US Market Wrap - 20th December 2024

Bonds and stocks gain as Dollar gives back some recent strength in wake of PCE

- **SNAPSHOT**: Equities up, Treasuries up, Crude flat, Dollar down.
- **REAR VIEW**: Dovish core PCE; Dissenter Hammack says more work to do on inflation; Hungary's MOL confirms disruption to Druzhba oil deliveries; Williams says the Fed is still restrictive; Goolsbee tows a dovish tone; Daly says projections are always about the data; UoM sentiment unrevised, inflation expectations ease; Disappointing Novo Nordisk obesity drug trial data; Jawboning out of Japan; Downbeat NKE commentary.
- **CENTRAL BANK WEEKLY**: Reviewing FOMC, BoJ, BoE, Norges, Riksbank, PBoC LPR, Banxico. To download the report, please click here.

MARKET WRAP

US indices (SPX, NDX, RUT, SPX) closed in the green on Friday but still ended the week notably in the red, as they were especially weighed on in wake of the hawkish FOMC on Wednesday. To conclude the week there was broad risk-on sentiment through the US afternoon, albeit closing off peaks, highlighted by US equity and Treasury strength, and Dollar weakness, although the latter still significantly firmer on the week on account of the aforementioned hawkish Fed. As such, all G10 FX peers firmed against the Buck with the Yen seeing the greatest gains. The distinct highlight on Friday was the cooler-than-expected US core PCE data set, which sparked a cross asset dovish reaction. Recapping, every metric came in below the consensus, highlighted by the M/M printing 0.1% (exp. 0.2%) and Y/Y 2.8% (exp. 2.9%). Elsewhere, Fed's Williams, Goolsbee, Daly, and dissenter Hammack all spoke but saw little reaction to any of them. Nonetheless, as participants begin to wind down for the year for the holiday season we are likely to see thinner volumes, which in turn could see greater volatility. The crude complex ended the day relatively flat, in a marked turnaround from the pressure seen in the European session and the start of the US one. Sectors all closed in the green with Real Estate, Financials, and Utilities sitting atop of the pile, with Consumer Discretionary and Staples at the bottom, albeit still positive.

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WILLIAMS (voter) largely towed a neutral tone during a CNBC interview, noting there is encouraging news on the economy but the journey has been bumpy. The NY Fed President stressed the economy is in a good place, policy is well positioned and "somewhat restrictive"; he acknowledged progress on inflation but recent data has been a tough higher. Williams noted the Fed is currently above the neutral rate and acknowledged the neutral rate may have lifted a bit due to higher productivity. He also spoke of his neutral rate model which has real rates at 0.75%, vs. the Fed's 1.00% real rate projection (long run FFR median 3.0% - Long run PCE projection of 2.0%). He was also quizzed about the move higher in long-end yields and mortgage rates despite Fed policy cuts, noting that it is not a concern and being driven by a strong economy. Williams also noted that his projections incorporate how some fiscal policy will affect the economy, implying he was one of those on the FOMC who incorporated the potential Trump impact into projections.

DALY (2024 voter) spoke on BBG, noting the December meeting as a close call, while looking ahead she said she is very comfortable with the median for two rate cuts in 2025. When asked about criteria to cut rates, the San Fran President said she will continue to consider information and noted every meeting is live from the standpoint of what is right for the economy, but she expects fewer rate cuts in 2025 than initially thought, and with inflation rising, it was one of the reason rate cut projections were pulled back. Daly did note there is a lot of uncertainty about the neutral rate of interest. When asked about her projections being based on incoming administration or on the data, she said it is always about the data (Powell in the Q&A said some people did take a very preliminary step and incorporated conditional effects of coming policies in their projections). Daly reiterated data dependence noting the Fed may respond with fewer or more than two cuts in 2025, but it depends on the data. Regarding inflation, she said it has been coming in a little slower than what they wanted and it is a bumpy bath, but regarding meeting decisions they cannot focus on just one or two months of inflation data.

HAMMACK (2024 voter), the dissenter from the 25bps rate cut on Wednesday, said she dissented because data supported holding Fed policy steady. The Cleveland Fed President said the rate cut was a close call, but she favoured holding steady. On inflation, she said there is more work to do, given inflation is elevated and progress to 2% is uneven. Hammack added a strong jobs market allows the Fed to focus on lowering inflation, and the balance of risks are skewed towards higher inflation risks.

GOOLSBEE (2025 voter) spoke after the PCE data, noting it is nice to get an inflation number that is better than expected, and he acknowledged the Fed are still on path to get to 2% inflation and that today's data shows the recent firming was a "bump". On policy, Goolsbee said that rates will go down next year by a "judicious" amount, and they can go down a fair amount over the next 12-18 months. He acknowledged that policy is still meaningfully restrictive, but significantly less restrictive than what they were. He also stated that policy rate is still far from neutral. He stressed that employment is stable, and to keep it stable, rates need to come down to something like neutral. He noted the Fed still needs to be making progress on inflation. The Chicago Fed President spoke on the uncertainty in the economy and noted that is why he feels the rate path next year is a bit more shallow.

PCE: Overall, PCE prices were softer than expected. The Fed's preferred gauge of inflation, Core PCE, rose by 0.115% M/M, cooling from the prior 0.273%, and beneath the 0.2% consensus. The Y/Y rose by 2.8%, matching the prior month pace and beneath the 2.9% forecast, but it was also in line with Fed Chair Powell's projection. The headline numbers rose by 0.128%, cooling from the prior 0.238% and beneath the expected 0.2%. The Y/Y rose by 2.4%, beneath the 2.5% consensus and Fed Chair Powell projection but above the prior 2.3%. The super core measures, PCE Prices, ex-food, energy and housing rose by 0.1%, cooling from the prior 0.2%, which was revised down from 0.3%. The PCE Services price ex-energy and housing rose 0.2%, down from the prior revised lower 0.3%. The inflation prints are a welcome sign after some bumpy prints in recent months although the Fed likes to look at the totality of the data when making their decisions, so one report should not sway their thought process much. Elsewhere in the report, personal income rose by 0.3%, beneath the 0.4% forecast and beneath the prior 0.7%, while spending (adjusted) rose by 0.4%, short of the 0.5% consensus and above the prior 0.3%. Real spending rose by 0.3%, surpassing the prior 0.1%. Looking ahead there is tremendous uncertainty about the impacts of US President-elect Trump's policies and its impacts on the US economy, particularly around inflation. The Fed has guided us to two 25bps rate cuts in 2025, but the Fed will be taking a data dependent approach to make its decisions, so this is also only a rough estimate and the Fed advises us to take this with a pinch of salt. Nonetheless, growth has been strong and chances of a recession are low while inflation has been bumpy, and downside risks to the labour market have diminished, which gives the Fed the ability to be patient as it assesses its next move with inflation still above target. I may add a bit mre in when ING send their note

MICHIGAN: University of Michigan final data for December saw the headline left unrevised at 74.0, as expected. Conditions were revised down to 75.1 from 77.7, while expectations were lifted to 73.3 from 71.6. Both time horizons for inflation expectations dipped- shorter-term 1yr printed 2.8% (prev. 2.9%) and the longer-term 5yr declined to 3.0% from 3.1%. The report notes that buying conditions exhibited a particularly strong 32% improvement, primarily due to a surge in consumers expecting future price increases for large purchases. In addition, the release adds that broadly speaking, consumers believe that the economy has improved considerably as inflation has slowed, but they do not feel that they are thriving; sentiment is currently about midway between the all-time low reached in June 2022 and pre-pandemic readings.

FIXED INCOME

T-NOTE FUTURES (H5) SETTLED 11+ TICKS HIGHER AT 108-31

T-Notes catch a bid after soft US PCE.

THE DAY: T-Notes saw slight gains in the European morning as attention turned to the PCE data in the US. The data ultimately was cooler than expected which set the tone for the rest of the session with 10yr T-Note futures spiking higher to eventually hit a high of 109-08, supported by easing inflation expectations from UoM and Fed speak. The outperformance of the curve was led by the 7yr while the 2yr lagged with 7yr yields -7bps vs 2s -1bp, with 30yr -4bps. Elsewhere, the University of Michigan data saw headline sentiment unrevised but expectations rose and conditions fell, while inflation expectations eased for the 1 and 5yr. Several Fed speakers were on the wires with Hammack explaining her dissenting vote, primarily citing inflationary concerns. Williams, meanwhile, towed a neutral line, as did Daly. Williams didn't seem too concerned about the recent backup in long-end yields despite Fed easing, noting how it has been driven by the strong economy. He also stressed that the Fed looks at financial conditions as a whole, not just yields. Williams also cited his own neutral rate model suggesting a real neutral rate is about 0.75%, which is more dovish vs the Fed's 1.0% median projection. Meanwhile, Goolsbee was dovish, noting inflation is still on the path back to 2% and they need rates to come down to something like neutral. He believes rates will fall a judicious amount next year, but said that uncertainty is why he is a little shallower on the rate path for 2025. T-Notes had pared from the earlier peaks heading into settlement with liquidity set to dry up next week until the New Year due to the Christmas Holidays.

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 3bps (prev. 2bps), March 15bps (prev. 13bps), May 19bps (prev. 17bps), December 2025 39bps (prev. 36bps).
- NY Fed RRP op demand at USD 98bln (prev. 112bln) across 39 counterparties (prev. 39).
- SOFR at 4.30% (prev. 4.57%), volumes at USD 2.39bln (prev. 2.291tln).
- EFFR at 4.33% (prev. 4.58%), volumes at USD 104bln (prev. 112bln).

CRUDE

WTI (G5) SETTLED USD 0.08 HIGHER AT 69.46/BBL; BRENT (G5) SETTLED USD 0.06 HIGHER AT 72.94/BBL

The crude complex ended the day relatively flat, in a marked turnaround from the pressure seen in the European session and the start of the US one. Recapping, price action in the first half of the EZ morning was more notably bearish as the complex continued to be waned on in wake of Thursday's reports that the G7 could adjust the Russian energy price cap with pressure also coming from the broad-based downbeat risk tone. As such, WTI and Brent printed troughs of USD 68.42/bbl and USD 72.00/bbl, respectively. Thereafter, crude lifted off lows on a Reuters source report that oil supplies via the Russian Druzhba pipeline have been halted due to technical issues since December 19th. However, benchmarks initially didn't manage to recover into the green and reversed thereafter after Hungary said shipments should resolve in the next few days. Nonetheless, as the session progressed and as risk sentiment significantly picked up a notable bid was seen in the energy space to see WTI and Brent hit highs of USD 69.85/bbl and 73.29/bbl, respectively. Note, with key risk events largely behind us until the NY, volume is expected to be a lot lower on account of the Christmas holidays. Lastly, natgas saw strength to a near 2yr high on cooler forecasts, rising LNG feedgas, and cold mid-January outlook. For the record, in the weekly Baker Hughes rig count data, oil rose 1 to 483, natgas fell 1 to 102, leaving the total unchanged at 589.

EQUITIES

CLOSES: SPX +1.09% at 5,931, NDX +0.85% at 21,289, DJIA +1.17% at 42,839, RUT +0.86% at 2,241.

SECTORS: Real Estate +1.82%, Utilities +1.53%, Technology +1.53%, Financials +1.39%, Materials +1.25%, Health +1.22%, Industrials +1.12%, Energy +0.88%, Communication Services +0.46%, Consumer Discretionary +0.14%, Consumer Staples +0.12%.

EUROPEAN CLOSES: DAX -0.27% at 19,917, FTSE 100 -0.26% at 8,085, CAC 40 -0.27% at 7,274, Euro Stoxx 50 -0.38% at 4,861, AEX -0.39% at 875, IBEX 35 +0.24% at 11,467, FTSE MIB -0.06% at 33,766, SMI +0.26% at 11,432.

STOCK SPECIFICS:

- **Novo Nordisk (NVO):** Disappointing late-stage trial results for its experimental weight loss drug, CagriSema. Note, rival obesity drug makerEli Lilly (LLY) has gained following the results.
- **FedEx (FDX):** Intends to separate FedEx freight, creating two industry-leading public companies. In earnings, profit beat and revenue missed alongside cutting FY EPS view.
- **Nike (NKE):** EPS and revenue beat, although both declined Y/Y. CEO said Cos. turnaround plan could take longer than anticipated. Post-earnings it was downgraded at Telsey post earnings.
- **US Steel (X):** Issued weak Q4 guidance; sees a loss in Q4 (exp. profit) with the adj. EBITDA view cut below forecasts.
- **Occidental Petroleum (OXY):** Warren Buffett raised his stake in the Co.; purchased ~USD 409.2mln in shares over the last three days.
- **Starbucks (SBUX):** Baristas in Los Angeles, Chicago and Seattle are set to strike Friday morning, demanding better wages and schedules.
- Activist Pulte sends a letter to the **Virtu Financial (VIRT)** board, and supports Apollo in their potential buyout of Virtu.
- **Nippon Steel (5401 JT)** and **US Steel (X)** allege White House has had impermissible influence over the CFIUS review of the

proposed tie-up, WH denies allegations; Companies vow to challenge the expected block of the deal, via Reuters citing a letter.

US FX WRAP

The Dollar was heavily sold, but still ended the week with notable gains in wake of the hawkish FOMC on Wednesday. The highlight on Friday was the Core PCE release, which was a dovish set of metrics, with every metric coming in below the consensus, highlighted by the M/M printing 0.1% (exp. 0.2%) and Y/Y 2.8% (exp. 2.9%). Elsewhere, we heard from Fed's Williams, Goolsbee, Daly, and dissenter Hammack but saw little reaction to any of them. Nonetheless, as participants begin to wind down for the year for the holiday season we are likely to see thinner volumes, which in turn could see greater volatility.

G10 FX was firmer across the board, as they were supported by a floundering Greenback as opposed to much currency specific newsflow. **JPY** was the outperformer with USD/JPY hitting a low of 155.96 against an earlier high of 157.92. The Yen attempted to undo some of the damage seen over the past few sessions as a hawkish Fed cut and lack of a hike from the BoJ has driven the pair from a 153.32 base on Wednesday to a multi-month high overnight at 157.92. Overnight the Yen did see some respite following the hotter-than-expected Japanese CPI and currency jawboning by Japanese officials, who expressed concerns over recent JPY moves.

GBP, EUR, and CHF were the next best performers but that did come despite the single-currency seeing pressure in the European morning in wake of US President-elect Trump noting "I told the European Union that they must make up their tremendous deficit with the United States by the large scale purchase of our oil and gas. Otherwise, it is TARIFFS all the way!!!". Out of Germany, producer prices for November were hotter-than-expected while German press reported that the country can borrow as much as EUR 12bln more in 2024 under the debt brake. EUR/USD traded between 1.0344-0444, and sits towards the top of the range at the time of writing. The Pound saw no sustained reaction to cooler than expected retail sales. Cable breached 1.2600 to a high of 1.2613, vs. an earlier trough of 1.2476.

NZD, AUD, and CAD attempted to reverse some of its recent weakness, albeit not to the extent of the currencies above. Once again, headline news was pretty sparse but they benefitted from the broader risk on sentiment through the US afternoon and into settlement. AUD/USD and NZD/USD still traded within quite tight parameters, highlighted by the fact they reversed from 0.6216 to 0.6274 and 0.5614 and 0.5672, respectively. For the record, Canadian retail sales underwhelmed but garnered little move in the Loonie with focus on US PCE.

EMFX, ex-TRY, saw gains against the Greenback with the BRL outperforming and continuing to try and reverse from USD/BRL reaching all time highs. For the Real, they announced further spot dollar auctions, while finance minister Haddad, President Lula, and outgoing BCB chief Neto were all on the wires. Lula said he will keep watchful for the need of further fiscal measures and told upcoming BCB chief Galipolo he will never interfere in the central bank. Lastly, the Colombia Central Bank surprisingly cuts rates by 25bps to 9.50% in a "majority" decision, with expectations for the LatAm bank to cut by 50bps to 9.25%.