

### Stock and Bond futures meander in quiet trade ahead of NFP

- **SNAPSHOT:** Equities futures down, Treasuries flat, Crude up, Dollar up.
- **REAR VIEW:** Collins toes a neutral line; Harker highlights data-dependancy; BoE's Breeden says Gilt market moves have been orderly, so far so good; Challenger layoffs falls M/M; Cooler-than-expected Chinese PPI Y/Y; China CPI in line; Firmer than expected labour cash earnings in Japan.
- **COMING UP: Data:** US & Canadian Jobs reports, US UoM Survey, Chinese M2 Money Supply, FDI, Loan Growth **Earnings:** Sainsbury's, Tilray, Delta Air, Walgreens Boots Alliance, Constellation Brands.
- **DESK SCHEDULE:** 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.

### MARKET WRAP

Stock markets were closed on account of the national day of mourning for President Carter while bonds closed early. Nonetheless, US equity futures saw marginal downside in narrow trade while Bonds steepened. The focus in the bond market was on UK Gilt Yields which continued to surge at the reopen of trade, but since pared, while neither Treasury officials or BoE officials seem too concerned with the moves currently. The Pound underperformed in FX while the Yen led gains after wage data supported the case for BoJ rate hikes. Crude prices caught a bid throughout the session in quiet trade with some attributing the moves to cold weather boosting winter fuel demand. Elsewhere, Fed speak was in focus where Collins toed a neutral line and Harker stressed data dependence. Attention turns to NFP on Friday and CPI next week to help shape Fed rate cut expectations beyond January, which is largely expected to see rates on hold.

### US

**Fed's Collins (2025 Voter)** favours fewer rate cuts in 2025 than anticipated just a few months ago, following strong employment data and lingering inflation; it is still appropriate to lower rates, via Bloomberg. "There is a lot of uncertainty related to what policy changes might arise with the new administration; we do not have enough information to really factor in how to think about that". "On the labour market side, there were more concerns for me earlier about potential fragilities; those concerns have eased". In a separate speech, Collins said the current outlook calls for gradual, patient approach to rate cuts, and she supported a December rate cut but it was a close call. She also noted the current outlook is in line with the Fed December projections. She expects more inflation relative to the recent past and she is less worried about labour market fragility.

**Fed's Harker (2026 voter)** said the Fed is still on a rate-cut path and future moves are driven by data, adding that underpinnings of the economy are strong amid high uncertainty. Harker stressed the Fed must be data dependent amid high uncertainty. On the labour market, he said it has stabilised and in better balance, noting job creation pace has normalised. Meanwhile, on inflation he said it is taking longer to get back to 2% than expected but the Fed has had success getting inflation down from the peak. Meanwhile, more of overall consumer spending is resting on higher incomes.

**CHALLENGER LAYOFFS:** US employers announced 38,972 cuts in December, its lowest reading in five months, falling 33% from the prior 57,727 in November, though up 11% from the 31,817 cuts in December 2023. Within the report, Technology announced the largest job cuts out of all sectors, 11,430, albeit, the yearly total was 133,988, down 20.3% from last year's 168,032. Of the top industries, only the Government is cutting at a faster pace than last year, primarily due to cuts in the armed services. Separately, automotive layoffs increased to 48,219 (+43.2%) in the year 2024 from 2023's 33,661; Challenger argues "While some cuts reflect cost restructuring, others are tied to changes in production priorities as the industry transitions toward electric vehicles and other advanced technologies". Regarding hiring Trends, US employers announced 7,999 in December, totalling 769,953 for the year with hiring trends hitting their lowest YTD hiring since 2015. Challenger notes "The slower hiring pace reflects ongoing uncertainty in economic conditions and cautious approaches by employers to expansion", and further adding, "While certain sectors are accelerating recruitment, others remain hesitant due to market volatility and the impact of the new administration."

### FIXED INCOME

#### T-NOTE (H5) FUTURES SETTLED 2+ TICKS HIGHER AT 108-07

**T-Notes largely track gilts in quiet trade on account of the National Day of Mourning for President Carter** . At settlement, 2s -2.9bps at 4.262%, 3s -2.1bps at 4.338%, 5s -1.6bps at 4.451%, 7s -1.2bps at 4.570%, 10s -1.0bps at 4.683%, 20s -1.7bps at 4.979%, 30s -1.1bps at 4.921%.

**INFLATION BREAKEVENS:** 5yr BEI -0.6bps at 2.476%, 10yr BEI -1.4bps at 2.401%, 30yr BEI -2.0bps at 2.365%.

**THE DAY:** T-Notes ground higher overnight to peak at 108-11 in the European morning, before paring to 108-06 with T-Notes weighed on by action across the pond. Gilts gapped lower at the open while supply from France and Spain also weighed. The plummet in Gilts saw UK yields surge with the 10yr yield peaking at 4.925%, the highest level since 2008. Meanwhile, 30yr yields peaked at 5.442%, the highest level since 1998. Nonetheless, the move did pare from extremes with Gilts reversing back to unchanged levels on the day, but still at worryingly high levels with more reports suggesting spending cuts are coming to adhere to the fiscal rules. There was also an urgent question in parliament, whereby UK Treasury Minister Jones said there is no need for any emergency intervention by the Chancellor and that financial markets continue to function in an orderly way. T-Notes benefitted from the rebound in Gilts with T-Note futures going on to print peaks of 108-14 before then reversing in quiet trade, with volumes low on account of the National Day of Mourning for former President Carter. As such, there was little data to digest other than the Challenger Layoffs, which saw just 38.8k layoffs vs November's 57.7k, the lowest level since July 2024, albeit it garnered little reaction. There were several Fed speakers, however, where Collins toed a neutral line and Harker stressed data dependence. Bowman and Schmid are due later. Attention largely turns to the NFP on Friday ahead of CPI next week where both data points will help shape Fed rate cut expectations, but January is largely seen as a hold and the data will likely have more influence around expectations for March and onwards.

## STIRS/OPERATIONS:

- **Market Implied Fed Rate Cut Pricing: January 1bps (prev. 1bps), March 11bps (prev. 10bps), May 17bps (prev. 15bps), December 43bps (prev. 39bps).**
- NY Fed RRP op demand at USD 168bln (prev. 185bln) across 52 counterparties (prev. 48).
- SOFR at 4.29% (prev. 4.27%), volumes at USD 2.213tln (prev. 2.322tln).
- EFFR at 4.33% (prev. 4.33%), volumes at USD 105bln (prev. 99bln).
- US sold USD 95bln of 4-wk bills at 4.245%, covered 2.92x; sold USD 90bln of 8-wk bills at 4.240%, covered 2.81x.
- US to sell USD 84bln 13wk bills and USD 72bln 26wk bills on January 13th; To sell USD 85bln in 42-day CMBs on January 14th, all to settle on January 16th.

## CRUDE

**The crude complex was firmer, and is residing around session highs at the time of writing, with some attributing the upside to cold weather boosting winter fuel demand.** In the European morning price action was initially subdued, but benchmarks eventually ground higher, albeit with little newsflow driving price action in quiet trade on account of the National Day of Mourning for President Carter. JPMorgan analysts however noted that global oil demand is expected to remain strong through January, fuelled by a colder than normal winter which is boosting heating fuel consumption, as well as an earlier onset of travel activities in China for the Lunar New Year holidays. On the macro footing, the dollar still holds an upward bias, with broader sentiment also soured following this week's hot US data, UK bond market turmoil, and tariffs threats ahead of US President Trump's inauguration. Furthermore, the demand side of the equation has been disappointed by the underwhelming support from China. WTI Feb resides in a USD 72.84-73.89/bbl range while Brent Mar sits between USD 75.68-76.75/bbl parameter.

## US FX WRAP

**The dollar** was generally firmer against major peers (ex-JPY) ahead of NFP on Friday (exp. 160k). Prompting the move higher, few macro updates could be found in the US, as former Jimmy Carter mourning day was underway, with no tier 1 releases due, closure of the US stock market, and Treasuries closing early for the day. Nonetheless, FedSpeak was in full force, being the highlight of the day. Remarks were seen from, Harker, Collins and Barkin. Both Harker and Collins noted sticker inflation than previously expected, with Collins noting the December Fed cut was a close call, but provided insurance for the labour market. Remarks also supported the statement in the recent FOMC Minutes where it revealed the majority of participants noted that their judgments about this meeting's appropriate policy action had been finely balanced. As such, Harker and Collins voiced a gradual and patient approach for the Fed easing cycle going forward. Separately, challenger layoffs fell to its lowest reading since July, though no reaction was seen in the buck. The main event on Friday will be NFP, with the employment rate expected to stand firm at 4.2%, while average earnings are expected to rise 4% Y/Y.

**G10FX** was largely in the red, led by continued Pound weaknesses, followed by Antipodeans, while JPY saw modest gains. Yen strength was lent support from firmer-than-expected labour cash earnings which supports the case for BoJ to resume with rate hikes, allowing USD/JPY to run down to lows of 157.59, though, gains in JPY later trimmed. Credit AG continues to think that the BoJ's comfort zone for USD/JPY is within the 145-155 zone, according to Ueda's earlier rhetoric in the week (will continue to raise rates if the economy improves in line with expectations). "Above that range places pressure on the BoJ to raise rates faster by generating upside risks to the BoJ's inflation forecasts". Meanwhile, Antipodes were weighed by the stronger Dollar and underwhelming Chinese CPI/PPI data. Additionally, the Aussie saw losses on Retail Sales being revised upwards by a lesser magnitude than expected; AUD/USD troughed in EU hours at 0.6173, before gaining some reprieve into the US day.

**GBP** underperformance persisted on Thursday, with losses seen overnight into the open of the Gilt market. At the Gilt open, prices gapped lower but the open coincided with the trough of Cable as both assets thereafter bounced off lows, with Cable eventually regaining the 1.23 handle it earlier broke below (session lows of 1.2240). Later, BoE's Breeden hit the wires, seemingly unfazed by the recent Gilt moves, "have been orderly, so far so good"; Gilts were unreactive. On monetary policy, she noted recent evidence further supports the case to withdraw policy restrictiveness, expecting a gradual approach over time. On the recent developments, MUFG notes "the unfavourable market developments have increased downside risks for the pound at the start of this year and increase the likelihood of cable falling back below 1.2000". Elsewhere, the latest Reuters CAD poll unveiled the consensus is for CAD to gain 3% to USD 1.3950 in 12 months (prev. 1.4020 in Dec poll); over 3 months, it is expected to edge 0.5% higher to 1.43 (prev. 1.4034) in Dec poll).

**EMFX:** The Yuan pared its initial upside on the CPI/PPI reports, in which CPI was unchanged as expected M/M, 0.1% Y/Y as anticipated, while PPI was slightly less deflationary than forecasted, as Dollar strength then resumed. USD/INR was unchanged amid reports surfacing that the RBI is likely selling Dollars to limit Rupee's losses. In LatAM, BRL saw gains, outperforming its local losers (CLP, COP, MXN). as Retail Sales beat on the Y/Y print, but disappointed in November. The latest Reuters poll indicates BRL is seen strengthening 2.7% to 5.94 vs USD in 12 months (vs 5.75 in Dec poll); MXN is seen weakening 2.8% to 20.90 per USD (vs 20.70 in Dec poll). Moreover for MXN, a mixed CPI report (cool headline, hot core) had little sway over the existing downside, while Banxico Minutes for the December meeting (25bps cut) saw one member state it is necessary to increase the magnitude of rate cuts in some of the upcoming monetary policy decisions.

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