

Stocks meander and bonds steepen ahead of PCE

- **SNAPSHOT:** Equities down, Treasuries steepen, Crude down, Dollar up
- **REAR VIEW:** US Final (Q3) GDP, GDP Sales and Core PCE revised up; US initial claims fall more than expected, continued claims unexpectedly drop; US existing home sales top expectations; US President-elect Trump says he would support abolishing the debt ceiling entirely; BoJ holds as expected, wants to see more data to support a hike; BoE holds rates as expected, with more dovish dissenters than expected; Riksbank cuts by 25bps as expected; Norges bank holds as forecasted, reiterating policy rate will most likely be reduced in March 25; G7 looking at measures to firm up the price cap on Russian oil; EIA natgas draws in line with forecasts; Very weak US 5yr TIPS auction; Banxico cut by 25bps as anticipated; CNB holds.
- **COMING UP:** **Data:** Chinese LPR, UK Retail Sales, US PCE, Canadian Retail Sales. **Events:** Quad Witching. **Speakers:** Fed's Daly, Hammack. **Supply:** Australia

MARKET WRAP

It was very much post-FOMC trade on Wednesday with stocks chopping throughout the session with SPX and Dow flat after the mega losses seen on Wednesday while Russell and Nasdaq were sold. Sectors were mixed with Utilities, Financials and Tech outperforming, while Real Estate, Materials and Energy lagged. The Treasury curve steepened with 2yr yields falling after the rally post-Fed but the rest of the curve saw yields extend lower, particularly the long end yield which was supported by woes in Washington over government funding while President-elect Trump called for the abolishment of the debt ceiling, although in late trade Republicans have come to an agreement with a vote due tonight. In FX, the Aussie and Loonie outperformed while the Yen and Pound lagged in wake of their respective central bank rate decisions; Dollar was flat with DXY holding above 108. The Yen was sold after the BoJ kept rates on hold while further weakness was seen after Ueda said the BoJ will need considerable time to see the full picture on wage hikes and Trump policies, noting the larger picture will become clearer in March/April, essentially pushing down the timeline of the BoJ rate hike (higher UST yields also weighed on the Yen). For the BoE, they left rates on hold as expected but with a dovish dissent from 3 members voting to cut rates (exp. 1). Crude prices were choppy, but ultimately settled red. Peaks were seen after US Secretary of State Blinken said the US is looking at getting people on the ground in Syria, before completely reversing and more on Bloomberg reports that the G7 are looking to firm up the Russian price cap. Attention turns to US PCE on Friday (quad witching day) as well as any updates on the government funding bill in the last full trading week of the year.

US

GOVERNMENT FUNDING: Government Funding: US President-elect Trump and the DOGE committee (Musk and Ramaswamy) pushed House Republicans to vote against the Continuing Resolution (CR) bill due to excessive spending. The Republicans rejected a three-month stop-gap funding extension with negotiations for a new bill ongoing. The Hill reported Republicans are eyeing a funding plan B that excludes a debt ceiling increase and are instead working on a commitment to raise the borrowing limit twice next year under reconciliation. President-Elect Trump, in an interview with NBC, said that getting rid of the debt ceiling entirely would be the smartest thing to do, and he would support that. The Trump intervention has raised the risk of a government shutdown, which is set to be enacted at the end of the week unless a new bill is agreed upon, and voted on in that time. Late in the afternoon, Trump said speaker Mike Johnson and the house have come to a very good deal for the American people. Nonetheless, Republicans suggest there will be a vote on a new stopgap funding bill at 18:00EST/23:00GMT, with reports suggesting the bill extends funding for three months and will suspend the debt limit until January 2027.

JOBLESS CLAIMS: Initial jobless claims (w/e 14th Dec) fell to 220k (prev. 242k) beneath the expected 230k, with the 4wk average ticking higher to 225k from 224.25. Continued claims (w/e 7th Dec) fell to 1.874mln (exp. 1.890mln) from the revised lower 1.879mln and came in marginally underneath the bottom end of the consensus range. The report states the advance number of actual initial claims under state programs, unadjusted, totalled 251,527, a decrease of 57,932 (18.7%) W/W, while the seasonal factors had expected a decrease of 32,854 (10.6%). It is worth being cognizant that at this time of the year you can see notable seasonal volatilities which can distort the headline prints.

EXISTING HOME SALES: Existing home sales rose 4.8% in November to 4.15mln from 3.96mln, and exceeded the St. consensus of 4.07mln. Within the release, supply fell to 3.8 months' worth (prev. 4.2), with the national median home price for existing homes USD 406,100, rising 4.7% Y/Y. On the headline figure, Pantheon Macroeconomics notes that the further increase was roughly as expected given October's uptick in pending home sales, which tend to lead existing sales by roughly one month. Existing home sales have risen by ~8% since September lows, and Pantheon thinks existing sales look set to rise by a bit more in December, before slipping back again in Q1. Looking ahead, the consultancy notes a serious recovery in sales is still a long way off, and the ongoing softening in the labour market, which PM expects to continue, will continue to curb demand. However, PM noted that more importantly, market rates on new mortgages, at just under 7%, remain far higher than the average rate on existing mortgages, closer to 4%.

PHILLY FED: The headline tumbled in December, falling to -16.4 from -5.5, well beneath the expected +3.0 and outside the bottom end of the forecast range, -5.1. Looking at the internals, employment and capex dipped to 6.6 (prev. 8.6) and 18.8 (prev. 24.9), respectively, while new orders and shipment fell into negative territory as they printed -4.3 (prev. 8.9) and -1.9 (prev. +4.1), respectively. The inflationary gauge of prices paid rose to 31.2 from 26.6, but prices received declined. On balance, the firms indicated an increase in employment and continued to report increases in prices. Looking ahead, the 6m index fell to 30.7 from 56.6, although the survey's broad indicators for future activity continue to suggest widespread expectations for growth over the next six months. For the record, survey responses were collected from December 9-16th.

FINAL Q3 GDP: Headline final GDP was revised up in Q3 to show growth of 3.1%, above the expected 2.8% and towards the top end of the analyst forecast range of 2.8-3.2%. Within the report, the GDP sales was revised up to 3.3% from 3.0%, above the 3.1% consensus. Consumer Spending was also revised up, to 3.7% from 3.5%. The GDP deflator was maintained at 1.9%, in line with forecasts but core PCE, the Fed's Preferred gauge of inflation, was revised up to 2.2% from 2.1%, but the headline PCE was maintained at 1.5%. The super Core PCE metrics, ex-food, energy and housing was revised up to 1.7% from 1.6%, while PCE services ex-energy and housing was revised up to 2.7% from 2.6%. Overall, the report shows that Q3 was slightly stronger than initially expected while the pricing data saw slight revisions higher, but likely not enough to alter Fed thinking as of yet. However, Fed chair Powell was putting more onus on the importance of inflation progress returning before the Fed resumes with rate cuts after announcing a slowdown in the pace of easing ahead. Meanwhile, looking ahead to Q4, the Atlanta Fed GDP Now tracker has Q4 GDP tracking at 3.2%, showing the strong growth in Q3 continued into Q4.

GLOBAL

BOE REVIEW: As expected, the MPC opted to hold the Base Rate at 4.75%. The main surprise for the announcement came via the vote split with three dovish dissenters (Dhingra, Ramsden and Taylor) vs. the one expected by analyst consensus. The dissenters based their decision on "The most recent data developments pointed to sluggish demand and a weakening labour market, now and in the year ahead, both of which would see further downward pressure on demand, wages, and prices". However, this view lost out to the majority of six who wished to keep policy unchanged on the basis that "...CPI inflation, wage growth and some indicators of inflation expectations had risen, adding to the risk of inflation persistence". [To see the full Newsquawk BoE review, please click here.](#)

FIXED INCOME

T-NOTE FUTURES (H5) SETTLED 13 TICKS LOWER AT 108-19+

T-notes steepen in wake of Fed and as Trump calls for the abolishment of the debt limit. At settlement, 2s -3.4bps at 4.321%, 3s +0.1bps at 4.346%, 5s +4.9bps at 4.432%, 7s +6.7bps at 4.515%, 10s +7.6bps at 4.574%, 20s +7.4bps at 4.837%, 30s +8.4bps at 4.744%

INFLATION BREAKEVENS: 5yr BEI -3.5bps at 2.341%, 10yr BEI -1.5bps at 2.302%, 30yr BEI +0.1bps at 2.287%.

THE DAY: T-notes sold off on Thursday with the downside extending after the FOMC on Wednesday although the front-end of the curve (that is more responsive to Fed policy) pared some of the weakness with 2yr yields down 3.4bps at c. 4.32%. The long end of the curve however underperformed with the 30yr lower by c. 8bps at 4.74%, extending on prior day lows. Note, there was a sharp move lower heading into settlement in T-note futures with little headline drivers but trade is expected to become choppy over the Christmas break with this week being the last full trading week of the year. The curve steepened as the front end pared some of the post-FOMC extremes but the long end saw further pressure. Weakness in the long end was observed amid debt limit concerns, with US president-elect Trump giving support for abolishing the debt ceiling entirely, paving the way for more borrowing in the future. Meanwhile, there was also data to digest which saw jobless claims fall alongside upward revisions to Q3 GDP, including quarterly Core PCE prices, although Philly Fed disappointed. Existing home sales meanwhile surprised to the upside. The steepening of the curve saw 2s10s at 25.1bps, rising above the September peak of 23.6bps and back to levels not seen since June 2022. Note, the 5yr TIPS auction was met with very poor demand with a chunky tail, with T-note futures seeing a slight knock. Attention turns to US PCE data on Friday, Powell has suggested Core rose 2.8% Y/Y with the headline at 2.5%.

NEXT WEEK SUPPLY:

- **US Treasury to sell USD 69bln in 2yr notes on December 23rd, USD 70bln 5yr notes on December 24th and USD 44bln in 7yr notes on December 26th; all to settle December 31st.**
- To sell USD 28bln in 2yr FRN on December 24th, to settle December 27th.
- To sell USD 81bln in 13wk bills, USD 48bln in 52wk bills and USD 72bln in 26wk bills on December 23rd; to settle December 26th.

STIRS/OPERATIONS:

- **Market Implied Fed Rate Cut Pricing: January 2bps (prev. 2bps), March 13bps (prev. 12bps), May 17bps (prev. 15bps), December 2025 36bps (prev. 34bps).**
- Treasury Buyback (1mth-2yr nominal coupons, cash management): Accepts USD 3.729bln of USD 15.339bln offers; maximum purchase amount was USD 7.5bln, Accepts 14 of 47 eligible issues.
- NY Fed RRP op demand at USD 112bln (prev. 132bln) across 39 counterparties (prev. 55)
- SOFR at 4.57% (prev. 4.62%), volumes at USD 2.291tln (prev. 2.341tln).
- EFFR at 4.58% (prev. 4.58%), volumes at USD 112bln (prev. 103bln).
- US sold USD 75bln at a high rate of 4.23%, B/C 2.98x; sold USD 4-week bills at high rate 4.230%, B/C 2.93x

CRUDE

WTI (G5) SETTLED USD 0.64 LOWER AT 69.38/BBL; BRENT (G5) SETTLED USD 0.69 LOWER AT USD 72.88/BBL

The crude complex was choppy on Thursday but settled red on reports the G7 looks to firm up the price cap on Russian oil. Initially, WTI and Brent pared some of the notable weakness seen on Wednesday as they printed highs of USD 70.58/bbl and 73.86/bbl, respectively, as they saw support from US Secretary of State Blinken noting the US is "looking at getting people on the ground" in Syria. However, benchmarks soon sold off from these levels after a Bloomberg report noted that G7 is looking at measures to firm up the price cap on Russian oil and lowering the price threshold from the current USD 60/bbl to around USD 40/bbl. As such, WTI and Brent saw troughs of 69.19 and 72.64/bbl. Elsewhere, specifics have been light although there has been a couple of geopolitical updates, including the annual address from Russian President Putin, but it garnered little reaction. Looking ahead, volume is likely to be lower from here on out as participants start downing tools for the Christmas break and close out positions for the year. However, and as always, can see increased volatility with the lower volumes and fewer participants around, although there is November Core PCE on Friday, but Powell intimated it will come in around 2.8% (exp. 2.9%).

EQUITIES

CLOSES: SPX -0.09% at 5,867, NDX -0.47% at 21,111, DJIA +0.04% at 42,342, RUT -0.45% at 2,221

SECTORS: Real Estate -1.69%, Materials -1.07%, Energy -0.99%, Consumer Staples -0.74%, Health -0.73%, Communication Services -0.11%, Industrials -0.1%, Consumer Discretionary +0.08%, Technology +0.19%, Financials +0.4%, Utilities +0.48%.

EUROPEAN CLOSES: DAX: -1.20% at 19,999, FTSE 100: -1.14% at 8,105, CAC 40: -1.22% at 7,294, Euro Stoxx 50: -1.58% at 4,879, AEX: -1.55% at 879, IBEX 35: -1.53% at 11,440, FTSE MIB: -1.78% at 33,787, SMI: -2.11% at 11,395, PSI: -0.05% at 6,291.

EARNINGS

- **Micron Technology (MU):** Revenue and profit guidance disappointed. Following earnings, BofA downgraded the stock to 'Neutral' from 'Buy', reducing its estimates with gross margin expected to stay weak in Q2 and Q3.
- **Lennar Corp (LEN):** EPS, revenue, new orders and gross margins on home sales all missed with weak Q1 new orders outlook
- **Accenture PLC (ACN):** Beat on the top and bottom lines.
- **Carmax (KMX):** EPS and revenue topped forecasts.
- **Conagra Brands (CAG):** Profit and revenue beat while the FY adj. EPS outlook missed expectations.
- **Paychex (PAYX):** Adj. EPS and revenue beat.

- **Lam Weston Holdings (LW):** Adj. EPS and revenue missed, with the FY25 views cut well below analysts' forecasts. Named Co. exec Michael Smith President and CEO after Jana asked Co. to replace board members and top execs.

STOCK SPECIFICS

- **Dollar Tree (DLTR):** Appointed Michael Creedon as permanent CEO.
- **Palantir (PLTR):** Announced an expanded partnership with the US Army, a contract worth up to ~ USD 619mln.
- **KBR (KBR):** Activist Irenic Capital reportedly builds a stake in KBR, according to WSJ.
- **Vertex Pharmaceuticals (VRTX):** Phase 2 study of suzetrigine, met its primary endpoint but did not show a difference in reducing pain scores versus a placebo.
- **Capital One (COF):** Received approval of Delaware State Bank commissioner for the acquisition of Discover Financial Services (DFS); deal expected to be close early 2025.
- **Zoom Communications (ZM):** Upgraded to 'Buy' from 'Neutral' at Jefferies with a PT of USD 100 (prev. 85).
- **Boeing (BA)** - Received up to 200 737-10 aircraft order from Pegasus airlines.
- **Lumen Technologies (LUMN)** kicks off sale process for consumer fiber business, via Reuters sources.
- **Intel (INTC)** has shortlisted a number of buyout firms for the next round of bidding for its Altera unit, via Bloomberg.

US FX WRAP

The Dollar index was relatively flat as volatility reduced post-FOMC. Dollar price action was mixed, with gains seen versus the GBP, and JPY, due to BoJ and BoE specifics. Meanwhile, Aussie and CAD caught a relief rally as the currencies looked to exit oversold territory following the extreme moves on Wednesday. US data did little to drive dollar movements on the day. Nonetheless, Final GDP (Q3), GDP sales, and Core PCE Prices were upwardly revised above expectations, while the GDP deflator was unchanged. Weekly claims fell more than expected, with continued claims surprisingly dropping. Lastly, The Philly Fed Mfg dumped to its lowest level since April, way below the forecast range as demand softened. Attention now turns back to Fed speak, with the blackout ending at midnight. Daly is set to appear on Bloomberg, while Hammack will give her reasoning behind her hawkish dissent. Concerning data, Core PCE is due, expected at 2.9% Y/Y and 0.2% M/M. Additionally, Final UoM data is due for December, where the headline is expected unrevised at 74.0.+

The GBP and Yen were hit on Thursday as central bank drivers weighed. Regarding the Yen, losses were augmented post-FOMC by the BoJ's decision to hold rates as expected at 0.25% via an 8-1 vote, where Tamura dissented, calling for a 25bps hike to 0.50%. Choppy trade was seen once Governor Ueda's presser got underway, with strength arising in the Yen after Ueda said they must pay due attention to the financial, and FX market and impact on Japan's economy and prices. That said, losses resumed with USD/JPY edging higher to eventual peaks of 157.80 after Ueda said "Will need considerable time to see the full picture of wage hikes and Trump policies", where the "Large picture on wage trends will become clearer in March and April". Ahead, nationwide Japanese CPI is due overnight.

The Pound started on the front foot pre-BoE announcement, with Cable hitting hits of 1.2666. Upon the BoE's move to hold rates at 4.75%, Cable saw immediate downside, due to three voters dissenting for a 25bps cut, larger than the one dissenter that analysts were forecasting. Dovish dissenters were Dhingra, Ramsden, and Taylor who argued that the "The most recent data developments pointed to sluggish demand and a weakening labour market, now and in the year ahead, both of which would see further downward pressure on demand, wages, and prices". On the contrary, the majority maintained the view of a gradual approach to easing monetary policy, with policy remaining restrictive for sufficiently long. BoE's Bailey noted market pricing for February is in a reasonable place (money markets on Refinitiv put ~11bps of easing a the February meeting). Looking ahead to Friday, UK Retail Sales are due, with expectations for a rebound in November. For a full BoE Newsquawk review, please click here.

Antipodes, CAD, CHF, and EUR all gained some relief on Thursday, with gains varying across pairs. EUR/USD bounced after Wednesday's dump, to highs of 1.0422, before paring most of the move, being back below 1.04 as newsflow was light. Next for the Euro, is EZ Consumer Confidence Flash, where forecasts point to a further drop in December. The Kiwi underperformed its neighbour, the Aussie, modestly gaining when compared as overnight GDP (Q3) data fell short of expectations.

Scandi FX diverged as their respective central banks appeared. SEK again prevailed, with the Viking cross at fresh monthly lows. Behind the move, the Riksbank cut rates by 25bps as expected to 2.5%, but, the likelihood of a 50bps rate cut in the future was trimmed, with the central bank phrasing a "more tentative approach" to policy easing going forward and the elevated CPIF forecast for 2025. The hawkish leaning remarks leant the SEK a hand against the EUR, with EUR/SEK slipping to monthly troughs. Meanwhile, with Norges bank held rates at 4.5% as expected, guiding the first cut to "most likely" occurring in March 2025, with the base case among desks noting such a guide is somewhat dovish on the margin. That said, the MPR saw the repo forecast for Q4-2025 lifted to 3.80% from 3.73%.

EMFX: Banxico delivered a 25bps rate cut as expected, with the vote unanimous. MXN strength arrived on the announcement, pushing higher into overnight trade with disinflation projections turning more hawkish, as headline inflation is expected to converge to the target in Q3 2026 (prev. Q4 25). Moreover, the statement saw a dovish tweak, where "In view of the progress on disinflation, larger downward adjustments could be considered in some meetings, albeit maintaining a restrictive stance" (prev. expects that the inflationary environment will allow further reference rate adjustments). Elsewhere, in LatAm, the BCB sold an additional USD 8bln in spot dollar auctions, giving the BRL a helping hand. Later, BCB's Neto responded, saying they made another intervention today because the first auction had much more demand than expected. In CEE, PLN was weaker across the board despite hotter-than-expected Corp Sector Wages and PPI, with employment falling less than expected. Note, Industrial Output missed. Separately, the CNB held at 4.0%, with two members voting for a 25bps reduction. Going forward, CNB's Governor Michl says they are to discuss a cut or a hold at the next board meeting but is leaving all options open.

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