

newsquawk

US Market Wrap - 10th January 2025

Stocks and bonds slump while Dollar jumps after hot NFP

- **SNAPSHOT:** Equities down, Treasuries down, Crude up, Dollar up.
- **REAR VIEW:** NFP surpasses all analyst expectations, Unemployment rate slips; Large banks revise Fed calls; UoM inflation expectations soar; Goolsbee remains dovish; Bowman, Schmid and Musalem lean hawkish (pre data); US sanctions Russian oil; IDF to present plan for complete defeat of Hamas; BoJ still considering rate decision for January; China jawboning; PBoC to temporarily suspend purchase of government bonds; Strong Canada jobs report.
- **COMING UP: Data:** US NY Fed SCE, Chinese Trade Balance **Speakers:** ECB's Lane **Supply:** Italy **Earnings:** Brunello Cuccinelli.
- **WEEK AHEAD:** Highlights include US CPI & Retail Sales, China Activity & Trade Data, UK CPI, GDP & Retail Sales, Aussie jobs, ECB Minutes. [To download the full report, please click here.](#)
- **CENTRAL BANK WEEKLY:** Previewing ECB Minutes and BoK; Reviewing FOMC Minutes. [To download the full report, please click here.](#)
- **WEEKLY US EARNINGS ESTIMATES:** Big banks kick us off with highlights including JPM, BAC, GS. [To see the full US Weekly Earnings Estimates, please click here.](#)

MARKET WRAP

Stocks and bonds tumbled on Friday while the Dollar surged in response to the strong US jobs report which saw traders pare Fed rate cut bets. The NFP rose above all analyst expectations while the unemployment rate surprisingly slipped. Money markets started to unwind Fed rate cut bets with only 28bps of easing priced throughout the year, implying just a 12% probability of a second 25bps rate cut. The data also saw a lot of banks revise their Fed calls, notably Bank of America no longer expecting any rate cuts this year. Aside from NFP, the UoM Sentiment Data was also of note given a surge in both the 1yr and 5-10yr consumer inflation expectations, which capped the post NFP reversal in T-Notes with bonds sliding into settlement to settle around the post NFP troughs. In FX, the Dollar and Yen outperformed with the jobs report and paring of Fed rate cut bets supporting the Buck. The Yen managed to outperform with tailwinds from the prior sessions after recent wage data while reports in Bloomberg on Friday suggested the BoJ is still mulling over the rate decision, but it is considering upgrading core inflation forecast for FY24 and 25 amid recent JPY weakness while no decision has been made on raising rates and they intend to wait until the very last moment before deciding on increasing rates. Note, although the CAD was softer vs. the Greenback, it was still a relative outperformer after a strong Canadian jobs report. Elsewhere, Crude prices ground higher as they were supported by geopolitical updates and Chinese jawboning, before paring after the aforementioned strong NFP data, but remaining well in positive territory. Precious metals and silver were bid with the downside seen in the immediacy of the jobs report swiftly pared. Next week attention largely lies on US CPI to help further shape rate cut expectations from the Fed.

US DATA

NFP: The US Jobs Report was strong. The US economy added 256k jobs in December, well above the 160k consensus and above the prior (revised down) 212k, it was also above the top end of the forecast range of 200k. The unemployment rate slipped to 4.1% from 4.2%, despite expectations for an unchanged print while the participation rate was unchanged at 62.5%. The U6 Underemployment rate slipped, falling to 7.5% from 7.8%. Wages rose by 0.3% M/M, in line with the forecast, cooling from the prior 0.4% while the Y/Y print rose by 3.9%, down from 4.0% in November and beneath the 4.0% consensus. The strong jobs report supports the Fed's view that downside risks to the labour market have diminished, and supports the case for caution with future rate cuts with inflation still above target. The Fed has alluded to two rate cuts in 2025, but since the data traders have pared rate cut bets with the first fully priced Fed rate cut not seen until September, from June before the data. Meanwhile, only 32bps of easing is priced through year-end, vs. 39bps pre data. This implies a 100% probability of one rate cut between now and September, with a 28% probability of a second rate cut by year-end. The strong jobs report gives the Fed the ability to wait before resuming with rate cuts to ensure inflation is on its way back to target. Nonetheless, there is still plenty of data due between now and the March FOMC to help shape future rate expectations with the January 29th meeting largely seen as a skip. Note, December CPI due next week will be key. In wake of the report, several banks have revised their Fed calls. JPMorgan expects the Fed to deliver the next rate cut in June (prev. forecast March). Bank of America thinks the cutting cycle is over and no longer expects more rate cuts. Citigroup expects the next Fed rate cut in May (prev. January). Goldman Sachs expects the Fed to deliver 50bps of easing this year, 25bps in June and 25bps in December (prev. 75bps of easing in 2025). Wells Fargo said a March rate cut is increasingly unlikely. Morgan Stanley however said a March cut is still more likely than not, due to its more favourable inflation outlook.

MICHIGAN: Prelim UoM sentiment for January dipped to 73.2 from 74.0, and beneath the expected 73.8. Current conditions rose to 77.9 (prev. 75.1), while forward-looking expectations fell to 70.2 (prev. 73.3). On inflation expectations, both the 1yr ahead and longer-term 5-10yr soared to 3.3% from 2.8% and 3.0%, respectively, with the latter climbing to its highest since 2008. The report adds, "For both the short and long run, inflation expectations rose across multiple demographic groups, with particularly strong increases among lower-income consumers and Independents." In addition, the report notes that assessments of personal finances improved about 5%, while the economic outlook fell back 7% for the short run and 5% for the long run. January's divergence in views of the present and the future reflects easing concerns over the current cost of living this month, but surging worries over the future path of inflation.

FED

GOVERNOR BOWMAN (hawk) stressed the Fed should be cautious in considering changes to the policy rate and that she supported the December rate cut as a "final step" in policy recalibration, but she could have supported taking no action in December due to lack of progress on inflation and strength in the economy. Bowman stated that the current stance of policy may not be as restrictive as others may see it, and she sees greater risks to price stability, although a deterioration in labour market conditions is still possible. Bowman noted the coming months should bring clarity on the incoming admin's policies and inflationary pressures, while adding that pent-up demand after the election could also pose inflationary risks. She said the FOMC should refrain from prejudging the Trump admin's future policies. She added that inflation is elevated, progress has stalled, and she sees upside risks, while wage growth also remains above a pace consistent with the inflation goal. On regulation, Bowman - who has been touted as the successor to Fed's Barr as Vice Chair of Supervision - said new leadership at banking agencies are expected to translate into a shift in regulatory priorities and approach. She said bank regulators should adopt a more pragmatic approach to policy making, and they should return to tailoring rules to bank size, increasing transparency, prioritising

safety and soundness.

SCHMID (2025 voter, hawk) toed his usual hawkish tone, noting interest rate policy may be 'near' where it needs to be for the longer run and any further rate cuts should be gradual, and data driven. Schmid noted the Fed is 'pretty close' to meeting both of its mandates and wants the central bank to shrink the balance sheet further. On the labour market, Schmid added the jobs market is weaker, but still healthy, and he is optimistic about growth and hiring prospects. He is also optimistic that inflation pressures will continue to abate. Note, this speech was prior to the hot US payrolls report.

MUSALEM (2025 voter, hawkish), in a WSJ interview, said that further rate cuts can wait and he viewed the last meeting as a "close call". The St Louis Fed President said that "Financial conditions, which include borrowing costs and asset prices, are still supporting economic activity." Musalem also noted that since September, the picture has changed. He highlighted that higher long-term interest rates over the past four months mostly reflect an increase in "real" or inflation-adjusted yields, as well as stronger economic data, while inflation numbers printed higher than desired, so he changed his assessment of risks. Looking ahead, the 2025 voter said that rate cuts have to be gradual, and more gradual than he thought in September. Musalem also spoke prior to the hot US payrolls report.

GOOLSBEE (2025 voter, dove), speaking to CNBC after the hot US Jobs report, said the labour market is stabilising near full employment and he cautioned against reading too much into one jobs report, noting he will need to process if retail gains were a strong holiday season or something more general. Nonetheless, Goolsbee does not think the jobs market is overheating and he does not see it as a source of inflation; adding the jobs market seems stable at full employment. The Chicago Fed President noted how inflation over the last six months was 1.9%, noting current high annual inflation is largely a reflection of the uptick from early in 2024, and it is incorrect to say there has not been recent progress. He warned that inflation now looks sticky due to base effects. On the economy, Goolsbee does not see evidence of overheating in recent months, adding they are still seeing an impact of policy restraint on certain interest-rate sensitive parts of the economy. Goolsbee also acknowledged how the increase in long rate is not explained by expected inflation, but some of the reason is from higher-than-expected growth and a slower pace of Fed rate cuts. He said that rates should go down if conditions are stable and there is no uptick in inflation with full employment. He also noted how over the next 12-18 months, rates will be a fair bit lower if the current expectations are met.

FIXED INCOME

T-NOTE (H5) FUTURES SETTLE 26+ TICKS LOWER AT 107-12+

T-Notes bear flattened after a hot US jobs report and sees traders pare Fed rate cut bets. At settlement, 2s +13.2bps at 4.394%, 3s +14.6bps at 4.482%, 5s +14.1bps at 4.590%, 7s +12.2bps at 4.692%, 10s +9.3bps at 4.774%, 20s +6.1bps at 5.039%, 30s +4.5bps at 4.965%.

INFLATION BRAKEEVENS: 5yr BEI +5.8bps at 2.533%, 10yr BEI +4.3bps at 2.443%, 30yr BEI +2.1bps at 2.387%.

THE DAY: T-Notes were sold across the curve in a flattening fashion after a monster US jobs report. The US economy added 256k jobs in December, above all analyst forecasts while the unemployment rate slipped to 4.1% from 4.2%. The reaction was hawkish which saw T-Notes hit lows of 107-12 from c. 108-00. The move had started to gradually pare before a surge in consumer inflation expectations via the UoM survey (both 1 and 5yr) saw further pressure on T-Notes which gradually sold off into settlement, testing the immediate post NFP lows. The hot data saw traders pare their Fed rate cut bets drastically with just 29bps of easing priced through year-end vs 39bps before the data - this fully prices just one rate cut this year by October, with just a 16% probability of a second rate cut by year-end, vs a 56% probability beforehand. Several large banks revised their Fed calls in wake of the data. Notably, Bank of America no longer expects any more Fed rate cuts, while JPMorgan expects the next rate cut in June (prev. March). Goldman Sachs only sees 50bps of easing this year (prev. 75bps). However, it is worth highlighting this is just one report and the Fed will want to take a look at several releases when making their decisions with two more jobs reports due between now and the March meeting. Still, the strength of the report supports calls for pushing rate cuts further out the curve while the Fed focuses on bringing inflation back to target. Nonetheless, there is clearly a wide range of views on the Fed with Goolsbee maintaining a dovish stance but Bowman on Thursday maintained her hawkish stance by noting she voted for a cut in December on the assumption it was the final step. One thing to watch will be if the strength of the labour market persists, it may start to put upward pressure on inflation again, something the Fed have said has not been the case recently.

STIRS/OPERATIONS:

- Market Implied Fed Rate Cut Pricing: January 1bps (prev. 1bps), March 7bps (prev. 11bps), May 11bps (prev. 17bps), December 27bps (prev. 43bps).
- NY Fed RRP op demand at USD 179bln (prev. 168bln) across 48 counterparties (prev. 52).
- SOFR at 4.30% (prev. 4.29%), volumes at USD 2.211tln (prev. 2.213tln).
- EFFR at 4.33% (prev. 4.33%), volumes at USD 104bln (prev. 105bln).

CRUDE

WTI (G5) SETTLES USD 2.65 HIGHER AT 76.57/BBL; BRENT (H5) SETTLES USD 2.84 HIGHER AT 79.67/BBL

The crude complex ended the day, and week, in positive territory amid a couple of bullish factors into the weekend despite a hot US jobs report. WTI and Brent ground higher throughout the European morning to hit peaks of USD 77.86/bbl and 80.75/bbl, respectively, as it was supported by Chinese officials jawboning overnight and geopolitical updates. On the latter, Israeli Defence Minister Katz said he has ordered the IDF to present him with a plan "for the complete defeat of Hamas in Gaza," if there is no hostage deal by the time incoming US president Trump takes office (Jan 20th), according to a Times of Israel journalist. Thereafter, two oil trade sources stated a US treasury statement detailing new sanctions against Russian oil to be announced later on Friday also helped to boost oil prices, something Reuters was not immediately able to confirm. However, benchmarks peaked after the hot US payrolls report and quickly pared some gains, but amid the aforementioned factors the energy complex was somewhat shielded and still remained notably higher on the day. It is worth being cognizant that desks also continue to cite the cold weather as another reason behind the recent energy strength seen. For the record, in the weekly Baker Hughes rig count, oil fell 2 to 480, natgas dropped 3 to 100, leaving the total falling 5 to 584.

EQUITIES

CLOSES: SPX -1.54% at 5,827, NDX -1.57% at 20,848, DJI -1.63% at 41,938, RUT -2.22% at 2,189

SECTORS: Energy +0.34%, Utilities -0.57%, Health -0.58%, Consumer Discretionary -0.97%, Materials -0.98%, Communication Services -1.00%, Industrials -1.11%, Consumer Staples -1.13%, Technology -2.23%, Financials -2.45%, Real Estate -2.46%

EUROPEAN CLOSES: DAX: -0.47% at 20,221, FTSE 100: -0.86% at 8,248, CAC 40: -0.79% at 7,431, Euro Stoxx 50: -0.82% at 4,977,

AEX: -0.62% at 890, IBEX 35: -1.50% at 11,721, FTSE MIB: -0.64% at 35,090, SMI: -1.26% at 11,783, PSI: -1.53% at 6,300.

EARNINGS:

- **Constellation Brands (STZ)**: Revenue and FY comp. EPS view missed.
- **Delta Air Lines (DAL)**: EPS and revenue beat with Q1 midpoint guidance better than forecasts.
- **Walgreens Boots Alliance (WBA)**: EPS, revenue, adj. net income and adj. operating income all topped the St consensus.
- **Jefferies (JEF)**: Q4 profit tripled, driven by a 73% surge in IB revenue and 34% growth in capital markets revenue.

STOCK SPECIFICS: * **Nvidia (NVDA)**: Criticised Biden admin's new AI chip export restrictions. * **Apple (AAPL)**: Likely to shift 25% of production to India by the end of this year. * **TSMC (TSM)**: October-December quarter sales topped expectations, with growth being driven by continued demand for AI hardware. * **Amazon (AMZN)**: Launched Amazon Retail Ad Service. * **Tesla (TSLA)**: China exports rise. * **Disney (DIS)**: Solid MAUs; Avg. 157m global and 112mln domestic MAUs over six months. * **Costco (COST)**: December SSS and total comp. sales smashed expectations * **Constellation Energy (CEG)**: To buy Calpine for 50mln shares and USD 4.5bln cash. * **Eli Lilly (LLY)** reportedly in advanced talks to acquire US cancer biotech Co. Scorpion Therapeutics for up to USD 2.5bln, according to FT. * **Synchrony (SYF)** is now available as a buy-now, pay-later option when checking out with **Apple Pay (AAPL)** online and in apps on iPhone and iPad, according to MacRumours. * **Blackstone (BX)** reportedly exploring options for Liftoff that could value the co. at over USD 4bln, according to Reuters citing sources. * **Hewlett Packard Enterprise (HPE)** won a deal worth over USD 1bln to provide Musk's X social network with servers optimized for AI work, according to Bloomberg citing sources, who add **Dell (DELL)** and **Super Micro (SMCI)** also bid to sell the equipment. * **Hershey (HSY)** reportedly set to announce departure of CEO Michele Buck, via Semafor. * **Legend Biotech (LGEN)**, **SpringWorks Therapeutics (SWTX)** and **Estee Lauder (EL)** were all reportedly subject of chatter in the M&A blog, Betaville - unconfirmed.

US FX WRAP

The Dollar was notably firmer to end the week, and saw significant strength in wake of the hot US jobs report to hit highs of 109.97 vs. 109.12 pre-data. Recapping, the headline surged to 256k (exp. 160k, prev. 212k) past the top end of expectations and the unemployment rate unexpectedly fell to 4.1% from 4.2%. In wake of the dataset, a broad-based hawkish reaction was seen with downside in Treasuries and US equity futures, and a notable repricing in Fed money market expectations. Now there is just 29bps of easing priced for 2025 now, vs. 39bps pre-data, and the first cut priced in by October (prev. June). Since, there has been a mass revision of sell-side calls for the Fed with the most striking being Bank of America no longer expects more Fed rate cuts. Elsewhere, prelim UoM for January saw the headline miss but accompanied by a notable move higher in inflation expectations as the longer-term 5-10yr jumped to 3.3%, the highest since '08, while the 1yr rose to 3.3% from 2.8%. For the record, there has been some Fed speak (Schmid, Bowman, Musalem, Goolsbee) but on account of the other macro themes garnered little market reaction, albeit Goolsbee was the only one to speak post-data, who was his usual dovish self, but Schmid and Bowman were their usual hawkish selves. Ahead, US CPI next Wednesday is the key schedule risk event in addition to appearances from the influential FOMC Vice Chair Williams.

G10FX was largely weaker and broadly a function of the Dollar strength and risk off sentiment in wake of the aforementioned US jobs report. As such, high beta FX underperformed, with Cable hitting a more than 12-month low of 1.2193, against an earlier high of 1.2321, while AUD/USD and NZD/USD fell to 0.6140 and 0.5544, respectively. Currency specific newsflow was fairly sparse with macro sentiment dominated by US data. However, concerns remain in the UK on rising borrowing costs and the lack of fiscal headroom for the Chancellor, with spending cuts expected at the Spring budget to adhere to the fiscal rules. To next week, UK CPI (Wed), ECB Minutes (Thurs), Australian employment (Thu), UK GDP (Thu), and UK retail sales (Fri) are the highlights. In Scandinavia, Norwegian core inflation for December Y/Y printed 2.7%, shy of the expected 2.8%, and also Norges Bank's forecast for the month.

JPY outperformed amid risk averse trade highlighted by USD/JPY hitting a low of 157.23 against an earlier peak of 158.87. Prior to US data, Yen saw strength in the European morning on Bloomberg source reports, which noted the BoJ is reportedly mulling the rate decision for January, considering upgrading core-inflation forecasts for FY24 and FY25, and to be mulling raising inflation forecast amid JPY. On the meeting, no decision has been made on raising rates and intends to wait until the very last moment before deciding on increasing rates.

CAD saw slight losses, but was one of the better G10 performers amid its own employment data, which saw the headline figure smash through expectations, exceeding the top end, and the unemployment rate unexpectedly fall. As such, this initially buoyed the Loonie to lows of 1.4376, but swiftly pared, and weakened, on US metrics at the same time.

EMFX was exclusively weaker. Aside from the known themes, the Yuan saw Chinese officials jawboning overnight. Highlighting this, China's Finance Minister expects a more proactive fiscal policy in 2025, in terms of its strength, efficiency, and timing, and added that fiscal policy has abundant policy room and tools. Separately, the PBoC is to temporarily suspend purchase of government bonds in the market during January and may resume government bond trading depending on supply and demand. Looking ahead, Chinese Trade Balance (Sun) and Activity data/GDP (Fri) will be in the diary to look out for.

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