

**Stocks and bonds fall as attention turns to US CPI**

- **SNAPSHOT:** Equities down, Treasuries down, Crude up, Dollar up
- **REAR VIEW:** China's Politburo shift monetary policy stance for the first time since 2011, to be moderately loose; NY Fed SCE sees 1,3 and 5yr infl expectations rise; US Wholesale Sales decline M/M, Invnt revisions unchanged from prior; Japan GDP revised higher; Cooler-than-expected China CPI, less deflationary PPI than forecasted; China regulator opens an investigation in NVDA; China cuts off drone supplies critical to Ukraine war; MDLZ said to explore a takeover of HSY.
- **COMING UP: EVENTS:** RBA Policy Announcement. **DATA:** Chinese Trade Balance, Norwegian CPI. **SPEAKER:** RBA Bullock. **SUPPLY:** Japan, UK, US.

**MARKET WRAP**

US stocks ended the day lower on all major indices, with downside most notably in the NDX (-0.8%) as semiconductor weakness weighed on the tech-heavy index, due to China's regulators opening an investigation into NVIDIA (NVDA, -2.6%) over a violation of anti-monopoly law. Sectors were mainly in the red, where Utilities and Financials lagged, whereas Healthcare, Real Estate and Materials outperformed. The highlight of the day was arguably the Politburo changing its monetary policy stance to moderately loose from Prudent, the first time since 2011. As such, Antipodes outperformed while downside was seen in the Yen and US treasuries while traders also turn attention to US CPI and Treasury supply. Gold was also supported, further boosted by the PBoC resuming Gold purchases in November after a six-month halt. Crude prices settled higher by over USD 1.00/bbl following the renewed geopolitical uncertainty in the Middle East after Syrian fights toppled the Assad regime while the Politburo update also helped. Aside from the China news, the latest US NY Fed SCE saw inflation expectations increase across the forecast horizon and the no. of respondents expecting the financial situation to improve over the next year hit the highest level since 2022.

**US**

**NY FED SURVEY:** In the November 2024 survey, median inflation expectations rose by 0.1ppt points at all three forecast horizons, the year-ahead rose to 3.0%, three-year-ahead to 2.6%, and five-year-ahead to 2.9%. Median home price growth expectations were unchanged at 3.0% in November, and this series has been moving in a narrow range (3.0-3.3%) since August 2023. Mean unemployment expectations ticked up by 0.5ppt to 35%. Elsewhere in the report, survey respondents see weaker year-ahead gas, rent, and food costs while year-ahead expected home price gain was steady at 3%. The respondents who are expecting a better year-ahead financial situation are at the highest level since February 2020. Further within the release, Median year-ahead expected growth in government debt decreased sharply by 2.3ppts to 6.2%, the lowest reading since February 2020. Overall, households expressed more optimism about their year-ahead financial situations, while earnings and household income growth expectations both rose in November. Other labour market expectations deteriorated, and spending growth expectations continue to moderate.

**FIXED INCOME****T-NOTE (H5) FUTURES SETTLED 9 TICKS LOWER AT 111-05+**

**T-notes bear steepened ahead of CPI and supply .** At settlement, 2s +3.1bps at 4.129%, 3s +2.8bps at 4.088%, 5s +3.5bps at 4.071%, 7s +4.2bps at 4.130%, 10s +4.6bps at 4.199%, 20s +5.3bps at 4.469%, 30s +5.8bps at 4.389%.

**INFLATION BREAKEVENS:** 5yr BEI +2.2bps at 2.357%, 10yr BEI +2.3bps at 2.274%, 30yr BEI +2.2bps at 2.229%.

**THE DAY:** T-notes sold off throughout the session with the curve bear steepening with attention turning to US CPI on Wednesday, as well as the 3, 10 and 30-year supply throughout the week. T-notes saw mild gains overnight to see a peak of 111-18+ in wake of softer-than-expected China CPI data before selling was observed in European trade. The downside was seen after the Chinese Politburo shifted its monetary policy stance to be moderately loose, with the downside in T-notes a function of risk on trade as it was accompanied by an initial upside in equity futures. T-notes then meandered ahead of US trade before better selling resumed to ultimately see T-notes fall as low as 111-05 ahead of settlement. The downside was gradual throughout US trade with likely concessions taking place ahead of supply this week while perhaps some profit-taking also took place ahead of key CPI data this week. The data will be important in helping shape expectations for the December FOMC rate decision, which is currently expected to be cut by 25bps but a hot report may support arguments for a December skip.

**THIS WEEK SUPPLY:** US Treasury to sell USD 58bln in 3yr notes on Dec 10th, USD 39bln of 10yr notes on Dec 11th and USD 22bln in 30yr bonds; all to settle Dec 16th (sizes as expected)

**STIRS:**

- Market Implied Fed Rate Cut Pricing: December 21bps (prev. 22bps), January 28bps (prev. 30bps), March 45bps (prev. 47bps).
- US sold USD 73bln of 6-month bills at 4.200%, covered 2.90x; sold USD 82bln of 3-month bills at 4.300%, covered 2.89x
- NY Fed RRP op demand at USD 153bln (prev. 130bln) across 52 counterparties (prev. 50)
- SOFR at 4.60% (prev. 4.59%), volumes at USD 2.277tln (prev. 2.325tln).
- EFFR at 4.58% (prev. 4.58%), volumes at USD 107bln (prev. 109bln).

**CRUDE****WTI (F5) SETTLED USD 1.17 HIGHER AT 68.37/BBL; BRENT (G5) SETTLED USD 1.02 HIGHER AT USD 72.14/BBL**

The crude complex was firmer to start the week with benchmarks buoyed by a couple of factors, namely the Chinese Politburo and geopolitical uncertainty in the Middle Eastern region after Syrian fighters toppled the Assad regime. On the former, the Politburo said that

next year that China's fiscal policy is to be more proactive next year while adding that monetary policy is to be moderately loose. In the wake of these reports, WTI and Brent saw a notable fillip higher to initial intra-day peaks, before extending further to print session peaks of USD 68.88/bbl and 72.65/bbl, respectively. For the record, initial strength in the European morning on the geopolitical tensions was briefly capped after Saudi cut their January OSPs for Asia and NW Europe, but the upside resumed thereafter with US trade underway. Regarding Syria, rebel fighters captured the capital Damascus and toppled Bashar al-Assad's regime which saw the ousted President move to Moscow, where he was granted asylum. Ahead, the weekly private inventory data is on Tuesday ahead of the pivotal inflation reports on Wednesday and Thursday prior to the Fed next week.

## EQUITIES

**CLOSES:** SPX -0.61% at 6,053, NDX -0.84% at 21,441, DJIA -0.54% at 44,402, RUT -0.67% at 2,393

**SECTORS:** Financials -1.4%, Communication Services -1.31%, Utilities -1.3%, Industrials -0.94%, Consumer Staples -0.5%, Technology -0.45%, Consumer Discretionary -0.33%, Energy -0.2%, Materials -0.15%, Real Estate +0.09%, Health +0.22%.

**EUROPEAN CLOSES:** DAX: -0.15% at 20,354, FTSE 100: +0.52% at 8,352, CAC 40: +0.72% at 7,480, Euro Stoxx 50: +0.15% at 4,985, AEX: +0.34% at 895, IBEX 35: -0.50% at 12,012, FTSE MIB: -0.55% at 34,560, SMI: -0.09% at 11,764, PSI: +0.29% at 6,355.

## STOCK SPECIFICS

- **NVIDIA (NVDA):** China Market Regulator opened an investigation into the Co. over a suspected violation of antimonopoly law.
- **Palantir Technologies (PLTR):** Expanded contract with the US Special Operations Command to deliver technology solutions in support of enterprise capabilities
- **Super Micro Computer (SMCI):** Received a Nasdaq extension for filing its key reports, allowing it until February 25th to submit its 10-K and 10-Q.
- **Tesla (TSLA):** Plans to launch an affordable sub-USD 30,000 vehicle called Model Q, according to GlobalChinaEV.
- **BioAge Labs (BIOA):** Discontinuing the STRIDES Phase 2 clinical trial evaluating Azeleprag in combination with Tirzepatide for the treatment of obesity.
- **Macy's (M):** Activist investor Barington Capital called on Macy's to change its capital allocation plan and create a real estate unit to maximize the value of its owned assets, aiming to increase its stock price.
- **Arcellx (ACLX):** Announced new positive data from its Phase 2 pivotal iMMagine-1 study of anitocabtagene autoleucl in patients with relapsed or refractory multiple myeloma.
- **Riot Platforms (RIOT):** Announced proposed private offering of USD 500mln of convertible senior notes.
- **Omnicom (OMC):** Confirmed it is to acquire Interpublic Group (IPG) to create a premier marketing and sales company.
- **Paypal (PYPL):** Upgraded at BofA; seeing potential 2025 acceleration in underlying transaction profit growth, arguing that recent holiday season e-commerce spending data points have been "encouraging".
- **AMD (AMD):** Downgraded at BofA, noting there is growing cloud preference for Marvell's (MRVL) and Broadcom's (AVGO) custom chips, which limits AMD's market share gain potential.
- **Dow (DOW):** To sell its 40% stake in select Gulf Coast infrastructure assets for USD 2.4bln; Dow will retain 60% ownership.
- **Reddit (RDDT):** Upgraded at Morgan Stanley.
- **Hershey (HSY) - Mondelez (MDLZ)** reportedly said to explore a take over of Hershey, according to Bloomberg; talks are at an early stage, deal is not certain. The deal would require HSY trust backing but MDLZ have reportedly made a prelim. approach for the co.
- **T-Mobile (TMUS) -** CEO says Q4 is "back end loaded" and investors should be cautious as there is a lot risk in the back half, via UBS conference; Device upgrade rate is "pretty low".
- **Disney (DIS) -** CFO says they need to continue to focus on eliminating costs, via UBS Global Media Conference; FY25 operating income will be weighted to H2 25, Forecasts pricing increase for streaming service in the future, crackdown on password sharing for Disney+ will have 'incremental' benefits every quarter. Could license content from other companies for Disney+.
- **Comcast (CMCSA) -** Cable CEO says competition remains intense in Q4; anticipates Q4 performance to resemble that of H1'24, with an expected impact from two hurricanes totalling around 10k subscribers. In Q4, hurricanes will impact around 10k broadband losses, looking at broadband subscriber loss in Q4 of just over 100k.

## US FX WRAP

**The Dollar Index** opened the week on a firmer footing, with gains largely stemming from Yen weakness (higher US yields weighed) and modest EUR downside ahead of the ECB's meeting on Thursday. Data releases and Fedspeak were thin to start the week, although, the latest NY Fed SCE saw the 1yr, 3yr, and 5yr inflation expectations rise, as well as respondents who expect a better year-ahead financial situation, hitting the highest level since February 2020. The key focus will be on US CPI on Wednesday, which will help shape expectations for the rate path ahead. On Tuesday, Labour Costs and Productivity revisions for Q3 are due, alongside the NFIB Business Optimism Index.

**G10 FX** performance was mixed, with gains seen in Antipodes, and GBP to a lesser extent, whereas JPY was hit, and CAD, CHF, and the Euro incurred modest downside. Direct newsflow was sparse in the space, with EUR awaiting the upcoming ECB meeting (exp. ~83% chance of 25bps cut). However, a steeper-than-expected decline in the EU Sentix index briefly weighed on EUR/USD. In the meantime, Germany's Final CPI revisions are due. For an ECB Newsquawk preview, please click here. Elsewhere, higher US treasury yields weighed on JPY, in addition to the risk-on sentiment filed by China's Politburo (detailed in EMFX), thus, causing USD/JPY to rally above 151, with the 50DMA (151.48) and 200DMA (151.98) nearing, despite GDP metrics being revised upwards in Q3. Separately, XAU caught a bid on Monday, helped by the aforementioned Politburo news, and China resuming its gold Purchases in November after a six-month pause.

**Antipodes** were the beneficiaries of Politburo's commentary, with the risk-on trade allowing AUD/USD to climb above 0.64 to a peak of 0.6471, with the 21DMA (0.6486) approaching on the upside. The Aussie will remain a key focus heading into overnight trade where the RBA is expected to keep the cash rate unchanged at 4.35% (~9% chance of a 25bps cut). Attention will linger into the post-presser conference where Governor Bullock will speak; last time she said rates need to stay restrictive for the time being, and there are still risks on the upside for inflation. For a Newsquawk RBA preview, please click here.

**EMFX:** The Yuan was firmer against the Dollar as sentiment rebounded concerning stimulus measures, while the latest CPI metrics were cooler than expectations, and the PPI showed less deflation than was forecasted. The Politburo said China's fiscal policy is to be more proactive next year, and monetary policy is to be moderately loose (prev. prudent), marking the first shift in the stance of monetary policy since 2011; remarks precede the upcoming Central Economic Work Conference later this week, where the leadership will agree on the key economic targets and priorities for next year. That said, folks at CapEco caution against interpreting this as confirmation that large-scale stimulus is on its way. "Because the official language on monetary policy changes so infrequently, it is hard to use history as a guide to what it means in practice." More fundamentally, we think monetary easing in China is far less potent than it used to be. "In the past, demand for credit outstripped supply, making it straightforward for the PBOC to boost credit growth by cutting policy rates". By contrast, there is now limited appetite among households and large parts of the private sector to take on more debt, even at lower rates." Next on the docket is the Import/Exports for November.

In **LatAm**, MXN lagged the CLP and COP amid Mexico's inflation in November being cooler than expected on both the headline and core prints. While in **CEE**, the CZKs saw modest losses after Industrial Output missed, with the unemployment rate rising to 3.9% as expected. Next in the CEE region, is inflation from Czech and Hungary.

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