

Stocks sold and dollar bought on first trading session of 2025

- **SNAPSHOT:** Equities down, Treasuries flat, Crude up, Dollar up
- **REAR VIEW:** US Mfg. PMI revised up; US Construction Spending unchanged in November; Jobless Claims surprisingly fall; Biden discussed plans to strike Iran's nuclear sites; Mixed EU PMIs, Spain/EZ miss, Germany/France in line; UK PMI unexpectedly falls; China Caixin Mfg PMI data disappoints; EIA crude stocks draw less than expected; ECB's Stourmaras sees rates falling to ~2% around Autumn; TSLA Q4 24 delivery numbers disappoint; China's MOFCOM adds US entities on list of export controls, including RTX, LMT and GD.
- **COMING UP: Data:** German Unemployment Rate, US ISM Manufacturing PMI. **Events:** US House Speaker Vote. **Speakers:** Fed's Barkin, ECB's Lane.

MARKET WRAP

Stocks were marginally sold on the first trading session of 2025 with relative outperformance in the Russell, which saw only slight upside. Sectors were predominantly lower with the largest weakness in Consumer Discretionary, which was weighed on by Tesla's (TSLA) downside after it reported disappointing Q4 delivery numbers. Real Estate and Materials also lagged, while Energy, Utilities, and Communication Services outperformed with Energy stocks buoyed by upside in crude and nat gas prices (European nat gas prices supported by expiration of Ukraine gas transit deal). In FX, the antipodes outperformed, particularly the Aussie despite the downbeat risk tone while GBP and EUR saw notable underperformance. T-notes ultimately settled flat in choppy trade with gains seen overnight and in the European morning from weak China Manufacturing PMI data, while the overall EU PMI also saw a slight revision lower. However, the US data was revised up ahead of the ISM Manufacturing PMI report on Friday. Meanwhile, Construction Spending underwhelmed and jobless claims came in lower than forecast but little reaction was seen. However, the Atlanta Fed GDPNow tracker for Q4 was revised down after the construction data. On geopolitics, Axios reported that US President Biden discussed plans to strike Iranian nuclear sites if Tehran accelerated towards building a nuclear bomb. Meanwhile, the Jerusalem Post reported that hostage negotiations are not stuck and there has been progress. Ahead of Trump's inauguration, US/China relations remain in focus with MOFCOM adding 28 US entities on its list of export controls, including defence names (LMT, RTX, and GD). It also proposed export restrictions on some tech used to make battery components and process critical minerals lithium and gallium.

US

S&P GLOBAL PMI: US S&P global manufacturing final PMI for December was revised higher to 49.4 from the flash 48.3, albeit still in contractionary territory and down from November's 49.7. In addition, there were sharper falls in output and new orders, input cost inflation accelerated sharply, and employment continued to rise. Chris Williamson, Chief Business Economist at S&P Global Market Intelligence said that "US factories reported a tough end to 2024, and have scaled back their optimism for growth in the year ahead." Furthermore, Williamson adds, "Production was cut at an increased rate in December amid disappointing inflows of new orders, and factories are reporting an environment of subdued sales and inquiries, notably in terms of exports." Finally, optimism that the new admin will result in business picking up in the New Year has been "pared back somewhat" as firms are "now reporting worries over higher input prices, and are concerned that inflation may pick up again, adding to speculation that interest rates will not be cut as much as previously thought likely over the coming year."

JOBLESS CLAIMS: Initial jobless claims fell to an 8-month low of 211k in the week ending 28th December, beneath the 222k forecast and down from the prior 220k, seeing the four week average fall to 223.25k from 226.75k. The unadjusted data saw the claims increase the most in Pennsylvania (5.3k), New Jersey (5.6k), Michigan (7.8k), while on the flipside, California (-8.8k), Texas (-8.6k) and Florida (-1.8k) saw the greatest drop in claims. Overall, the unadjusted data rose by 7.4k to 283k, while seasonal factors expected an increase of 20k. Meanwhile, Continued Claims, for the week ending 21st December, fell to 1.844mln from 1.896mln, beneath the expected 1.89mln. Note, the data does not coincide with the usual BLS survey window but Oxford Economics highlight that the level of initial claims continues to be consistent with an economy characterized by few layoffs. Meanwhile, for the continued claims, OxEco state it suggests unemployed individuals face challenges finding new work, which is consistent with a slow pace of hiring.

FIXED INCOME

T-NOTE (H5) FUTURES SETTLED 2 TICKS HIGHER AT 108-26

T-Notes settled little changed to start 2025 with attention turning to ISM PMI on Friday ahead of supply, ISM Services PMI, and NFP next week. At settlement, 2s +0.0bps at 4.252%, 3s +0.2bps at 4.286%, 5s -0.9bps at 4.382%, 7s -0.9bps at 4.480%, 10s +0.0bps at 4.577%, 20s +0.9bps at 4.867%, 30s +1.6bps at 4.799%

INFLATION BREAKEVENS: 5yr BEI +2.3bps at 2.417%, 10yr BEI +1.0bps at 2.346%, 30yr BEI +0.7bps at 2.328%

THE DAY: T-notes were initially bid from overnight trade in the wake of disappointing China PMI manufacturing PMI data. The upside continued throughout European trade to a peak of 109-05+ in the US morning, where a surprise fall in jobless claims capped the bid in T-notes. Futures then chopped with risk sentiment souring elsewhere with US equities taking a beating after the opening bell while there was little reaction to a slight upward revision on the December S&P Global Manufacturing PMI report. Elsewhere, construction spending data was softer than expected. The soft construction data coupled with the trade and inventory data on the 27th of December led to a downgrade in the Atlanta Fed GDPNow tracker for Q4 to 2.6% from 3.1% on 24th Dec. Nonetheless, T-notes sold off in wake of the supply announcement from the US Treasury next Monday, Tuesday and Wednesday due to the day of mourning on Thursday for President Carter. T-notes hit a low of 108-20+, above the overnight lows of 108-18+ before paring into settlement. Aside from the data and mini refunding announcement, it was relatively quiet on the first trading session of 2025 with attention turning to the ISM Manufacturing PMI and Fed's Barkin on Friday. Next week supply is in focus, as well as the December NFP.

NEXT WEEK SUPPLY:

- US Treasury to sell USD 58bln of 3yr notes on 6th January, USD 39bln of 10yr notes on 7th January and USD 22bln of 30yr bonds on

8th January; all to settle January 15th; as expected.

- US to sell USD 72bln in 26wk bills and USD 84bln of 13wk bills on 6th January; to sell USD 85bln in 42day CMBs on 7th Jan; all to settle January 9th.

STIRS/OPERATIONS:

- **Market Implied Fed Rate Cut Pricing: January 3bps, March 14bps, May 19bps, December 2025 43bps.**
- NY Fed RRP Op demand at USD 240bln (prev. 473bln) across 64 counterparties (prev. 80).
- SOFR at 4.49% (prev. 4.37%), volumes at USD 2.474tln (prev. 2.290tln).
- EFFF at 4.33% (prev. 4.33%), volumes at USD 53bln (prev. 108bln).
- US sold USD 64bln in 17wk bills at a high rate of 4.195%, B/C 3.04x
- US sold USD 80bln in 8wk bills at a high rate of 4.240%, B/C 2.96x; sold USD 85bln in 4wk bills at 4.265%, B/C 2.68x

CRUDE

WTI (G5) SETTLED USD 1.41 HIGHER AT 73.13/BBL; BRENT (G5) SETTLED USD 1.29 HIGHER AT 75.93/BBL

The crude complex was firmer on Thursday but off highs once Europe left. Benchmarks could perhaps have been aided by the rise in natgas prices in wake of the Ukraine/Gazprom transit deal expiring without a renewal. Meanwhile, some were attributing commentary from China President Xi after he pledged to promote growth earlier in the week. Elsewhere, weekly EIA data showed a shallower crude draw than expected, in fitting with the private inventory figures, while gasoline and distillates both noticed chunky builds. WTI and Brent hit lows of USD 71.79/bbl and 74.72/bbl, respectively, in the European morning before seeing highs of USD 73.73 and 76.55/bbl in the afternoon, before paring slightly into settlement once Europe left. As mentioned, it has been a quiet start to 2025 as participants return to desks with a focus on Friday turning to the ISM Manufacturing PMI report, before the risk events next week, including the FOMC Minutes and the US jobs report.

EQUITIES

CLOSES: SPX -0.22% at 5,869, NDX -0.17% at 20,976, DJIA -0.36% at 42,392, RUT +0.07% at 2,232

SECTORS: Consumer Discretionary -1.27%, Materials -1.14%, Real Estate -1%, Consumer Staples -0.43%, Industrials -0.37%, Financials -0.21%, Technology -0.21%, Health +0.01%, Communication Services +0.64%, Utilities +0.73%, Energy +1.04%.

EUROPEAN CLOSES: DAX: +0.48% at 20,004, FTSE 100: +1.07% at 8,260, CAC 40: +0.18% at 7,394, Euro Stoxx 50: +0.42% at 4,916, AEX: +0.97% at 887, IBEX 35: +0.71% at 11,677, FTSE MIB: +0.55% at 34,375, SMI: +0.10% at 11,601, PSI: +0.55% at 6,412.

STOCK SPECIFICS:

- **Apple (AAPL):** Offers iPhone discounts of up to USD 68.50 in China as competition intensifies.
- **Industrials:** China adds US companies to entity list, including **Lockheed Martin (LMT)**, **Raytheon (RTX)**, and **General Dynamics (GD)**.
- **US Steel (X):** Nippon Steel offered the US government a veto on US Steel's production cuts in a bid to secure approval for its takeover of the American firm.
- **US drug prices:** US drugmakers will raise prices on over 250 medicines from Jan. 1st, with a median increase of 4.5%.
- **Tesla (TSLA):** Q4 delivery numbers disappointed expectations.
- **RTX (RTX):** Upgraded at Deutsche Bank.
- **Cloudflare (NET):** Double-upgraded to 'Buy' from 'Sell' at Goldman Sachs with a PT of USD 140 (prev. 77); expects Co. to benefit from ramping sales and marketing productivity through 2025.
- **Uber (UBER), Belden (BDC), Norwegian Cruise Line (NCLH):** Added to the US Conviction List at Goldman Sachs.
- **Carvana (CVNA):** Hindenburg took a short position in Carvana.
- **Constellation Energy (CEG):** Announced USD 1bln power deal with the US govt; will get USD 172mln from US for energy services, and USD 840mln to sell power to US agencies.

US FX WRAP

The Dollar opened 2025 with broad-based gains, particularly against the Euro and Pound as newsflow behind the move higher was relatively thin. Concerning data, little reaction was sparked in the dollar. Regardless, weekly initial claims unexpectedly fell to 211k (exp. 222k, rev. 220k), while continued claims fell to 1.844mln beneath the 1.89mln expected (rev. 1.896mln). Separately, US Construction Spending was unchanged in December, resulting in the Atlanta Fed GDPNow (Q4) being revised down to 2.6% from 3.1%. Looking ahead, ISM Mfg is due on Friday, accompanied by Fed's Barkin (2027 Voter) later speaking at a Maryland Bankers event.

The Euro started the year against the buck on the backfoot with no fresh driver behind the move, as uncertainty remains heightened within the region ahead of Trump's inauguration on January 20th. Nevertheless, the day saw a series of Mfg PMIs, to which France and Germany were as expected, while Spain and the Eurozone fell short of expectations. Meanwhile, ECB's Stournaras hit the wires, seeing rates falling to about 2% around Autumn. Into the EU afternoon, EUR/USD extended losses to well below the 1.03 handle, not seen since late 2022. Next for the Euro is Unemployment data from Germany.

Activity currencies were mixed, with the Pound the clear laggard, weighed on by the stronger dollar and UK's S&P Global PMI Mfg unexpectedly falling to 47.0 from 47.3 (exp. 47.3). Similar to the Euro, a potential reversal of last week's events could be at play, where the GBP and EUR relatively outperformed in the G10 space as peers suffered. On the flip side, Canada's S&P Mfg PMI rose to 52.2 from 52, although little follow-through was seen in USD/CAD which resides around 1.44, after failing to sustain an earlier move lower. Elsewhere, Antipodes were the relative G10FX outperformers, with the Aussie and Kiwi originally seeing gains overnight and into European trade, despite the disappointing China PMI report overnight. That said, continued risk-off sentiment saw the Kiwi eventually turn red, while the Aussie managed to eke out marginal gains, with AUD/USD hovering around 0.62.

Havens were weaker on the day, as CHF underperformed amid few updates specific to the space. USD/CHF broke above the 0.91 handle, which hasn't been visited since May 2024. Ahead lies the Swiss PMI on Friday, where expectations are for a drop to 48.3 from 48.5 in December. USD/JPY climbed further above 157 with a choppy, but relatively unchanged US yield curve in the background.

EUR/SEK was marginally lower post-Riksbank Minutes in which Deputy Governor Jansson believes the 2025 cut needs to come quite early in the year, in January or possibly at the meeting after that in March. Previously in the December meeting, forward guidance reiterated that the rate could be cut again during H1 2025, thus, leaving the Deputy Governor on the dovish side. Absent the weak Euro, SEK saw much steeper losses abroad, with the Viking Cross surging above its DMAs (21, 50, 100, 200) to peaks of 0.9803 from the open of 0.9625.

EMFX: The Yuan was modestly weaker versus the buck following China's Mfg PMI which slowed to 50.3 in December from November's 51.5. On the report, Capital Economics said that while the Caixin manufacturing PMI suggests that factory activity softened in December, wider economic momentum still looks to have improved thanks to faster growth in services and construction; increased fiscal support should continue to lift growth in the near-term given that deficit spending is likely to be front-loaded at the start of 2025. For the upcoming, TRY was softer ahead of CPI on Friday, while USD/MXN climbed higher into the 20.0 handle ahead of the jobless rate.

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