newsquawk

US Market Wrap - 8th January 2025

Stocks and bonds chop, Dollar bid while GBP lags as Gilts hit hard

- **SNAPSHOT**: Equities mixed, Treasuries steepen, Crude down, Dollar up.
- **REAR VIEW**: FOMC Minutes point to a January pause; ADP falls short of expected; Initial jobless claims unexpectedly drop to eleven-month lows; Fed's Waller toes a dovish tone as he supports further cuts in 2025 & downplays impacts on inflation from tariffs in the near term; Solid US 30yr note auction; Gilt yields surge; Ukraine reportedly hits Russian oil depot which served the military airfield; Slightly larger EIA crude draw than expected; Mixed Australian CPI; Germany Industrial Orders plummet; Soft Swedish CPI.
- **COMING UP**: **Holiday:** National Day of Mourning - The desk will close at 19:00GMT/14:00EST on Thursday 9th January, upon which the desk will close and then re-open at 22:00GMT/17:00EST the same day due to US market closures. **Data:** Chinese CPI/PPI, Australian Retail Sales, German Industrial Output, BoE DMP, EZ Retail Sales. **Speakers:** Fed's Harker, Collins, Barkin, Schmid, Bowman; BoE's Breeden. **Supply:** Japan, Spain, France.

MARKET WRAP

US indices (SPX +0.2%, NDX flat, DJIA +0.3%, RUT -0.5%) were mixed on Wednesday, as were sectors, with the small-cap Russell the clear underperformer. Health and Consumer Staples were the relative outperformers, while Communication Services, Energy, and Health all sit in the red. Risk sentiment was initially hit in the European morning, on a couple of factors; firstly it was by weakness in the fixed income space, led by Gilts plummeting, before being further weighed on by CNN sources noting President-elect Trump is reportedly considering a national economic emergency declaration to allow for new tariff programme. However, as the US day progressed Treasuries and stocks managed to pare most of the losses in a choppy session. After T-Notes were hit by the aforementioned Gilts, they were seemingly supported by a dovish Waller who supports further rate cuts this year and noted he does not expect tariffs to produce persistent inflation and thus is not likely to influence views on appropriate monpol. US 30yr auction was solid and the best US auction of the week, before the latest FOMC Minutes which unveiled little new but largely paved the way for a January pause. In wake of the Minutes, the Dollar pared some of its gains which provided impetus to stocks and T-Notes, with the latter hitting intra-day highs, although the former swiftly pared any strength. On the data docket, ADP and initial jobless claims both printed way under expectations. The Dollar is stronger to the detriment of all G10 FX peers, while unsurprisingly GBP lags with Gilts hit hard. The crude complex was lower on Wednesday and fell foul to the Dollar bid and broader risk-off sentiment, as opposed to anything energy specific.

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FOMC MINUTES: In the latest FOMC Minutes, which surrounded the December meeting whereby the central bank cut by 25bps, with one hawkish dissenter, they noted participants indicated the Fed was at or near the point at which would be appropriate to slow the pace of easing. Moving forward, participants indicated if data came in about as expected, it would be appropriate to continue to move gradually toward a more neutral policy stance. On the magnitude of the cut in December, the vast majority saw it as appropriate to lower the target range by 25bps, while some noted there was merit in keeping rates unchanged, citing the higher risk of persistently elevated inflation. As a reminder, Hammack was the sole voting dissenter, but the dot plot suggests there were at least four members who wanted to keep rates on hold. In addition, many observed that the current high degree of uncertainty made it appropriate for the Committee to take a gradual approach as it moved toward a neutral policy stance. A “majority” of participants thought the decision to ease policy in December was "finely balanced” and many participants suggested that a variety of factors underlined the need for a careful approach to monetary policy decisions over coming quarters. On the incoming President-elect Trump's admin, a number of participants indicated they had Incorporated 'placeholder assumptions' regarding potential trade and immigration policy changes into their projections. Again reminding, at the December Powell press conference, the Chair highlighted that some incorporated policy changes into their projections, but others did not. Further, Fed staff projected slightly lower GDP growth and 'a bit' higher unemployment rate than the previous baseline forecast after incorporating recent data and placeholder assumptions of potential policy changes from the incoming administration. Lastly, and on the inflation footing, almost all participants judged that upside risks to the inflation outlook had increased. As reasons for this judgment, participants cited recent stronger-than-expected readings on inflation and the likely effects of potential changes in trade and immigration policy.

FED’S WALLER (voter) said inflation will continue to make progress towards the 2% goal and that he will support further cuts in 2025, however, the pace of cuts will depend on further inflation progress. He acknowledged recent inflation progress has been slow, but the higher inflation readings from early in 2024 will begin to drop out of inflation numbers in January. This should result in a significant step-down in the 12-month inflation numbers through March. The influential Governor added that the economy is on a solid footing overall, and there is nothing to suggest the labour market will weaken dramatically in the coming months. Looking ahead, and referencing the upcoming Trump administration, Waller does not expect tariffs to produce persistent inflation and thus not likely to influence views on appropriate monetary policy. Later in the Q&A section, Waller said he does not think the Draconian tariffs will be implemented and he does not think there will be a huge impact on inflation from tariffs in the near term. Moreover, Waller stated long-term yields may have more of an inflation premium, but the Fed will fix that, and US deficits may also be driving long-term yields higher.

ADP: ADP national employment for December printed 122k, beneath the expected 140k, and the prior 146k. The median change in annual pay for job-stayers rose 4.6% Y/Y (prev. 4.8%), and job-changers at 7.1% (prev. 7.2%). Chief economist of the ADP Nela Richardson, said “the labour market downshifted to a more modest pace of growth in the final month of 2024, with a slowdown in both hiring and pay gains," and on sectors "Health care stood out in the second half of the year, creating more jobs than any other." This comes ahead of the US payrolls report on Friday, albeit the relationship between the two data sets is not the closest. Regarding payrolls, current expectations is for the headline to print 160k (120-200k range) with unemployment remaining at 4.2%.

JOBLESS CLAIMS: Initial Jobless Claims, for the week ending 4th January (not coinciding with Dec or January NFP survey window), fell to 201k - the lowest since February. The drop was beneath the analyst consensus of 218k and beneath the lowest analyst forecast of 205k. The unadjusted data however rose by 21k to 305k, while seasonal factors had expected an increase of 35.6k. Within the unadjusted data, the largest drop was in Michigan (-7.1k), New Jersey (-5.0k), Massachusetts (-4.3k), Connecticut (-3.6k), Illinois (-3.4k), Ohio (-3.3k), and Iowa (-3.3k). The largest gains were in New York (+22k), Georgia (+7.4k), Texas (+5.6k), Oregon (+3.2k), South Carolina (+2.7k), California (+2.2k), and Wisconsin (+2.2k). The continued claims data rose to 1.867mln from 1.834mln, in line with the consensus. Oxford Economics highlight that continued claims are off the recent peak, but still elevated, noting while lay offs remain low, hiring at depressed levels, it makes it difficult for those who have lost their jobs to find new employment. Overall, the desk notes that "The claims data are more volatile than usual around the holidays and winter months, but we think the low level of claims is consistent with a labor market that continues to be characterized by a low pace of layoffs, which was also the case with yesterday's JOLTS data."

FIXED INCOME

T-NOTE FUTURES (H5) SETTLED 1 TICK LOWER AT 108-04+

T-Notes chop as Gilts plummet before paring on dovish Waller. At settlement, 2s -1.0bps at 4.285%, 3s -1.0bps at 4.354%, 5s -0.7bps at 4.460%, 7s -0.4bps at 4.574%, 10s +0.2bps at 4.687%, 20s +0.8bps at 4.987%, 30s +1.3bps at 4.925%.

INFLATION BREAKEVENS: 5yr BEI +1.5bps at 2.483%, 10yr BEI +1.9bps at 2.414%, 30yr BEI +1.6bps at 2.387%.

THE DAY: T-Notes meandered overnight but came under pressure in the European morning, and saw lows at 107-28+. The weakness was a follow on effect from downside in UK gilts over fears of rising borrowing costs wiping out what little fiscal headroom the Chancellor had left. UK yields rose to highs not seen since 1998 in the 30yr, and 2008 in the 10yr. Weakness was also observed on more Tariff reports. CNN suggested that US President elect-Trump is considering a national economic emergency declaration to allow for a new tariff program. T-Notes then turned around, seemingly supported by commentary from Governor Waller who supports further rate cuts this year and noted he does not expect tariffs to produce persistent inflation and thus are not likely to influence views on appropriate monetary policy. Thereafter, ADP National Employment data was notably softer than expected, also giving a helping hand to T-Notes. Nonetheless, the initial jobless claims were hot, falling to just 201k, well beneath the analyst consensus although continued claims were in line with forecasts, albeit having little reaction. T-Notes continued to pare off the earlier lows to c. 108-09, before selling was seen ahead of the 30yr auction, which was ultimately solid and the best auction of the US week. As such Treasuries saw slight upside in response, albeit swiftly pared ahead of the latest FOMC Minutes. However, Treasuries saw mild support after the Minutes.

30YR: Overall, it was a solid auction and the strongest US one seen this week as the 30yr saw a stop-through of 0.7bps, against the tails seen in both the 3yr and 10yr auctions earlier in the week. By contrast, the last 30yr bond auction saw a tail of 1.2bps against a six-auction average of 0.7bps. Bid-to-cover was 2.52x, higher than the prior 2.39x, and the six auction average 2.42x, showing better than usual demand for the 30yr. Dealers took 12.7% (prev. 14.4%, avg. 14.6%), while directs took 20.7% (prev. 19.1%, avg. 18.0%). Lastly, indirects took 66.6%, more-or-less in line with the previous 66.5% but slightly beneath the average 67.4%.

STIRS/OPERATIONS:

- **Market Implied Fed Rate Cut Pricing: January 1bps (prev. 1bps), March 10bps (prev. 10bps), May 15bps (prev. 14bps), December 39bps (prev. 36bps).**
- NY Fed RRP Op demand at USD 185bln (prev. 208bln) across 48 counterparties (prev. 56).
- SOFR at 4.27% (prev. 4.27%), volumes at USD 2.322tln (prev. 2.349tln).
- EFFR at 4.33% (prev. 4.33%), volumes at USD 99bln (prev. 98bln).
- US sold USD 85bln of 42-day CMB's at 4.245%, covered 2.71x.
- US sells USD 64bln in 17wk bills at a high rate of 4.19%, B/C 3.24xUS to sell USD 95bln in 4wk bills and USD 90bln in 8wk bills on January 9th.

CRUDE

WTI (G5) SETTLED USD 0.93 LOWER AT 73.32/BBL; BRENT (G5) SETTLED USD 0.89 LOWER AT 76.16/BBL

The crude complex was lower on Wednesday and fell foul to the Dollar bid and broader risk-off sentiment, as opposed to anything energy specific. On the day, WTI and Brent saw upside in the European morning, to highs of USD 75.29/bbl and 77.89/bbl, respectively, after reports that Ukraine had hit a Russian oil depot which served a military airfield, according to Ukraine's Presidential Advisor. However, thereafter benchmarks were weighed on by the aforementioned Buck bid and risk off, as it was initially on weakness in the fixed income space, led by Gilts, before taking another hit on CNN sources noting President-elect Trump is reportedly considering a national economic emergency declaration to allow for new tariff programme. Thereafter, WTI and Brent trundled lower to settle just off session lows. Benchmarks saw marginal strength in wake of the FOMC Minutes, whereby Dollar pared some of its day gains which benefitted the crude complex. In the weekly EIA data, crude saw a marginally larger draw than expected, in contrast to the much greater than forecasted draw in the private inventory data. Distillates and gasoline both saw much larger builds than consensus, in fitting with private metrics on Tuesday night, while overall production fell 10k to 13.563mln.

EQUITIES

CLOSES: SPX +0.16% at 5,918, NDX +0.04% at 21,181, DJIA +0.25% at 42,635, RUT -0.48% at 2,239

SECTORS: Communication Services -0.74%, Energy -0.1%, Utilities -0.01%, Technology +0.09%, Consumer Discretionary +0.24%, Financials +0.3%, Industrials +0.41%, Real Estate +0.44%, Consumer Staples +0.46%, Materials +0.49%, Health +0.53%.

EUROPEAN CLOSES: DAX: -0.12% at 20,317, FTSE 100: +0.07% at 8,251, CAC 40: -0.49% at 7,452, Euro Stoxx 50: -0.33% at 4,995, AEX: -0.55% at 889, IBEX 35: -0.12% at 11,798, FTSE MIB: +0.49% at 35,109, SMI: +0.25% at 11,861, PSI: -0.46% at 6,371.

STOCK SPECIFICS:

- **Samsung Electronics (SSNLF):** Q4 prelim numbers disappoint with downbeat commentary. But, NVDA's Huang later offered positive remarks on the Co.
- **Nvidia (NVDA):** CFO said the Co. will have 'a little bit more' Blackwell chip revenue than previously forecasted.
- **Quantum computing names (QMCO, QUBT, IONQ, RGTI)** saw heavy selling pressure after **Nvidia (NVDA)** CEO said he does not expect a quantum computer for at least 15yrs, and it is probably 30yrs away.
- **Microsoft (MSFT):** Planning job cuts, focusing on underperforming employees.
- **Flutter Entertainment (FLUT):** Reduced 2024 revenue and adj. EBITDA guidance.
- **Exxon Mobil (XOM):** Said changes in liquids prices will negatively impact Q4 earnings and oil price changes may reduce earnings by USD 0.5-0.9bln.
- **Merck (MRK):** Received Gardasil approval in China.
- **Amazon (AMZN):** Plans to invest at least USD 11bln in expanding its cloud and AI infrastructure in Georgia.
- **Constellation Energy (CEG):** Reportedly near a USD 30bln deal for Calpine and may announce the deal within weeks, according to Bloomberg citing sources.
- **Ally Financial (ALLY):** To cut less than 5% of its workforce, to exit mortgage origination business, and also seeking alternatives for credit card business.

- **Solventum (SOLV):** Trian Fund Management's Nelson Peltz sent a letter to Solventum; said it trades at a discount to peers, via CNBC.
- **Hershey (HSY):** Seeks CFTC help to take huge cocoa position in New York, via Bloomberg.
- **Eli Lilly (LLY):** CMS said Medicare can now cover Eli Lilly's (LLY) Zepbound for sleep apnea, CNBC reports.

BROKER MOVES:

- **SolarEdge Technologies (SEDG):** Downgraded to 'Sell' from 'Neutral' at Citi with a PT of USD 9 (prev. 12), citing Cos. “tight liquidity, challenging earnings outlook, and competition".
- **AMD (AMD):** Downgraded at HSBC, noting it believes AMD's AI GPU roadmap is less competitive than previously thought, seeing downside in momentum in H1 2025 given "lukewarm demand" for its new MI325 GPU.
- **Tapestry (TPR):** Upgraded at Barclays, highlighting its disciplined management of inventory and growing customer acquisition in target demographics.

US FX WRAP

Dollar strength carried on in Wednesday's trade arising at first in the European session on risk-off trade on account of fixed income weakness, led by Gilts, and thereafter extending on CNN reports that US President-elect Trump is considering a national economic emergency declaration to allow for a new tariff programme; DXY took another leg higher to peaks of 109.37, accompanied by higher US yields, before paring a sizable chunk of the Trump move, although, held onto the 109 handle into the APAC session. Concerning US data, the dollar was unreactive to ADP's December reading coming in beneath expectations, and initial claims unexpectedly falling to an eleven-month low. As for Fedspeak, Governor Waller, in the near term, does not think there will be a huge impact on inflation from tariffs, perhaps suggestive of Waller being a member Powell was referring to as incorporating the upcoming admin's policies into their projections. Waller also said he will support further cuts in 2025 but pace will depend on further inflation progress. Also, FOMC Minutes were widely as expected but strongly signalled a January pause. Ahead is the mourning day of Former US Jimmy Carter President on Thursday; the US stock market will be closed and Treasuries will close early. As such, volume is expected to be lighter. That said, a series of Fed speakers are on the docket, with Barkin, Bowman, Harker, Collins, Bowman, Barkin, and Schmid all to appear, with the latter three expected to speak on the economy/monetary policy.

EUR/USD ended the US session modestly lower amid a set of mixed European data and tariff rhetoric from Trump. Data consisted of mixed German retail sales (beat on Y/Y, miss on M/M), and industrial output in Germany slumping beneath analysts' forecast range, though driven by a negative development in incoming orders in the manufacturing sector in November 2024, rather than the last month's move incurred by extensive larger orders in vehicle construction in October 2024. Despite the threat of Trump tariffs ever increasing, the Euro managed a bid in the US afternoon as Treasury yields rally took a breather, allowing the pair back above 1.03 ahead of EZ retail sales on Thursday.

The Pound was the G10 weakling as gilt yields surged with the 10yr surpassing 2023 highs, and the 30yr hitting levels not seen since 1998 (1998 peak of 6.22% lies to the upside, currently at 5.371%). Prompting the move higher, there was little new headline drivers, with an article from the Guardian on Tuesday suggesting the rise in UK borrowing costs could push Chancellor Reeves to new public spending cuts, with subsequent Bloomberg reports echoing a similar narrative (Reeves eyes more depending cuts if the UK bond rout eats up headroom). Later, Sky News reported UK Chancellor cabinet said meeting the government's fiscal rules is non-negotiable, government will have an iron grip on public finances. No response was seen in Cable, which sits at ~ 1.2360 into overnight trade. A text release is due on Thursday from BoE's Breeden (Neutral) on Monetary policy.

G10FX's recent trend lower extended from Tuesday as Dollar strength lingered in the space, which saw mixed CPI readings out of Australia and Sweden. Regarding Australia, weighted CPI Y/Y in November was hotter than expectations while the annual trimmed mean CPI softened from the prior, offsetting the former, seeing immediate downside in AUD/USD. The weakness in the Aussie sustained over the course of the day on aforementioned themes, albeit, it failed to hold below 0.62 before retail sales overnight. In Sweden, the SEK came under modest pressure following softer-than-expected CPI readings for December, however, SEK managed gains against its neighbouring NOK. After taking into account the inflation reading, Riksbank's December meeting and its Minutes, CapEco now expects the central bank to cut by 25bps in January (prev. exp. March)

EMFX: BRL was hit at the open amidst Industrial Output falling shy of expectations in November, with the month's previous print revised lower. USD/BRL resides above 6.00 ahead of Retail Sales on Thursday, where expectations are for a 0.2% decline in November. Attention ahead will revolve around the Yuan due to the CPI and PPI release overnight. In the presence of Trump's remarks, MXN weakness loomed with USD/MXN hovering around ~20.4 ahead of the December inflation reading; 12-month core expected to rise, headline seen falling.