US Market Wrap - 11th December 2024

In line US inflation solidifies 25bps Fed rate cut with stocks buoyed by mega-cap strength

- **SNAPSHOT**: Equities up, Treasuries down, Crude up, Dollar up
- **REAR VIEW**: US CPI in line with expectations; Strong US 10yr auction; BoC cut by 50bps, as expected, but statement leans hawkish; US weighs harsher oil sanctions against Russia; China officials consider allowing Yuan to weaken in 2025 as Trump tariffs loom; Mixed BoJ remarks; Bigger EIA crude draws than anticipated; Larger-than-expected deficit in Federal Budget; AAPL working on AI chip with AVGO; GOOG ask FTC to block MSFT cloud deal with OpenAI.
- **COMING UP**: **EVENTS:** SNB & ECB Policy Announcements, IEA OMR. **DATA:** Australian Jobs, UK GDP, US PPI, US Initial Jobless Claims, Japanese Tankan. **SPEAKERS:** ECB's Lagarde. **SUPPLY:** US, Italy. **EARNINGS:** Broadcom, Costco.

MARKET WRAP

US indices (SPX +0.8%, NDX +1.9%, RUT +0.5%) saw broad-based gains on Wednesday with Communications, Consumer Discretionary, and Technology the sectorial outperformers and the former once again supported by Alphabet (GOOG) (+5.5%) strength. Tech was further buoyed by gains in semiconductor names, highlighted by the SOXX ETF firming in excess of 2.5%. Healthcare was the clear sectorial laggard. The key risk event was US CPI, which cemented expectations for a 25bps rate cut by the Fed next week, as the November report printed in line with estimates across all major metrics. Money markets now price a circa 96% chance of that outcome vs. 82% pre-data. The Dollar was firmer to the detriment of most G10 FX, with CAD the gainer as it firmed in reaction to the as-expected 50bps rate cut from the BoC and the decision to drop language about "it being reasonable to expect further rate cuts if the economy evolves in line with expectations". Yen saw two-way action, albeit eventually weakened, on mixed BoJ reports in the European morning, while the Yuan was supported by Reuters sources that China's top policymakers are considering allowing the Yuan to weaken in 2025 as Trump tariff looms. The crude complex gained and firmed throughout the US session after being initially pressured in the EZ morning on those aforementioned China reports. T-Notes steepened as in-line CPI anchored December 25bps rate cut expectations, although saw a slight bid after a strong US 10yr auction but then sold off into settlement with no specific headline driver, with potential Dollar strength weighing.

NORTH AMERICA

US CPI: US CPI November report printed in line with estimates across all major metrics which cemented calls for a 25bps Fed rate cut next Wednesday. Highlighting this, headline M/M rose 0.3% or 0.313% unrounded (prev. 0.2%) with the Y/Y figure rising 2.7% (prev. 2.6%). Core M/M rose 0.3% or 0.308% (prev. 0.3%) and the Y/Y printed 3.3% (prev. 3.3%). On the dataset, the upside pressure predominantly came from used vehicles which jumped 2.0%, following its 2.7% increase in October, and new vehicles lifting 0.6%. Only three subsets declined, that being electricity (-0.4%), energy services (-0.1%), and medical care commodities (-0.1%). Ahead of the Federal Reserve meeting next week money markets firmed up their bets of a 25bps cut, with now a circa 94% chance of such a move seen vs. 84% pre-data. Overall, ING notes US core inflation posted a fourth consecutive 0.3% print, showing that progress towards the Fed inflation goal has clearly stalled, but the Fed's favoured measure of inflation is doing a little better and the jobs market is cooling. As such, the bank looks for another 25bps Fed cut next week, but new SEP's should show a shallower series of cuts in 2025.

BOC REVIEW: The Bank of Canada cut rates by 50bps, taking the target for the overnight rate to 3.25%, in line with expectations and now matching the top end of the BoC's neutral rate estimate. The BoC also removed language from the statement about it being reasonable to expect further rate cuts if the economy evolves in line with forecast. Instead, the BoC said it will evaluate the need for further rate cuts one decision at a time, with decisions guided by incoming information and their assessment of the implications for the inflation outlook. The language around the decision to cut by 50bps was maintained, noting it was to support economic growth and keep inflation close to the middle of the 1-3% target range - implying the BoC were not too fussed with the recent uptick in inflation. The Central Bank noted that Q4 growth looks weaker than expected, and a reduction in immigration levels suggest that 2025 GDP growth will be less than their October forecast and effect on inflation will be more muted. The BoC are also cognizant of the proposed Trump tariffs, stating it has increased uncertainty and clouded the economic outlook, although Governor Macklem said in the press conference the BoC cannot front-run policy on something that might not happen. Elsewhere in the presser, the BoC Governor said they discussed a 25 and 50bps rate cut at the meeting, echoing the statement that going forward the BoC will consider further cuts but will be taking a more gradual approach. Macklem added that their policy focus now is to keep inflation close to the target, and that the economy remains in excess supply and the growth outlook appears softer than projected in October. He also stated how the unemployment rate has gone up, but they are yet to see widespread job losses as typically seen in a recession, something the BoC does not expect to occur. Macklem acknowledged the CAD, stating until recently, it has been stable, but most of the depreciation of the CAD is due appreciation of the USD and that CAD vs other major currencies shows very little change. To summarise, the BoC cut rates by 50bps but signalled a slower pace of easing ahead - likely as the BoC approaches the neutral rate, and as it assesses potential tariff updates from US President-elect Trump. Money markets are pricing in 14bps of easing for January, which implies a 55% probability of a 25bps cut, and 45% probability of rates being held steady. Looking ahead through end-2025, money markets imply 61bps of easing, vs the 72bps of easing beforehand as the BoC signals a slower path ahead.

FIXED INCOME

T-NOTE (H5) SETTLED 10 TICKS LOWER AT 110-22

THE DAY: T-Notes had been selling off marginally ahead of the US CPI print before initially rallying on the release which was largely in line with expectations, helping cement rate cut expectations for December (money markets price in a 25bps rate cut with a 97% probability vs. 84% before the data). T-Notes peaked at 110-07, c. 1 hour after the release with the move supported by a chunky block buy in the 10yr T-note futures. The peaks were capped after the hawkish BoC rate cut, which cut by 50bps as expected but signalled a slower easing process ahead. T-Notes sharply reversed, led by the long end likely with concession taking place ahead of the 10yr auction. T-Notes had pared the whole post-CPI move by the time the auction hit, which ultimately came in stronger than recent averages and priors, with T-Notes seeing an initial bid. However, into settlement, Tsys saw a notable sell-off to settle at troughs with no clear driver behind the move aside from possible Dollar strength. Attention turns to the US PPI on Wednesday and the 30-year bond auction, where the PPI data will be watched to garner expectations for Core PCE due 20th Dec, two days after the Fed rate decision and SEPs.

10YR: Overall, a strong 10yr note auction whereby it stopped through by 1.7bps, surpassing the prior 0.3bps stop-through and the six-auction average of 0.2bps stop-through. Bid-to-cover was 2.7x, greater than the previous 2.58x and the average 2.55x. In the breakdown, dealers took 10.5% (prev. 14.7%, six-auction avg. 13.3%), directs 19.5% (prev. 23.6%, six-auction avg. 16.1%), and finally indirects 70% (prev. 61.7%, six-auction avg. 70.6%),

THIS WEEK SUPPLY: US Treasury to sell USD 22bln in 30yr bonds; all to settle Dec 16th.

STIRS:

- **Market Implied Fed Rate Cut Pricing: December 24bps (prev. 21bps), January 29bps (prev. 27bps), March 45bps (prev. 44bps).**
- NY Fed RRP op demand at USD 180bln (prev. 175bln) across 57 counterparties (prev. 51).
- SOFR at 4.64% (prev. 4.63%), volumes at USD 2.308tln (prev. 2.305tln).
- EFFR at 4.58% (prev. 4.58%), volumes at USD 102bln (prev. 100bln).

CRUDE

WTI (F5) SETTLED USD 1.40 HIGHER AT USD 70.29/BBL; BRENT (G5) SETTLED USD 1.33 HIGHER AT USD 73.52/BBL

The crude complex gained and firmed throughout the US session after being initially pressured in the EZ morning by Reuters China reports. On this, WTI and Brent slipped to lows of USD 68.68/bbl and 72.30/bbl, respectively, in wake of headlines that China's top policymakers are considering allowing the Yuan to weaken in 2025 as Trump tariff looms, which saw Dollar strength. Thereafter, benchmarks came off lows and eventually extended to later highs of USD 70.26 and 73.50, amid support from the weekly EIA data and general risk-on sentiment. Recapping the EIA's, crude stocks saw a larger draw than expected, against Tuesday's surprise private build. Gasoline and Distillates saw larger builds than forecasted, in line with Tuesday's figures. In the OPEC MOMR (Dec) (full details here) the global oil demand growth forecast for 2024 was revised down by 210k BPD to 1.6mln BPD Y/Y with the forecast for 2025 also slightly revised lower. For the record, US CPI was in line with expectations and saw little reaction in oil, although it did cement expectations for a 25bps cut from the Fed next week.

EQUITIES

CLOSES: SPX +0.82% at 6,084, NDX +1.85% at 21,764, DJIA -0.22% at 44,149, RUT +0.48% at 2,394

SECTORS: Health -1.3%, Consumer Staples -0.63%, Utilities -0.57%, Materials -0.37%, Real Estate -0.24%, Industrials -0.19%, Energy +0.02%, Financials +0.26%, Technology +1.5%, Consumer Discretionary +2.02%, Communication Services +3.08%.

EUROPEAN CLOSES: DAX: +0.42% at 20,414, FTSE 100: +0.28% at 8,303, CAC 40: +0.39% at 7,423, Euro Stoxx 50: +0.16% at 4,960, AEX: +0.30% at 896, IBEX 35: -1.47% at 11,789, FTSE MIB: +0.60% at 34,731, SMI: +0.27% at 11,678, PSI: +0.14% at 6,352.

EARNINGS

- **Macy's (M):** Cut FY profit guidance with next quarter profit outlook disappointing.
- **GameStop (GME):** Unexpectedly reported a profit in Q3, though revenue fell short.
- **Dave & Buster's Entertainment (PLAY):** Reported a teeper-than-expected loss per share, with revenue underwhelming.

STOCK SPECIFICS

- **Microsoft (MSFT):** Google requested that the FTC block Microsoft's exclusive cloud deal with OpenAI, citing competitive concerns.
- **General Motors (GM):** Halting funding for its Cruise Robotaxi business, citing high scaling costs and competition. It will combine its Cruise and GM technical teams into a single effort and will refocus on autonomous personal vehicles.
- **Albertsons (ACI):** Terminated merger pact with Kroger (KR); ACI authorised a USD 2bln share buyback programme.
- **Mondelez (MDLZ):** Announced a new USD 9bln share buyback and declared a quarterly dividend of USD 0.47/shr.
- **Bausch Health (BHC):** FT reports that Blackstone (BX) is likely to drop out of a consortium taking part in a takeover bid for Bausch+Lomb.
- **ImmunityBio (IBRX):** 33.333mln share secondary offering priced at USD 3.00.
- **Nutanix (NTNX):** Filed for a USD 750mln convertible notes offering due 2029.
- **Patterson Companies (PDCO):** To be acquired by Patient Square for USD 31.35/shr.
- **Broadcom (AVGO):** Working on an AI chip with Apple (AAPL), via The Information.
- **Travelers (TRV):** Downgraded to 'Underweight' from 'Equal Weight' at Wells Fargo with a USD 217 PT (prev. 256). The firm expects further general liability reserve additions, tougher margin comps in 2025, and an "overall cautiousness" within the commercial lines space given elevated loss cost trends.
- **Hershey (HSY):** Said to reject the **Mondelez (MDLZ)** offer as "too low", according to Bloomberg.
- **Altria (MO), Philip Morris (PM):** FDA seeks reduction in nicotine levels for cigarettes, according to NYT.
- **Ulta (ULTA):** Executive expects beauty category growth to moderate from recent double-digit gains to historical low-to-mid single digits.
- **Bank of America (BAC):** CEO Moynihan said they feel good about NII and expected to come in around USD 14.3bln (exp. 14.29bln) in Q4. Notes wealth management fees will be up 20% Y/Y, expect record Q4 for trading. IB fees will be +25% Y/Y.
- **Amcor (AMCR):** Upgraded to 'Buy' from 'Underperform' at BofA. The bank describes the pending merger with Berry (BERY) as "interesting" and the firm's USD 12.50 PT implies a total return potential of 28%; expects more relative return and catalysts.
- **Tesla (TSLA):** Tesla China said it sold 21,900 EVs in China in the first week of December, the highest weekly sales since Q4. PT raised to USD 354 (prev. 250) at Goldman Sachs. The firm sees fundamental headwinds to the core auto business over the near to medium term but believes the market is taking "a more forward-looking approach to Tesla" including with respect to its AI opportunity.

US FX WRAP

The Dollar saw broad gains against major peers with it initially benefitting off reports that China's top policymakers are considering allowing the Yuan to weaken in 2025 as Trump tariff looms, via Reuters; Treasuries saw losses later in the session, with the short-end sold, despite repricing in Fed money market expectations for the December meeting, with now a 97% chance of a 25bps rate cut. On the repricing, US CPI was behind the move, with all metrics coming in line with expectations. DXY initially sold on the report, yet later pared the move with no clear headline driver, reaching a fresh December peak of 106.81. PPI and weekly claims are on the horizon for US drivers, with the former to solidify PCE expectations for November.

The CAD caught a bid on the BoC's decision to cut rates by 50bps as expected, for the second consectuive meeting. Prompting the move higher, was a hawkish tilt in the statement, whereby the BoC no longer believe if the economy evolves broadly in line with their latest forecast, they expect to reduce the policy rate. Thereafter in the press conference, Governor Macklem said until recently, CAD has been stable and that unemployment has gone up but yet to see widespread job losses as typically seen in a recession; remarks did little to alter the CAD, which was the sole G10 currency to strengthen vs the Dollar.

The Euro was hit on Buck strength as EUR/USD fell back below 1.05. Newsflow continued to be thin in the region, although, Thursday will see updates kick-off, with the ECB expected to cut by 25bps to EUR (~85% of a 25bps cut vs 15% of 50bps). For an ECB Newsquawk preview please click here.

The Yen saw a volatile session in midweek as mixed BoJ remarks hit the wires. At first, the Yen strength arrived after reports indicated that the BoJ sees little cost in waiting for the next rate hike, however, the pair later spiked higher on the the BoJ's view "that there is less risk of a soft JPY boosting inflation", thus, alleviating the urgency to hike rates. USD/JPY ultimately ended higher as higher US yields also weighed, leaving USD/JPY up for the third day in a row well above 152. Regarding the Franc, weakness is seen into the SNB's rate decision on Thursday, where money market expectations are for a 50bps rate cut (61%), although, the latest Reuters poll showed only 4/31 surveyed only see a 50bps rate cut. For a SNB Newsquawk preview please click here.

EMFX: The Yuan eased off weekly highs as reports suggest China's top policymakers are considering allowing the Yuan to weaken in 2025 as Trump tariffs loom. The reports' sources added, "The contemplated move reflects China's recognition that it needs bigger economic stimulus to combat Trump's threat of bigger tariffs". Afterwards, the Yuan strengthened in wake of reports via a PBoC-backed paper, that the Yuan rate is stable with a foundation; the bid later on faded.

Elsewhere, in LatAm, BRL saw gains after Brazil's President Lula is to undergo a new medical procedure on Thursday to prevent further bleeding in the brain; remains in ICU after brain surgery. Next for the BRL, is Retail sales, which follow today's better-than-expected Service sector growth. Meanwhile, ZAR rallied after Retail Sales beat estimates in October, while cooler-than-expected yearly CPI figures took the backfoot.