reducing inflation. She stressed that policy is not on a pre-set course and she will make decisions meeting-by-meeting. She stated the US economy is in a good position, the labor market is solid, and inflation appears on a path to 2%. Higher productivity growth and immigration increases have driven surprising, largely desirable economic outcomes. October PCE inflation readings are consistent as of now with a return to the 2% goal, but also show the job is not yet done. She noted the trade policy under the incoming administration and Congress may affect productivity and prices but it is too soon to judge. Kugler said a continuation of disinflation and a modest job market cooling show the Fed goals are roughly in balance. She stated that rate cuts so far were steps in removing policy restraint as the Fed is in the process of moving policy toward a more neutral setting.

**DALY (2024 voter):** The San Francisco Fed President said the US economy is in a really good place, adding that a December rate cut is absolutely not off the table. Daly said the timing of the rate cut is up for debate, and that they need to keep moving the policy rate down and need to keep an open mind. She knew inflation would be a bumpy ride, but it is moving down gradually, but there is still more work to do. Even if the Fed does another rate cut, policy will remain restrictive. Daly acknowledged the neutral rate is closer to 3% (Fed median is 2.9%), noting they can take their time getting too neutral. Daly added the Fed will continue to have restrictive policy until inflation gets to 2% and she does not see any reason for a rate hike, and the trajectory of change is down. On Trump policies, said that trade issues do not usually derail growth, the economy adjusts. She is prepared to assess things but needs to see policies before the Fed reacts.

### FIXED INCOME

#### T-NOTE (H5) FUTURES SETTLED 4+ TICKS LOWER AT 110-31

**T-Notes were choppy in the wake of Fed's Waller, SK implementing Martial Law (and reversing it) while JOLTS printed above expectations.** At settlement, 2s -2.9bps at 4.169%, 3s -1.0bps at 4.130%, 5s +1.3bps at 4.106%, 7s +2.4bps at 4.165%, 10s +2.9bps at 4.223%, 20s +3.3bps at 4.490%, 30s +3.8bps at 4.396%.

**INFLATION BREAKEVENS:** 5yr BEI +3.8bps at 2.391%, 10yr BEI +3.0bps at 2.295%, 30yr BEI +2.5bps at 2.247%.

**THE DAY:** T-notes saw two-wag price action with selling pressure observed overnight before rallying in US trade in a haven bid after the South Korean President implemented martial law to clear out pro-North Korea elements. T-note futures peaked at 111-11 in response to the

news with the upside capped after the hotter-than-expected JOLTS print. Further pressure was observed in T-notes with a swath of calls emerging for the South Korean Martial law to be reversed. Once it became clearer the law was going to be reverted, and with the President and Cabinet ultimately approving its reversal, T-notes completely pared the South Korea-induced upside to hit a low of 110-29+. T-notes settled at lows with the curve steepening as the market continues to digest the dovish commentary from Fed's Waller on Monday night ahead of Fed Chair Powell on Wednesday and NFP on Friday with traders looking to both to garner Fed expectations for December, which is currently pricing in a 72% probability of a 25bps cut, with the remaining 28% implying an unchanged decision.

## STIRS/OPERATIONS

- **Market Implied Fed Rate Cut Pricing: December 18bps (prev. 19bps), January 24bps (prev. 23bps), March 40bps (prev. 37bps).**
- US sold USD 75bln in 42day CMBs at high rate of 4.400%, B/C 3.00x
- US is to sell USD 64bln 17-wk bills on December 4th; to sell USD 85bln of 4-wk bills and USD 80bln of 8-wk bills on December 5th; all to settle on Dec 10th
- NY Fed RRP op demand at USD 162bln (prev. 136bln) across 65 counterparties (prev. 56).
- SOFR at 4.64% (prev. 4.59%), volumes at USD 2.440tln (prev. 2.209tln).
- EFFR at 4.58% (prev. 4.58%), volumes at USD 92bln (prev. 95bln).

## CRUDE

**WTI (F5) SETTLED USD 1.84 HIGHER AT 69.94/BBL; BRENT (F5) SETTLED USD 1.79 HIGHER AT USD 73.62/BBL**

The crude complex saw gains as it was buoyed by numerous bullish factors such as concerns surrounding Israel/Hezbollah truce, expectations of OPEC+ extending supply cuts, refinery outages and fresh Iranian sanctions. Throughout the US session WTI and Brent saw gains to settle around highs, after seeing earlier lows of 67.91/bbl and 71.68/bbl in the EZ morning. Newsflow was supportive as Bloomberg source reports noted that OPEC+ is firming up a deal for a 3-month output hike delay, while in the Middle East Lebanon's ceasefire is looking increasingly tense with Israeli PM Netanyahu pledging a strong response after Hezbollah violations. Upside was also observed after the US Treasury announced it is imposing sanctions on 35 entities and vessels that play a critical role in transporting illicit Iranian petroleum to foreign markets. Regarding refineries, Iraq halted operations at Basra (280k BPD) and Exxon's Joliet refinery (275k BPD) reported a unit upset. Ahead, private inventory data after-hours is the next risk event whereby current expectations are (bbls): Crude -0.7mln, Distillate +0.9mln, Gasoline +0.6mln.

**Bank commentary:** JPMorgan said Brent crude oil price is projected to average USD 80/bbl in 2024, and added "our price forecast calls for Brent oil to average USD 61/bbl, with WTI at USD 57/bbl in 2026". Separately, Bank of America stated a looming surplus of 0.8mln BPD should result in Brent and WTI prices averaging just USD 65/bbl and USD 61/bbl in 2025, respectively, while downside risks include a trade war or an OPEC+ price war and upside risks come from the Middle East and Russia/Ukraine.

## EQUITIES

**CLOSES:** SPX +0.05% at 6,050, NDX +0.31% at 21,229, DJIA -0.17% at 44,706, RUT -0.73% at 2,416

**SECTORS:** Utilities -0.88%, Financials -0.75%, Industrials -0.65%, Real Estate -0.61%, Consumer Staples -0.46%, Materials -0.33%, Health -0.19%, Energy -0.05%, Consumer Discretionary +0.13%, Technology +0.56%, Communication Services +1.12%.

**EUROPEAN CLOSES:** DAX: +0.51% at 20,035, FTSE 100: +0.56% at 8,359, CAC 40: +0.26% at 7,255, Euro Stoxx 50: +0.64% at 4,878, AEX: +0.26% at 890, IBEX 35: +1.18% at 11,874, FTSE MIB: +1.03% at 33,829, SMI: -0.04% at 11,824, PSI: +0.68% at 6,406.

## STOCK SPECIFICS

- **Nvidia (NVDA):** CFO said M&A could be a potential use for their growing cash; Blackwell volumes initially small, expect to scale throughout the year.
- **Amazon (AMZN):** Announced supercomputer and new server powered by homegrown AI chips, according to WSJ; exec said Trainium3 chip coming next year and made with 3nm technology; **Apple (AAPL)** says it plans to use the AWS Trainium chips; Expected to be available in late 2025.
- **Intel (INTC):** Reportedly approached **Marvell's (MRVL)** Murphy in search for its next CEO, according to Bloomberg.
- **Nebius Group (NBIS):** Citron Research positive on the stock. "A sleeper with no analyst coverage yet, the market hasn't caught on to its massive potential—or its undervaluation vs. CoreWeave. If it trades at a 50% discount to Coreweave multiple that puts \$NBIS at \$60 (napkin math)".
- **Deere (DE):** Raised quarterly dividend to USD 1.62/shr (prev. 1.47/shr).
- **Zscaler (ZS):** Next quarter outlook disappointed despite EPS and revenue beating.
- **US Steel (X):** US President-elect Trump has reiterated his opposition to Nippon Steel's planned USD 15bln acquisition of US Steel, calling it harmful to American industry.
- **AT&T (T):** Authorised the repurchase of roughly USD 10bln in shares, although FY25 guidance underwhelmed
- **Microsoft (MSFT):** Faces a UK lawsuit over cloud computing licenses; British businesses/organisations could collectively be owned more than GBP 1bln in compensation.
- **Bill Holdings (BILL):** Offering USD 1.0bln in convertible senior notes due 2030.
- **Tesla (TSLA):** A Delaware judge has ruled against Elon Musk's USD 56bln pay package from Tesla, despite a June shareholder vote to reinstate it.
- **Live Nation Entertainment (LYV):** Announced launch of convertible senior notes offering USD 1bln due 2030.
- **CVS Health (CVS):** Mulls selling up to USD 2.5bln in bonds and the Co. is also buying back up to USD 2bln of Aetna and CVS notes.
- **Novo Nordisk (NVO):** Novo's India executive is advocating for an early 2025 launch of Wegovy, fearing loss of competitive advantage to rival Eli Lilly,
- **Kroger (KR):** Upgraded at Jefferies; sees a path to double-digit earnings and 30%-plus FCF accretion potential via right-sizing of Albertsons' working capital if the Albertsons (ACI) deal closes.
- **FedEx (FDX):** Downgraded at Bernstein; said it is taking a "tactical pause" and downgrading the shares ahead of a "widely expected reset" in the near-term guidance framework and uncertainty around meeting "high" freight spinoff expectations.

## US FX WRAP

The dollar index was ultimately flat on Tuesday while swings were to a lesser extent relative to recent weeks. Fed's Waller's remarks late on Monday, (leaning towards a cut in December meeting) sparked gains in T-Notes, specifically in the 2yr, likely allowing the buck to take a breather. Gains in treasuries extended on South Korea's President enacting martial law, albeit, modest moves were soon in the buck, with

DXY slipping modestly. Concerning JOLTS, October's figure was 7.475mln, above the expected 7.44mln, jumping from a downwardly revised Sept figure of 7.372mln, paving the way for a bounce in the Dollar, although, limited. Separately, Fed's Daly said a December rate cut is absolutely not off the table (MM price 70% chance of 25bps cut), and believes the neutral rate is closer to 3% (Fed's Median is 2.9%). Meanwhile, Kugler said October's PCE inflation showed the job is not yet done on the 2% goal. Next on the pipeline, is ADP (exp 150k prev. 233k), Factory Orders (Oct, exp. 0.2%), ISM Services PMI (exp. 55.5, prev. 56); Fed's Chair Powell, Fed Discount Rate minutes and Beige book.

**Major peers** were slightly stronger against the buck on Wednesday, led by JPY, GBP, and EUR, while the Loonie underperformed with minimal downside. Direct newsflow was fairly light, except for the Euro (detailed below). For the Pound and Antipodes, macro updates pick up on Wed, with BoE Bailey & UK S&P PMI (Nov) due; Australian Real GDP (Q3) and RBNZ's Governor Orr.

**The Euro** saw two-way price action on French PM woes, with the cross climbing back above 1.05 to a peak of 1.0535 before paring back to the round level. The latest reports note a no-confidence vote is to take place at 15:00 GMT on Wednesday in PM Barnier's government, where Barnier is expected to lose. Thereafter, President Macron could call a Presidential election or attempt to find another PM to form a majority around to deliver fiscal reform. Given later remarks from Macron (will not resign before his mandate ends in 2027), the latter is the expected scenario to play out. That said, Macro said he believes Le Pen will not join the left to topple the Government. [For a more in-depth analysis of the outcomes, please click here for a Newsquawk preview.](#) Elsewhere, data was thin in Europe, with updates coming from ECB's Kazaks who echoed a data-dependent approach while Holzmann sees the likelihood of a moderate rate cut in December. Going forward, a series of Europe PMI data (Nov) is on the schedule (Italy, France, Germany, EZ) as well as EZ PPI (Oct).

**Havens** benefited from the tensions surrounding the South Korean parliament, with JPY, CHF, and XAU gaining, but ultimately heading into APAC trade rather flat. On the Franc, a muted reaction was seen to the CPI report for November, where deflation was as expected on the monthly print, but the Y/Y was slightly cooler than expectations, 0.7% (exp. 0.8%). That said, other vendors had forecasted 0.7%, perhaps explaining the inertia at the time in USD/CHF. Rabobank notes that even if contagion is avoided (France's political/budget crisis), France's high debt burden, stagnation in Germany and risks posed to the Eurozone from Trump tariffs suggest scope for further appreciation of the CHF vs. the EUR; "We see scope for a move to EUR/CHF 0.92 on a 6-month view".

**EMFX:** KRW was hit on South Korea's President Yoon declaring martial law, aiming to clear out pro-North Korea elements. Thereafter the Parliament voted to block the President's material law declaration. Later on, President Yoon Suk Yeol lifted martial law (military officials wouldn't budge until this occurred), with the cabinet shortly after agreeing. USD/KRW trimmed the majority of gains, with BoK officials noting they are preparing ample measures to stabilize the market if needed, and will make messages after meetings.

Regarding data, Turkish CPI was hotter than expected on both fronts, yet USD/TRY still crept higher. Meanwhile, BRL was firmer after remarks were seen from Brazil's Treasury Secretary Ceron said they are on track to meet the fiscal target for 2024; GDP Y/Y (Q3) was slightly above the St. consensus; Industrial Output (Oct) lies ahead on Wednesday. Moreover in LatAm, Mexico outperformed with modest gains after the jobless rate unexpectedly fell to 2.5% (exp 2.9%, prev. 2.9%).

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