US Market Wrap - 18th December 2024

Stocks and bonds dive after Fed signals slower easing ahead

- **SNAPSHOT**: Equities down, Treasuries down, Crude falls post settlement, Dollar up
- **REAR VIEW**: Fed cuts by 25bps, Hammack dissents, Powell says decision was a "closer call"; Fed raises dot plots; UK CPI Headline CPI Y/Y in line, Services Y/Y slightly cooler; EIA crude draws less than expected; Atlanta Fed GDPNow (Q4) revised up; US Building Permits top expectations, Housing starts fall short; Honda and Nissan enter into merger talks.
- **COMING UP**: **Data:** US Jobless Claims, Philly Fed Index, NZ Trade Balance, Japanese CPI. **Events:** BoJ, BoE, Riksbank, Norges, CNB, Banxico Policy Announcements. **Speakers:** BoJ Governor Ueda; Norges Bank's Bache; Riksbank's Theeden. **Supply:** US. **Earnings:** Accenture, Cintas, Conagra Brands, Nike, FedEx, BlackBerry

MARKET WRAP

US indices saw considerable downside (SPX -2.95%, NDX -3.6%, DJIA -2.58%, RUT -4.4%) as did Treasuries, while the Dollar surged in the wake of a hawkish FOMC. Highlighting the extent of the moves, the S&P 500 noticed its largest post-Fed move since March 2020. Briefly recapping, the Fed cut rates by 25bps, as expected, but with hawkish dot plots, with the median showing only two cuts seen in 2025. Fed's Hammack dissented, voting to keep rates unchanged. Guidance was also tweaked to signal a slower pace of easing ahead. In the Q&A, Chair Powell admitted the decision was a "closer call", but the "right call", which saw a further extension of the hawkish moves already seen. Sectors were all notably in the red with Consumer Discretionary plunging 4.75% and weighed on by Tesla (TSLA) (-8.5%) weakness. Global FX peers saw downside vs the Dollar, with the DXY at its highest since November 2022. On the central bank footing, attention turns to BoE and BoJ. The crude complex was firmer into settlement, but sold thereafter on account of the aforementioned greenback strength. Bitcoin and gold also saw significant selling with the former dropping to under USD 101k and spot gold under USD 2.6k.

US

FOMC SNAP ANALYSIS: The Federal Reserve cut rates by 25bps, as expected, to 4.25-4.5% in an 11-1 split, with Hammack voting to leave rates unchanged. The statement was little changed from the November meeting, but added in considering the "extent and timing" of additional rate adjustments (prev. In considering additional adjustments), Fed will assess incoming data, evolving outlook and balance of risks, signalling a slowing of easing ahead. The further hawkish skew came in the updated Summary of Economic Projections (SEPs) whereby the median dot plot for 2025 and 2026 FFR forecasts were lifted above expectations. Recapping, the median 2025 dot rose to 3.9% from 3.4% (exp. 3.6%), while the 2026 median rose to 3.4% (exp. 3.1%, prev. 2.9%). 2027 and longer run median dot plots rose to 3.1% (prev. 2.9%) and 3.0% (prev. 2.9%), as expected. As such, the 2025 median dot plot looks for just two cuts in 2025. Elsewhere, Core PCE inflation is now seen at 2.5% for 2025 (exp. 2.3%, prev. 2.2%) and 2.2% for 2026 (exp. 2.0%, prev. 2.0%). Forecasts for the unemployment rate were largely as expected, with all horizons, ex-longer run, seen at 4.3%, although 2027 was expected. In addition, and as was alluded to in the latest Minutes, the Fed lowered the repo rate by 30bps to 4.25% (lower end of FFR target, vs 5bps above lower end previously).

CHAIR POWELL PRESSER/Q&A: In Chair Powell's pre-prepared remarks he stated the Fed is squarely focused on two goals, and that the economy is strong, the labour market remains solid, and inflation is much closer to the 2% goal. Ahead of November PCE on Friday, Powell said total PCE probably rose 2.5% in the 12 months ending in November, while core PCE prices probably rose 2.8% in November. The Chair added that the policy stance is now significantly less restrictive, and going forward they can be more cautious, something which was indicated from the updated SEPs and statement tweak. In the Q&A, the distinct hawkish remark came from the first question, which accentuated hawkish market moves, as Powell said that today's decision was a "closer call", but the "right call", suggesting there was a discussion surrounding holding rates at this meeting. Powell added risks are two-sided, and trying to steer between those two risks. On the statement change, Powell stated that "extent and timing language" shows the Fed is at or near the point of slowing rate cuts, and the slower pace of cuts reflects expectation. Powell said that cuts they make in 2025 will be in response to data and as long as the labour market and economy are solid, they can be cautious as they consider further cuts. In addition, looking to US President-elect Trump's term, Powell said some people did take a very preliminary step and incorporated conditional effects of coming policies in their projections. Note, one committee member sees no cuts in 2025, and one sees five 25bps rate cuts - showing a wide range of views on the Fed, but many were centred around the median. Continuing to look ahead, Powell said it will be looking for further progress in inflation to make those cuts, and added that from here is a new phase, and the Fed is going to be cautious about further cuts.

CURRENT ACCOUNT: US current account in Q3 reported a much larger deficit than expected, coming in at USD 310.9bln (exp. –284bln), plunging from Q2's deficit of USD 275bln. The Q3 deficit was 4.2% of current GDP, up from 3.7% in Q2. The USD 35.9bln widening of deficit reflected expanded deficits in secondary income, primary income, and goods. Within the release, exports of goods and services to, and income received from, foreign residents increased USD 6.0bln to USD 1.21tln in Q3, while imports of goods and services from, and income paid to, foreign residents increased USD 42.0bln to USD 1.52tln. Looking at the breakdown, goods exports rose USD 13.6bln to USD 530bln and imports jumped USD 23.7bln to USD 837.2bln, while services exports increased USD 7.7bln to USD 279.9bln with imports lifting a more modest USD 6bln to USD 206.2bln.

HOUSING STARTS/BUILDING PERMITS: Building permits, which are more forward-looking, rose by 6.1% from 1.419mln to 1.505mln, above the 1.43mln consensus and the highest analyst forecast, taking it to the highest level since February but little changed Y/Y (Nov. 2023 = 1.508mln). Single-family permits saw a slight uptick while multifamily permits (5 units +) rose 22.1% M/M to 481k from 142k. Housing Starts fell by 1.8% to 1.289mln from 1.312mln, despite expectations for a rise to 1.343mln, with the drop primarily led by multi-family units (5 units +), which declined 24.1% M/M while single starts rose 6.4%. Looking ahead, Oxford Economics highlights that the decline in starts lends downside risk to their forecast for starts to average 1.34mn in Q4, but the permitted data is consistent with their forecast for starts to rise modestly in 2025. In 2025, Oxford Economics "expect a gradual improvement in starts but see downside risks to our forecast from sticky mortgage rates and possible labor shortages and higher building costs under President-elect Trump's policies on immigration and tariffs".

GLOBAL

BOJ PREVIEW: Expectations and recent source reports have been increasingly leaning towards the BoJ holding rates at 0.25% at the upcoming meeting, with 58% of economists polled by Reuters (in a Dec 4-11th survey period) expecting such an outcome, up from 44% in the last poll. A survey of over 150 financial firms, conducted by Japanese money market brokerage Ueda Yagi Tanshi (in a Dec 12-16th survey period) saw 91% of respondents expect no move on rates on Thursday. Market pricing currently points to a 77% chance of a hold vs a 23% chance of a 25bps hike at the upcoming meeting , with the first 25bps hike not fully priced in until Q2 2025. That being said, the BoJ's decision could be contingent on the outcome of the US Federal Reserve announcement and presser hours before, with Reuters sources suggesting the BoJ could hike if the FOMC decision triggers a JPY selloff. To download the full Newsquawk preview, please click here.

BOE PREVIEW: The BoE is expected to hold the Base Rate at 4.75% via an 8-1 vote split on account of stubborn services inflation, elevated wage growth and a potential boost to growth from recent fiscal measures. Note, there is no MPR or press conference for this release. Looking beyond the upcoming meeting, markets look for 57bps of easing in 2025. To download the full Newsquawk preview, please click here.

FIXED INCOME

T-NOTE FUTURES (H5) SETTLE 28+ TICKS LOWER AT 109-00+

T-Notes dive after Fed signals slower rate path ahead. At settlement, 2s +10.7bps at 4.348%, 3s +12.8bps at 4.348%, 5s +14.4bps at 4.392%, 7s +13.4bps at 4.449%, 10s +10.9bps at 4.494%, 20s +8.7bps at 4.752%, 30s +6.7bps at 4.646%.

INFLATION BREAKEVENS: 5yr BEI +0.5bps at 2.391%, 10yr BEI +1.5bps at 2.327%, 30yr BEI +1.6bps at 2.294%.

THE DAY: T-Notes sold off in the European morning before paring in pre-Fed trade. The Fed ultimately cut rates by 25bps, as expected, in a "hawkish cut" as the Fed signalled a slowing of rate cuts ahead with just two rate cuts pencilled in for 2025. There was also an adjustment to the guidance, noting that in considering the "extent and timing" of additional rate adjustments (prev. in considering additional adjustments), signalling a slowing of easing ahead. Meanwhile, Fed's Hammack was the lone dissenter, opting to keep rates unchanged. T-Notes moved lower in response to the decision, while further pressure was seen during Powell's press conference who said that this meeting was a closer call when asked about cutting or keeping rates unchanged, and stressed several times the Fed is now in a new phase, and they will be cautious with rate cuts going ahead. He also sounded more concerned about inflation, noting cuts will be made based on further progress on inflation, while on the labour market said risks to the labour market have diminished and it is cooling, but not at a concerning pace. T-Notes settled at lows with the curve flattening in response to the hawkish Fed.

THIS WEEK SUPPLY: US to sell USD 22bln of reopened 5yr TIPS on Dec. 19th; all to settle on December 31st.

STIRS:

- **Market Implied Fed Rate Cut Pricing:** January 2bps (prev. 4bps), March 12bps (prev. 17bps), May 15bps (prev. 23bps), December 2025 34bps (prev. 48bps); (prev. = pre-FOMC and incorporated for today's rate cut)
- NY Fed RRP op demand at USD 132bln (prev. 118bln) across 55 counterparties (prev. 42)
- Fed lowers repo rate to 4.25% (matching lower bound of FFR target, vs 5bps above previously).
- SOFR at 4.62% (prev. 4.65%), volumes at USD 2.341tln (prev. 2.360tln).
- EFFR at 4.58% (prev. 4.58%), volumes at USD 103bln (prev. 99bln).

CRUDE

WTI (G5) SETTLED USD 0.37 HIGHER AT USD 70.02/BBL; BRENT (G5) SETTLED USD 0.20 HIGHER AT USD 73.39/BBL

The crude complex gained on Wednesday and managed to recoup some of its recent losses in tentative pre-Fed trade. In wake of the FOMC, whereby rates were cut by 25bps as expected, the 2025 median dot plot was 3.9% (exp. 3.6%), a hawkish cut from the Fed, resulting in an equity and treasury selloff, albeit crude was muted towards the announcement. Prior to this, WTI and Brent were firmer through the duration of the US session, albeit off highs heading into the Fed, as they garnered impetus from the larger-than-expected crude draw in the private inventory data on Tuesday night. In the EIA figures, crude saw a slightly shallower draw than anticipated, at odds with the aforementioned API figures, while Gasoline saw a larger build and distillates a surprise chunky draw. Overall, crude production was down 27k to 13.604mln. Out of the Middle East, Al Arabiya sources noted that there has been a major breakthrough in some controversial issues regarding the Gaza agreement, but did follow an FT report that Israel's Finance Minister said the proposal of granting concession to Hamas in a ceasefire deal was "not good" for their interests or the remaining hostages. After settlement, crude futures sold-off as broader risk-off sentiment weighed.

EQUITIES

CLOSES: SPX -2.95% at 5,872, NDX -3.60% at 21,209, DJIA -2.58% at 42,327, RUT -4.39% at 2,232

SECTORS: Consumer Discretionary -4.74%, Real Estate -3.97%, Communication Services -3.16%, Financials -3.03%, Technology -2.99%, Materials -2.89%, Industrials -2.82%, Energy -2.61%, Utilities -2.39%, Consumer Staples -1.44%, Health -1.38%.

EUROPEAN CLOSES: DAX: +0.07% at 20,261, FTSE 100: +0.05% at 8,199, CAC 40: +0.26% at 7,385, Euro Stoxx 50: +0.31% at 4,958, AEX: +0.34% at 893, IBEX 35: +0.26% at 11,618, FTSE MIB: +0.25% at 34,401, SMI: -0.86% at 11,640, PSI: -0.28% at 6,295.

EARNINGS

- **General Mills (GIS):** Trimmed outlook for 2025, expecting adj. EPS to fall between 3-1% (prev. up 1% to down 1%).
- **Jabil (JBL):** Adj. EPS and revenue beat.

STOCK SPECIFICS

- **NVIDIA (NVDA): Microsoft (MSFT)** bought twice as many of Nvidia's flagship chips as any of its largest rivals in the US and China this year, FT reports. Separately, GB200 server mass production & peak shipments face delays to Q2/Q3-2025, via TrendForce.
- **Mastercard (MA):** Announced USD 12bln buyback and raised the quarterly dividend to USD 0.76/shr (prev. 0.66).
- **F5 (FFIV):** Announced a strategic partnership with MinIO, a provider of Kubernetes-native object storage.
- **Honda (HMC), Nissan Motor (NSANY):** Cos. have begun discussions about a possible merger, which would involve establishing a holding company to integrate both as subsidiaries, with the potential inclusion of Mitsubishi Motors, of which Nissan is the largest shareholder in, DigiTimes Asia reports.
- **Disney (DIS):** Named top pick at Morgan Stanley.
- **Boeing (BA):** Resumed production of 767 and 777/777X airplanes after being halted due to strikes.
- **Tesla (TSLA):** China factory head, Song Gang, is reportedly poised to depart this week, according to Bloomberg.
- **Merck (MRK):** Signed a USD 2bln deal to develop, manufacture, and commercialise China-based Hansoh Pharma's obesity drug and

will pay USD 112mln for the rights.

- **Fluor Corp (FLR):** Downgraded at Baird.
- **Rivian Automotive (RIVN):** Downgraded at Baird.
- **Dow (DOW):** Upgraded at Evercore ISI.
- **Sezzle (SEZL):** Hindenburg Research short Sezzle.
- **Apple (AAPL):** Ended effort to build iPhone hardware subscription service, via Bloomberg. Also shut down its pay-later offering earlier this year.
- **CVS Health (CVS):** DOJ sues CVS (CVS) for knowingly dispensing controlled substances, via Bloomberg.

US FX WRAP

The dollar surged against major peers as the Fed delivered a hawkish cut, that is, delivering a 25bps cut as expected, but raising FFR projections above expectations, particularly in 2025. The decision was an 11-1 split, with Hammack voting to leave rates unchanged. Within the statement, the guidance was updated, noting that in considering the "extent and timing" of additional rate adjustments (prev. In considering additional adjustments), signaling a slowing of easing ahead. Fed Chair Powell echoed this sentiment in the press conference, noting they are at a new phase where they can slow the pace of rate cuts. A risk-off sentiment was seen across the US equity space, while downside was seen in Gold and Treasuries due to the hawkish elements. The existing moves extended, with dollar strength persisting after Powell said today's decision was a "closer call", but the "right call", with risks two-sided. Concerning the effects of the upcoming Trump administration, Powell spoke somewhat ambiguously on the matter, noting some people did take a very preliminary step and incorporated conditional effects of coming policies in their projections. Looking ahead, the Final (Q3) GDP and GDP Deflator are expected to be unrevised, while GDP sales are seen revised upwards to 3.1% (prev. 3.0%). Philly Fed and weekly initial claims are also due. November PCE is due on Friday.

In G10, dollar strength post-FOMC, left all components well in the red. Amongst the worst performers, were the Antipodes which continued to hit fresh YTD lows, as sparked risk-off sentiment from the Fed's hawkish cut enlarged existing weakness in the Aussie and Kiwi. Separately, EUR/USD dumped below 1.05 on dollar strength, with little offered from ECB's Lane and Wunsch, while EZ HICP Final Y/Y was revised down unexpectedly to 2.2%; EUR/GBP heads into APAC modestly lower.

The Pound was flat ahead of the Fed's decision following the headline CPI and Services CPI Y/Y coming in hotter than the MPC's projections. Additionally, 10-year Gilt yields approached post-budget highs. Higher yields loom into Thursday, with attention turning on the BoE, which is likely to hold the Base Rate at 4.75% via an 8-1 vote split, due to stubborn services inflation, elevated wage growth, and a potential boost to growth from recent fiscal measures. For a Newsquawk BoE preview, please click here.

The Yen was the relative G10 outperformer, though still weakened notably with USD/JPY climbing above 154 post-Fed as rising US yields were behind the downside. Yen will be closely watched ahead of the BoJ overnight. Expectations for the outcome of the December meeting have been volatile recently, with recent source reports increasingly leaning towards the BoJ holding rates at 0.25%. A survey of over 150 financial firms, conducted by Ueda Yagi Tanshi (in a Dec 12-16th survey period) saw 91% of respondents expect no move on rates on Thursday. The Fed's recent announcement and updated SEPs are likely to garner consideration from the BoJ, though given money markets still see an 83% chance of a hold. For a BoJ Newsquawk preview, please click here.

The SEK and NOK were both softer against the EUR and USD, particularly the latter given the increasing rate differential post 2024. Meanwhile, the Viking cross was modestly lower as SEK strength prevailed ahead of a busy day for the Scandis. Starting with the Riksbank, the policy rate is expected to be cut by 25bps to 2.50%, a decision which would be in line with the November meeting guidance, where a 50bps cut was seen. For a Riksbank Newsquawk preview please click here. Regarding Norges Bank, the key rate is expected to be held at 4.50%, said all analysts surveyed by Reuters. Recapping the last meeting, the Central Bank remarked on the NOK, saying "krone has been little weaker than assumed" - a factor which has continued to play against any dovishness at recent meetings. For a full Norges Bank Newsquawk preview please click here.

EMFX: BRL continued its descent to multi-year lows against the buck. Brazil's Finance Minister Haddad's remarks tried, but failed to instil some calm, noting he believes the FX rate float will stabilise and will keep monitoring the market. Separately, Brazil's Congress approved the budget guidelines law for 2025. Note, there were no spot USD auctions from the BCB today. Meanwhile, BoK's Governor said inflation is expected to be stable in the next two years and there is room for the USD/KRW exchange rate to fall after the political process is stabilised. The governor added they will intervene in the FX market again if excessive volatility is seen; at pixel time USD/KRW sits at yearly highs. Looking ahead, the MXN extended into a third straight day of losses ahead of Banxico's rate decision on Thursday, where the central bank is expected to cut by 25bps to 10.00%.