US Market Wrap - 12th December 2024

Dollar bid continues with CHF and EUR worse as stocks and bonds sell off continues

- **SNAPSHOT**: Equities down, Treasuries down, Crude down, Dollar up
- **REAR VIEW**: Overall Hot US PPI, but components that feed into PCE were weak; Initial Claims surges above expectations; ECB cuts by 25bps and lowers growth forecasts; SNB surprisingly cuts by 50bps and maintains readiness to intervene as necessary; Weak US 30yr auction; Bigger-than-expected EIA natgas draws; Strong Aussie employment report; IEA cuts 2024 world oil demand growth forecast; BoJ leans towards keep rates steady next week
- **COMING UP**: **DATA:** German Trade Balance, UK GDP, EU Industrial Production.

MARKET WRAP

US indices saw weakness with continued underperformance in the small-cap Russell 2000 (-1.4%), as all sectors resided in the red apart from Consumer Staples and Real Estate. Health, Consumer Discretionary, and Communications were the laggards with the latter weighed on by Tesla (TSLA) (-1.7%) and Alphabet (GOOGL) (-1.8%), respectively, although GOOGL has seen notable gains recently. It was a busy macro day on Thursday, with the US highlights being PPI and jobless claims. In wake of the data, T-Notes rallied in response to the surge in initial jobless claims despite hot PPI, however, the PPI components that feed into PCE were cool, with analysts largely revising their Core PCE estimates lower in wake of the metrics. Thereafter, Treasuries saw selling and extended to session troughs after the poor US 30yr auction. In FX, Dollar noticed gains and at the time of writing is at highs to the detriment of G10 peers, with EUR and CHF hit by respective policy announcements. ECB cut by 25bps, as expected, but SNB surprisingly cut by 50bps Schlegel didn't rule out a return to NIRP. AUD was the outperformer and buoyed by strong Aussie jobs data overnight. The crude complex had a very choppy session, albeit in limited energy-specific newsflow as benchmarks settled with mild losses, while US natgas saw gains after the weekly EIA data whereby the draw was much larger than expected.

US

PPI: Overall, US PPI was hotter-than-expected with the headline figures incurring upward revisions to the prior. Headline M/M rose 0.4%, above the expected 0.2% with the prior revised upwards to 0.3% (prev. 0.2%), while the yearly figure rose 3.0% (exp. 2.6%, prev. 2.4%, rev. 2.6%),. For core, M/M increased by 0.2%, in line with expectations whereas the Y/Y was 3.4% (exp. 3.2%). Regarding supercore, ex-food/energy/trade, M/M ticked up by 0.1%, slightly cooler than the expected 0.2%; Y/Y rose 3.5%, unchanged from the prior. On the headline M/M, Capital Economics says to "Ignore the fact that PPI final demand prices increased by a slightly bigger than expected 0.4% m/m in November. The components that feed into the Fed's preferred PCE index were universally weak and, together with the CPI data released yesterday, point to a muted 0.03% m/m increase in the core PCE index. (That's 0.4% in one-month annualised terms)". For the 3-month annualised rate, Cap Eco adds, even factoring in an upward revision to a 0.39% m/m gain in October, they estimate that " that the three-month annualised rate of core PCE inflation fell back to 2.4% in November, from 3.0%". Money markets continue to highly favour a 25bps rate cut in the Fed's December meeting, with a ~ 97% chance (94% pre-PPI release). Note, Pantheon Macroeconomics see core PCE at 0.13% (prev. saw 0.20%), with Morgan Stanley looking for a 0.11% print.

JOBLESS CLAIMS: Initial jobless claims (w/e 7th Dec) rose to 242k from 225k, well above the expected 220k and above the upper bound of the forecast range. The report states the advance number of actual initial claims under state programs, unadjusted, totalled 310,366, an increase of 99,140 (46.9%) W/W, while the seasonal factors had expected an increase of 76,932 (36.4%). Continued claims (w/e 30th Nov) lifted to 1.886mln (exp. 1.875mln, prev. 1.871mln), also above the top end of expectations. It is worth being cognizant that at this time of the year you can see notable seasonal volatilities which can distort the headline print. Oxford Economics further echoes this sentiment, noting initial claims rose more than expected but can't read too much into one week's change at this time of year, given seasonal factors add a lot of volatility to the data.

EU

ECB REVIEW: As expected, the ECB delivered a 25bps cut to the deposit rate to 3.0%. The main takeaway from the policy statement was the Governing Council's decision to drop the reference to "keep policy rates sufficiently restrictive for as long as necessary". Elsewhere, the ECB stated it will continue to follow a data-dependent and meeting-by-meeting approach. The accompanying macro projections saw a reduction in the HICP forecasts for 2024 and 2025 with the 2026 forecast held below target at 1.9%, whilst growth forecasts were cut across the horizon. At the follow-up press conference, Lagarde was careful to note that the GC is not yet declaring victory on inflation, whilst later adding that risks to inflation are two-sided. With regards to the policy decision, Lagarde noted that all members agreed with the policy proposal. Adding that a 50bps move was discussed, however, this failed to gain any traction. The President stated that whilst not pre-committing to a specific policy path, the direction of travel is clear. Lagarde also refused to engage in discussions of where the GC sees the neutral rate, stating that it was not discussed at the meeting. Overall, ING says that "today's decision reflects a compromise between growth and inflation worriers, a gut feeling vs a model-based approach and doves against hawks". In terms of the next steps, given that policy is still seen as restrictive, further rates are clearly on the horizon, particularly when considering the economic fragility of certain core member states and the looming threat of Trump trade tariffs. As it stands, markets price 120bps of easing next year. Following the meeting and Lagarde's press conference, Reuters sources noted that a handful of policymakers were initially in favour of a 50bps cut and some argued that the ECB is overestimating growth, which could be below 1% next year under Trump tariffs. The Reuters sources further added that policymakers have little appetite for rushing policy amid uncertainty. Later on, Bloomberg sources reported that the ECB is prepared for a quarter-point rate cut at the next two meetings as inflation stabilizes at the 2% target and economic growth remains sluggish. BBG sources added a gradual approach to lowering borrowing costs is the most appropriate path forward provided the economy develops in line with current expectations.

FIXED INCOME

T-NOTE (H5) SETTLED 10 TICKS LOWER AT 110-12

T-Notes chop to above forecast jobless claims, while PPI data was hot on the headline, but PCE components were soft. At settlement, 2s +2.7bps at 4.184%, 3s +3.0bps at 4.153%, 5s +4.3bps at 4.176%, 7s +4.4bps at 4.246%, 10s +5.5bps at 4.326%, 20s +6.8bps at 4.621%, 30s +7.2bps at 4.550%.

INFLATION BREAKEVENS: 5yr BEI +1.2bps at 2.416%, 10yr BEI +1.7bps at 2.334%, 30yr BEI +1.4bps at 2.290%

THE DAY: T-Notes saw gradual selling pressure overnight to hit an intraday low of 110-14+, before paring into US data. T-Notes rallied in response to the surge in initial jobless claims despite hot PPI, however, the PPI components that feed into PCE were cool, with analysts largely revising their Core PCE estimates lower in wake of the data. T-Notes peaked at 110-25 before better selling resumed as attention turned to the 30yr bond auction, seeing 10yr T-Notes test the earlier lows. In wake of the poor US 30yr auction (more below), Treasuries ground lower to see a trough of 110-10+.

It is worth noting that although the jobless claims saw a notable rise, many try not to read too much into claims data during the holiday season due to distortions amid Thanksgiving and Christmas. Today's data did little to change the dial for next week's Fed meeting with a 25bps cut still prices at a c. 97% certainty, while 82bps of easing is price between now and end-2025. Elsewhere, the focus in the morning was on ECB and SNB rate decisions, where the ECB cut rates by 25bps, as expected, but sources later revealed a handful of policymakers were pushing for a 50bps cut. The SNB surprised with a larger-than-expected 50bps rate cut. Attention now largely shifts to the December FOMC rate decision and updated Summary of Economic Projections, with the BoJ next week too.

30YR: Overall a weak 30yr auction as it tailed by 1.2bps, diverging from the 2.2bps stop-through we saw in the previous auction and the six-auction average of a 0.2bps tail. The bid-to-cover was 2.39x falling short of the previous 2.64x and the average 2.44x. Dealers took 14.4% (prev. 10.2%, six-auction avg. 14.5%), directs 19.1% (prev. 27.1%, avg. 17.8%), and finally indirects 66.5% (prev. 62.7%, avg. 67.7%)

NEXT WEEK SUPPLY:

US to sell USD 13bln of reopened 20yr bond on December 17th and USD 22bln of reopened 5yr TIPS on Dec. 19th; all to settle on December 31st. US to sell USD 81bln of 13-wk bills and USD 72bln of 26-wk bills on December 16th, and USD 65bln of 42-day CMBs on Dec, 17th; all to settle December 19th.

STIRS:

- **Market Implied Fed Rate Cut Pricing: December 24bps (prev. 24bps), January 30bps (prev. 29bps), March 44bps (prev. 45bps).**
- NY Fed RRP op demand at USD 165bln (prev. 180bln) across 49 counterparties (prev. 57).
- US sold USD 75bln in 8wk bills at a high rate of 4.260%, B/C 2.81x; US sold USD 80bln in 4wk bills at a high rate of 4.240%, B/C 3.14x
- SOFR at 4.62% (prev. 4.64%), volumes at USD 2.287tln (prev. 2.308tln).
- EFFR at 4.58% (prev. 4.58%), volumes at USD 106bln (prev. 102bln).

CRUDE

WTI (F5) SETTLED USD 0.27 LOWER AT 70.02/BBL; BRENT (G5) SETTLED USD 0.11 LOWER AT 73.41/BBL

The crude complex had a very choppy session, albeit in limited energy-specific newsflow as benchmarks settled with mild losses but well off earlier lows. In the EZ morning, the crude complex saw weakness in wake of the IEA MOMR whereby it cut the 2024 world oil demand growth forecast. Thereafter, WTI and Brent continued to eke lower to print session troughs of USD 69.14/bbl and 72.42/bbl, respectively. However, oil reversed through the US afternoon, with no clear driver, to hit peaks of 70.72 and 74.00. In the macro space, oil saw little movement to US data and G10 rate decisions as the space continued to focus on geopolitical updates. Regarding President-elect Trump, when asked about the chances of war with Iran, he stated "anything can happen". Lastly, and in later trade, Bloomerg reported that Canada weighs export tax on uranium and oil if Trump adds tariffs.

NATGAS: US natgas saw gains after the weekly EIA data whereby it was a much larger draw than expected.

EQUITIES

CLOSES: SPX -0.54% at 6,051, NDX -0.68% at 21,615, DJIA -0.53% at 43,914, RUT -1.38% at 2,361

SECTORS: Consumer Discretionary -0.84%, Health -0.83%, Communication Services -0.77%, Materials -0.69%, Industrials -0.68%, Energy -0.67%, Technology -0.47%, Financials -0.4%, Utilities -0.11%, Real Estate -0.08%, Consumer Staples +0.18%.

EUROPEAN CLOSES: DAX: +0.15% at 20,429, FTSE 100: +0.12% at 8,312, CAC 40: -0.03% at 7,421, Euro Stoxx 50: +0.10% at 4,965, AEX: -0.19% at 894, IBEX 35: -0.21% at 11,765, FTSE MIB: +0.36% at 34,857, SMI: +0.33% at 11,716, PSI: +0.14% at 6,361.

EARNINGS

Adobe (ADBE): Guidance was soft despite beating on revenue and adj. EPS. **Ciena Corp (CIEN):** Revenue beat. **Nordson (NDSN):** Outloo for the next quarter and FY25 disappointed. **Oxford Industries (OXM):** Lowered FY24 sales and EPS expectations.

STOCK SPECIFICS

- **Warner Bros Discovery (WBD):** Announced a new corporate structure, to compromise two divisions: Global Linear Networks and Streaming & Studios.
- **Centene Corp (CNC):** Sees better-than-expected profit for 2025, betting on the strength of its commercial plans to neutralise higher costs in its government-backed health plans, via Reuters.
- **Keros Therapeutics (KROS):** Update on Phase 2 TROPOS trial saw a voluntary halt of 3.0 mg/kg and 4.5 mg/kg treatment arms due to safety concerns.
- **Kroger (KR):** Announced a new USD 7.5bln share repurchase programme, replacing its prior USD 1bln authorisation, and plans a USD 5bln accelerated buyback.
- **Hershey (HSY):** Downgraded to 'Underweight' from 'Equal Weight' with a USD PT of 160 (prev. 175). The firm notes Hershey is on the "precipice of historic" earnings pressure in 2025 and into 2026 from higher cocoa prices, arguing street earning estimates need to come down substantially.
- **Celsius Holdings (CELH):** Initiated with an 'Overweight' at JPMorgan with a USD 37 PT, contending the deceleration in the energy drink category in the US does not invalidate Celsius secular tailwinds that should lead to consistent sales growth within staples.
- **Constellation Energy (CEG):** Upgraded to 'Buy' from 'Neutral' with a USD 269 PT (prev. 237). BofA views the Co. as "in the best position to prosper" from rising demand, tightening supply, and likely soon-to-come regulatory clarity and believes this potential is not reflected in its current share price.
- **Intel (INTC):** Said co. is going to invest more in products under new leadership, via Barclays conference; Short term it will use TSMC (TSM) if products are better, Could probably sell some of their position in Mobileye (MBLY) over time, Plans to ultimately take Altera

public, Johnston's role as product CEO is permanent..

- **Western Digital Corp (WDC):** Trader chatter suggested Western Digital downside stemmed from being guided down at Barclays conference, noting pricing worse than expected.
- **Apple (AAPL):** Apple chip code-named Proxima and to appear in iPad and Mac in 2026; nears switch from **Broadcom (AVGO)** for iPhone and home wireless chip..
- **Boeing (BA):** Committed to expand South Carolina; additional investment will create 500 jobs; 787 Dreamliner programme plans to increase to a rate of 10 airplanes per month by 2026; Plans to invest USD 1bln in infrastructure upgrades at its Charleston county site.

US FX WRAP

The Dollar rally continued for the fifth straight day, lent a hand by a surprise 50bps cut by the SNB and a tweak in the ECB's statement after cutting by 25bps. Volatile trade was observed around the time of the NY cut, with large expiries in EUR/USD. Ultimately, Dollar strength lasted, continuing its winning streak, and saw a late help by headlines surrounding trade tensions between the US and Canada. US-specifics highlights included US PPI being broadly hotter-than-expected, but Wall St. analysts note the components that filter into PCE, came in weak, resulting in some Core PCE forecasts being lowered. Meanwhile, Initial Claims were 242k (exp. 220k). With macro updates in the US to be thin on Friday (only import/export prices due), attention will look towards the statement and remarks from Fed Chair Powell on Wednesday, since a 25bps rate cut is essentially priced in.

The Euro deepened further below the 1.05 handle following the ECB's decision to cut rates by 25bps. The 21DMA (1.0528) is a key level to watch on the upside. Forecasts for growth were lowered from 2024-27, with '24 and '25 HICP inflation expectations cut. Choppy trade was seen in EUR/USD throughout the day, with a rally to ~1.0520, though capped around the NY Cut, where a sizable expiry was seen in EUR/USD (USD 1.7bln at 1.05), perhaps explaining the swift downside in the pair thereafter. The ECB's statement saw the removal of the reference to “keep policy rates sufficiently restrictive for as long as necessary”. Later on, ECB sources were seen from both Reuters and Bloomberg, where the former noted a handful of members were initially in favour of a 50bps cut, arguing the ECB is overestimating growth, which seemed to fuel another bounce in EUR/USD, but ultimately trended lower into the evening.

The SNB unexpectedly cut rates by 50bps to 0.50%, sparking immediate downside in the Franc, which enlarged as the session progressed. SNB's Chair Schlegel maintained the rhetoric of willingness to intervene as necessary, adding, that the SNB still has room for further interest rate moves, albeit, said they don't like negative rates, but will use them again if required. EUR/CHF also saw gains, which ING believes should be temporary with the ECB set to out-cut the SNB through 2025. "Given the prospect of a winter recession in the eurozone, tariffs and broader geopolitical risks all year, we look for EUR/CHF to grind towards 0.90 in 2025".

AUD outperformed peers with minimal weakness as the economy added more jobs than forecasted (35.6k vs exp. 25k) as well as the Unemployment Rate unexpectedly falling to 3.9% from 4.1% (exp. 4.2%), though the participation rate did trickle lower. Across the Pacific, CAD was weighed on by dollar strength in addition to Bloomberg reports that Canada is weighing export taxes on uranium and oil if Trump adds tariffs, adding to existing woes on trade between the countries; CAD fell to 4-1/2 year lows.

The Yen saw weakness overnight on Reuters reports that the BoJ is leaning towards keeping rates steady next week, though there is no consensus on the final decision. USDJPY peaked at 152.77 before heading into overnight trade relatively unchanged. In the UK, newsflow was once again light, with Friday's GDP Estimate for October unlikely to alter things at the BoE. Despite the lack of GBP-specific drivers, the Pound notably underperformed alongside CHF, with Cable hovering around its 21 DMA (1.2672).

EMFX: The USD/BRL gapped lower at the open following the BCB's unanimous decision on Wednesday to hike rates by 100bps. The committee sees hikes of the same magnitude at the next two meetings, however, BRL strength later pared, perhaps due to the continued backdrop of fiscal policy highlighted by the Presidential spokesman noting the decision to hike rates goes against what the nation needs. The loose fiscal policy of President Lulua continues to weigh on BRL as little help was offered by BCB calling FX credit line auction of up to USD 4bln on Dec 12th (first since Jan 2023).