

### Stocks and bonds up after soft ISM Services PMI

- **SNAPSHOT:** Equities up, Treasuries up, Crude down, Dollar flat
- **REAR VIEW:** Soft US ISM Services PMI; ADP below forecasts; Factory Orders in line; Fed's Powell says little new, Musalem keeps doors open; French PM loses no-confidence motion; Disappointing Australian GDP (Q3); Better-than-expected China Services PMI; Mixed EU PMIs, Germany misses, France & EZ beat; Larger EIA crude draws than expected; Once OPEC+ source says a 6-month extension to cuts is an option; Saudi Arabia aims to keep oil prices elevated rather than chase market share; LLY's Zepbound is superior to NVO's Wegovy in head-to-head trial; Trump appoints Crypto friendly Atkins to SEC Chair
- **COMING UP:** **Data:** Swiss Unemployment, US Challenger Layoffs & Weekly Jobless Claims. **Event:** OPEC+ Meeting; BoE DMP. **Speakers:** Fed's Barkin, BoJ's Nakamura, BoE's Greene, ECB's Patsalides. **Supply:** Japan, Spain, France & US.

### MARKET WRAP

Stocks closed in the green with outperformance in the Nasdaq while Russell underperformed. The Nasdaq was supported by gains in Tech, Consumer Discretionary and Communication names, the outperforming sectors, while Energy, Materials and Financials lagged. Tech was buoyed by the strong Salesforce (CRM) and Marvell (MRVL) earnings after-hours on Tuesday. T-notes were bid with upside primarily supported by a big miss on the ISM Services PMI, falling to 52.1, beneath all analyst forecasts. The ADP National Employment saw a slight miss but not enough to change the dial or cause a reshape of expectations for NFP on Friday. Meanwhile, the focus was largely on Fed speak - Fed Chair Powell added little new but he was optimistic on the economy and noted the Fed is on a path to more neutral rates over time, and that the Fed can be cautious in finding the neutral rate. The lack of commentary about the upcoming December meeting leaves us looking at Waller's commentary earlier in the week, who "leans in favour" of a 25bp cut, but it still depends on the upcoming data before the meeting (NFP, CPI, PPI). 2025 Voter Musalem also spoke, noting they can pause at upcoming meetings but he is waiting for the data to make his mind up and is keeping all options open. In FX, the Dollar was flat with outperformance in Cable despite dovish rate guidance from BoE's Bailey, who sees four 25bps rate cuts in 2025, which took Cable to lows before paring after strong UK Services PMI data while the Dollar weakness post-ISM also lifted the pair to outperform. AUD and JPY underperformed however but JPY was off its worst levels in the wake of the ISM data. AUD lagged after weak GDP numbers. The Euro was ultimately flat while PM Barriere lost the vote of no confidence, as expected. Crude prices saw notable selling pressure with only a fleeting upside seen after a larger-than-expected draw. There was sharp downside in crude with little explanation, but Reuters sources reported a bank sold USD 270mln of US oil futures ahead of the OPEC+ meeting. Regarding the upcoming meeting, one Reuters source suggested that OPEC+ could even extend production cuts as far out as six months, but another source said this is unlikely - expectations are for a 3-month extension. Bitcoin rose above USD 99k once again after US President-elect Trump named crypto friend Paul Atkins as SEC chair.

### US

**ISM SERVICES PMI:** ISM Services PMI for November fell short of all expectations and even outside the bottom end of the consensus range, as the headline fell to 52.1 from 56.0 (exp. 55.5). Within the report, prices paid ticked marginally higher to 58.2 from 58.1 while business activity dipped to 53.7 from 57.2. New orders (53.7 from 57.4), Employment (51.5 from 53.0), Backlog, and Supplier Deliveries all declined, with the latter falling into contractionary territory. Inventories also tumbled beneath 50.0. Within some of the respondents comments, some continue to highlight the uncertainty of tariffs while another said, "Even though we are reducing our spending and our employment levels, we have a positive outlook for 2025 performance with expected reinvestment of funds". Overall, Oxford Economics notes despite the downside surprise the index still signals expansion in the sector and comments from survey panelists painted a far more optimistic picture. Ahead, the result does not influence our outlook for continued expansion in consumer spending, particularly on the services side, which will keep the economy humming along.

**ADP:** Headline ADP printed 146k in November, down from the prior (revised down from 233k) 184k, a touch beneath the 150k forecast. Within the report, the pay metrics saw median change in annual pay for job stayers rise to 4.8% from 4.6%, while for job changers pay increased to 7.2% from 6.2%. The Chief Economist at ADP highlights that "While overall growth for the month was healthy, industry performance was mixed. Manufacturing was the weakest we've seen since spring. Financial services, leisure and hospitality were also soft." Given the data comes ahead of the NFP report on Friday, Pantheon Macroeconomics "recommend disregarding ADP's estimate due to its woeful recent track record".

### FED

**POWELL:** Fed Chair Powell said little new, largely leaving us to look back at Waller's comments for final guidance before the Fed blackout. Fed Chair Powell did not speak on the December meeting, but he did speak up about the economy, stating unemployment is still very low and the Fed is making progress on inflation, albeit they are not quite there yet on inflation. He said the economy is in good shape and there is no reason that it cannot continue. He added that the Fed is on a path to more neutral rates over time, though downside risks are less than thought, and the Fed can afford to be cautious in finding neutral.

**MUSALEM:** The 2025 voter said that time may be approaching to slow or pause interest rate cuts, noting that additional policy easing is likely to be needed over time. However, it is important to keep monetary policy options open amid uncertainty. Musalem added that it is possible to pause on cuts at upcoming Fed meetings but he will wait to see data before deciding on the December meeting - stressing he is keeping all options open. Musalem expects inflation to move to the 2% target over the next two years, although he notes there is uncertainty over the neutral rate, and it could be between 3-4% (fed median 2.9%), adding the policy rate is currently well above neutral. Musalem warned that too much policy easing carries risks but policy is well positioned for what lies ahead. He stated the labour market is no longer overheated, and no longer a source of inflation risk but he expects moderation in economic growth and hiring.

**BARKIN:** The 2024 voter said he's encouraged with where inflation is headed, seeing positives and risks on both sides of the Fed's mandate, yet, cannot ignore the October jobs report and inflation which is still above 2%. He noted the Fed have different points of view on what is somewhat restrictive enough, and if inflation is still high in Q1, that would be a big signal that the Fed has a lot more to do. On tariffs, he said whether they cause inflation depends on the Fed's response.

## FIXED INCOME

### T-NOTE (H5) FUTURES SETTLED 9 TICKS HIGHER AT 111-08

**T-notes catch a bid after soft ISM Services PMI while Powell adds little new.** At settlement, 2s -4.1bps at 4.130%, 3s -4.0bps at 4.090%, 5s -3.3bps at 4.071%, 7s -3.4bps at 4.129%, 10s -3.3bps at 4.188%, 20s -3.9bps at 4.449%, 30s -3.8bps at 4.355%.

**INFLATION BREAKEVENS:** 5yr BEI -0.7bps at 2.393%, 10yr BEI -0.8bps at 2.296%, 30yr BEI -0.9bps at 2.247%.

**THE DAY:** T-notes saw marginal selling pressure overnight and in the European morning to hit a low of 110-18 before paring as US trade got underway. The highlight of the day was the US ISM Services PMI which saw a notable drop to 52.1 from 56.0, beneath the 55.5 consensus and beneath the lowest analyst estimate of 54.0. Within the report, the prices paid component was little changed while the employment component fell to 51.5 from 53.0. Attention turned to Fed Chair Powell, who ultimately revealed little new, leaving the market to look at Waller's comments of "lean towards a December rate cut" for guidance ahead of the blackout period before the December 18th meeting. T-notes were little changed to Fed Chair Powell, peaking at 111-09 just ahead of settlement. Elsewhere, 2025 voter Musalem spoke earlier in the session, noting it is possible to pause at upcoming Fed meetings, but he will wait to see the data before deciding on December, adding he is keeping all options open.

### STIRS/OPERATIONS

- **Market Implied Fed Rate Cut Pricing: December 19bps (prev. 18bps), January 25bps (prev. 24bps), March 42bps (prev. 40bps).**
- NY Fed RRP op demand at USD 163bln (prev. 162bln) across 65 counterparties (prev. 65).
- SOFR at 4.64% (prev. 4.59%), volumes at USD 2.440tn (prev. 2.209tn).
- EFFR at 4.58% (prev. 4.58%), volumes at USD 92bln (prev. 95bln).

## CRUDE

### WTI (F5) SETTLED USD 1.40 LOWER AT 68.54/BBL; BRENT (F5) SETTLED DOWN USD 1.31 AT USD 72.31/BBL

**The crude complex was lower on Wednesday and sold off in the US afternoon, albeit on no particular headline driver, ahead of OPEC+ tomorrow.** On the latter, expectations have been guided to an extension of the latest round of oil output cuts until Q1 2025, although Reuters citing one source earlier in the day said a 6-month extension is an option but another said a deeper cut is not a likely option. Elsewhere, according to WSJ, Saudi Arabia aims to keep oil prices elevated rather than chase market share and Saudi is averse to a price war with US shale. In the weekly EIA data, crude stocks saw a much larger draw than expected, unlike the private inventory data on Tuesday which saw an unexpected build. Distillates and Gasoline both saw a larger build than anticipated, akin to the API data, while crude production rose 20k to 13.513mln. Ahead, aside from the aforementioned OPEC meeting, all attention resides around NFP on Friday which will be pivotal in deciding the Fed's December meeting decision.

## EQUITIES

**CLOSES:** SPX +0.61% at 6,086, NDX +1.24% at 21,492, DJIA +0.69% at 45,014, RUT +0.42% at 2,427

**SECTORS:** Energy -2.47%, Materials -0.89%, Financials -0.39%, Real Estate -0.3%, Consumer Staples -0.17%, Health -0.07%, Utilities +0.02%, Industrials +0.44%, Communication Services +0.62%, Consumer Discretionary +1.2%, Technology +1.77%.

**EUROPEAN CLOSES:** DAX: +1.00% at 20,216, FTSE 100: -0.28% at 8,336, CAC 40: +0.66% at 7,303, Euro Stoxx 50: +0.83% at 4,919, AEX: +0.19% at 892, IBEX 35: +0.49% at 11,932, FTSE MIB: +0.75% at 34,084, SMI: -0.47% at 11,779, PSI: -0.47% at 6,376.

### EARNINGS

- **Salesforce (CRM):** Revenue beat
- **Marvell Technology (MRVL):** Adj. EPS and revenue beat while next quarter profit guidance surpassed forecasts.
- **Foot Locker (FL):** Adj. EPS and revenue fell short with guidance underwhelming.
- **Hormel Foods (HRL):** FY25 revenue view disappointed.
- **Dollar Tree (DLTR):** EPS and revenue topped expectations.
- **Pure Storage (PSTG):** Exceeded profit and revenue forecasts, and announced a partnership with Kioxia.
- **Okta (OKTA):** Profit and revenue beat while raising FY25 guidance.
- **Campbell Soup (CPB):** Maintained FY25 EPS view with the midpoint below expectations; Current President of Meals & Beverages, Mick Beekhuizen, to succeed CEO, Mark Clouse, effective February 1st, 2025.

### STOCK SPECIFICS

- **OpenAI (MSFT):** Partners with Anduril for AI for anti-trust systems. Weighing on **Palantir (PLTR).**
- **Teleflex (TFX):** Said to offer EUR 0.5-1.0bln for German Biotronik's Stent unit.
- **United Health (UNH):** Confirmed that Brian Thompson, CEO of United Healthcare has passed away.
- **Nvidia (NVDA):** Nvidia's Rubin platform could arrive six months early, potentially launching in 2025 instead of 2026.
- **Eli Lilly (LLY):** Zepbound is superior to **Novo Nordisk's (NVO) Wegovy** in a head-to-head trial showing an average weight loss of 20.2% vs 13.7%.
- **GXO Logistics (GXO):** CEO to retire.
- **General Motors (GM):** To take at least USD 5bln charges on China operations, including restructuring costs.
- **Intuitive Machines (LUNR):** 9.52mln share spot secondary offering priced at USD 10.50 - deal size increased to USD 100mln in common stock from USD 65mln; range, USD 10.25-11.25.
- **Trimble (TRMB):** Upgraded at JPMorgan; expecting acceleration in organic growth on a cyclical hardware recovery and software growth.
- **DTE Energy (DTE):** Downgraded at KeyBanc; believes the trend to gradually reduce ROE and equity layer, witnessed in the latest ruling, is poorly timed given the situation it's observing in the capital markets.

## US FX WRAP

**The Dollar** ended the US session flat, as GBP, CHF, and EUR upside offset gains against the Yen and Aussie. The DXY was edging higher throughout the European session, yet a very soft ISM Services PMI (Nov) report erased gains. The headline fell below the expected (55.5)

and low end of the forecast range (54) to 52.1, driven by decreases in New Orders, Business Activity and Employment, albeit, Prices Paid was little changed. Furthermore, ADP was below expected, and Factory orders grew as expected, however, ISM was the key driver in buck performance. Regarding Fed'speak, Musalem kept doors open noting he is waiting for the data before the December meeting, Barkin said he cannot ignore the October jobs report, and Powell cannot see the reason why the economy cannot continue being in good shape. On Thursday, weekly initial claims are due (expected to rise by 2k) as well as Barkin again and International Trade data (Oct).

**EUR** and **GBP** were modestly firmer versus the buck. EUR/USD hit highs after the US ISM Services PMI miss as attention turned to the French no-confidence vote. French PM lost the no-confidence voter (331/574 voted in support of no-confidence), which saw marginal upside in EUR/USD (sell the rumour, buy the fact play) although the move was shortlived and it trundled lower thereafter. The next course of action goes to President Macron who is expected to find another PM to form a majority around to deliver fiscal reform. Candidates for the role haven't been forthcoming as they know they are unlikely to be able to form a working gov't and pass the necessary fiscal reform; EUR/USD sits marginally above 1.05 heading into APAC trade.

Meanwhile, European Services PMIs were mixed, France and EZ beat, while Germany missed. Separately, ECB's Vujcic said other ECB officials broadly agree on rates; Nagel said he has no objection now to a rate cut next week, favouring a gradual cautious approach to rate cuts. Elsewhere, Lagarde said growth will be weaker in the short term, with the pace of lowering rates not determined.

**The Pound** hit lows after BoE's Bailey said he sees four 25bps rate cuts in 2025, that is, an extra 25bps of rate cuts than what money markets are currently pricing in. As such, GBP weakness followed, sending Cable to lows of 1.2630. That said, the move lower swiftly pared, helped by beats on PMI Services, with gains later extending on the soft US ISM Services report, leaving Cable off highs of 1.2721 into overnight trade, hovering just above 1.2700.

**Antipodes** and the **Yen** were the losers in the G10FX space, with the former hurt by underwhelming Australian GDP data in the third quarter. AUD/USD set fresh monthly lows, briefly slipping below 0.6400 before paring. For NZD, RBNZ Governor Orr said little. On USD/JPY, little JPY newsflow was present, albeit rising US yields early in the session weighed, lifting the cross to peaks of 151.22. Though post-ISM, the turnaround in yields, offered relief for the Yen, paring some of the losses.

**EMFX:** PLN firmer after the NBP held rates as expected at 5.755%. The central bank said it may intervene in the FX market and previous PLN strength acts to curb inflation pressure with CPI in the coming quarters will remain clearly above target. Elsewhere in CEE, CZK was muted after Czech Gross wages were hotter than expected; the CNB Governor said they will likely pause cutting rates soon. In LatAm, Brazilian Industrial Production was worse than expected in October, albeit BRL continued to ease off recent losses moderately, with Brazil's FM Haddad expecting Congress to vote on regulation of consumption tax reform by early next year, believing the fiscal package will do for now.

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