

newsquawk

US Market Wrap - 15th January 2025

Stocks and bonds rally after soft US CPI

- **SNAPSHOT:** Equities up, Treasuries up, Crude up, Dollar down
- **REAR VIEW:** Soft-leaning US CPI; NY Fed mfg. tumbles; Soft UK inflation; Ueda speaks on potential rate hikes; Stellar bank earnings; Gaza/Israel ceasefire agreed; IEA trims world oil demand growth forecast, OPEC maintains forecast; Plethora of Fed Speak; Beige Book sees contacts expect prices to continue to rise in 2025; BoE's Taylor says base case is for 100bps of cuts; US adds 14 China entities to trade black list; NVDA announces quantum computing event.
- **COMING UP:** **Data:** Australian Jobs, UK GDP, US Jobless Claims, Philly Fed Index, Retail Sales. **Events:** ECB Minutes; NBP Policy Announcement; Treasury Secretary nomination hearing for Scott Bessent. **Speakers:** BoC's Gravelle. **Supply:** Japan, Spain, US. **Earnings:** Taylor Wimpey, Whitbread, Wise, Pearson, Richemont, TSM, UnitedHealth, Bank of America, Morgan Stanley, USB, PNC, Infosys.
- **US RETAIL SALES PREVIEW:** [To download the report, please click here.](#)

MARKET WRAP

Stocks and bonds saw hefty bids on Wednesday in response to the soft-leaning US CPI report which saw participants boost rate cut bets. 40bps of easing is now priced through year-end, back to around pre-NFP levels. Sectors were bid with notable outperformance in the heavyweight sectors (tech, comms, discretionary) and financials. Futures had already caught a bid pre-CPI data in response to the stellar bank earnings which kicked off the Q4 24 earnings season to a strong start seeing widespread beats. Meanwhile, NVDA and quantum computing names rallied after NVDA announced a quantum computing event while semiconductor ETFs were also bid. Elsewhere, crude prices surged to see WTI reclaim USD 80/bbl for the first time since August with price action still underpinned by US energy sanctions on Russia, but with added support from both Russia and Ukraine were targeting energy facilities in recent strikes. Meanwhile, a Gaza ceasefire was agreed upon today but it had little sway on price action with crude continuing to storm higher. In FX, the Dollar initially tumbled on the CPI report to see DXY print a 108.59 low however it largely pared those losses while other assets (stocks and bonds) held onto gains but DXY reclaimed 109.00. Meanwhile, the Euro and Swissy underperformed with the buck while Yen and Aussie outperformed. The Yen was buoyed by rate hike commentary from BoJ Governor Ueda overnight, noting the BoJ will hike rates if improvement in economy and price conditions continue. The dovish CPI report saw crypto assets surge with Bitcoin briefly reclaiming USD 100k.

US

US CPI: Overall, US CPI leant on the softer side of expectations. Core CPI was in line at 0.225% (exp. 0.2%), cooling from the prior 0.3%, with Y/Y at 3.2% down from the prior and consensus of 3.3%. The headline came in at 0.393%, above the 0.3% forecast and prior, while the Y/Y rose by 2.9%, in line with expectations but up from November's 2.7%. Although headline M/M was above forecast, it was primarily led by gains in energy, which accounted for over 40% of the monthly all-items increase. The core metrics therefore took focus with an in-line M/M and soft Y/Y print, which has seen markets move dovish with 41bps of easing now priced for the year, back to around pre-NFP levels. Meanwhile, the first rate cut is now fully priced by July, vs. September pre-data. After the cool PPI report on Tuesday and now the CPI report, Pantheon Macroeconomics have updated their Core PCE forecast, expecting Core PCE rose 0.19%, down from the 0.30-0.35% forecast after the PPI data, which was primarily led by a surge in airline services.

NY FED: The NY Fed Manufacturing Index disappointed in January, with the headline business conditions falling to -12.6 from +2.1, despite expectations for a rise to 3.0. The drop was led by New Orders which fell to -8.6 from +4.3, however, the six-month business conditions outlook rose to 36.7 from 26.9. Employment also rose, to +1.2 from -6.6. Prices Paid also gained, to 29.1 from 21.1. To summarise, the report notes "New orders fell modestly, and shipments were little changed. Delivery times were slightly longer, and supply availability was unchanged. Inventories grew slightly. Labor market indicators pointed to steady employment levels but a shorter average workweek. Both input and selling price increases picked up. Firms grew more optimistic that conditions would improve in the months ahead."

FED

BEIGE BOOK: The Fed's Beige Book saw economic activity increase slightly to moderately across the twelve Federal Reserve Districts in late November and December. Consumer spending moved up moderately, with most districts reporting strong holiday sales that exceeded expectations. More contacts were optimistic about the outlook for 2025 than were pessimistic about it, though contacts in several Districts expressed concerns that changes in immigration and tariff policy could negatively affect the economy. On the labour market, employment ticked up on balance, with six Districts reporting a slight increase and six reporting no change. Contacts across multiple sectors noted difficulty finding skilled workers, and reports of layoffs remained rare. However, contacts in some Districts expressed greater uncertainty about their future staffing needs. Wage growth picked up to a moderate pace in most Districts, though there were some reports that wage pressures had eased. Prices increased modestly overall, with growth rates ranging from flat to moderate. Meanwhile, contacts expected prices to continue to rise in 2025, with some noting the potential for higher tariffs to contribute to price increases. [For the full release, please click here.](#)

NY Fed President Williams said that monetary policy is data-dependent in a highly uncertain environment, noting that government policy outlook is the main source of uncertainty. However, policy is well positioned for the economic outlook but the Fed is in wait-and-see mode to see what elected officials do on policy. Williams said that the disinflation process is to continue but it could be choppy but he still sees it moving to 2% over the coming years. Some disinflation is coming from outside the US. He expects unemployment to hold between 4-4.25% (Fed median view for 2025 is 4.3%). Williams noted that housing-related inflation pressures are easing but housing demand remains very strong. Williams added inflation expectations are anchored, adding the economy has returned to balance. He is optimistic about the US productivity outlook, but on the neutral rate, he suggested a wildcard for the neutral rate view is much higher levels of debt, adding higher government debt may have lifted the estimate. He noted views on neutral rate are not a big issue when setting policy. The NY Fed President also does not see higher yields reflecting a big inflation view shift and he is not surprised bond yields have risen. He said term premia factors are a big part of climbing bond yields and there is no prediction of when balance sheet contraction will stop. He also said it is hard to know how Fed bond holdings are affecting yields, and that the Fed has no current plans for asset sales.

Barkin (2027 voter) said inflation is coming down towards the 2% target, and the latest CPI report suggests inflation is still declining. Adding to this, Barkin sees a path where inflation is sticky but continues to progress towards the target. On the jobs market, he said it has stabilised, and added there is not much to suggest the economy is growing weaker. The Richmond Fed President is not seeing anything in long rates that could influence Fed policy at this stage. On the incoming President's policies, said that the direction of travel may be clear, but the details are not.

Goolsbee (2025 voter) said he still sees continued progress on inflation and for the last 6 months PCE inflation has run close to the 2% target. He is also optimistic for 2025 on a soft landing. Since the election, the Chicago Fed President added there has been an uptick in business confidence and uncertainty. On Wednesday's inflation data, said the CPI report is somewhat encouraging and some discouraging, in equal measure, and the known dove is pretty confident they will get inflation to 2%, noting it is a promise the Fed has made. Goolsbee added an area of concern is that auto and credit card delinquencies are rising, and that level is pretty high now.

FIXED INCOME

T-NOTE (H5) FUTURES SETTLED 31 TICKS HIGHER AT 108-10+

T-notes rally across the curve after soft-leaning CPI sees trades boost rate-cut bets. At settlement, 2s -9.7bps at 4.268%, 3s -12.5bps at 4.344%, 5s -13.9bps at 4.451%, 7s -14.3bps at 4.555%, 10s -13.1bps at 4.657%, 20s -11.5bps at 4.951%, 30s -10.6bps at 4.880%

INFLATION BREAKEVENS: 5yr BEI -2.4bps at 2.547%, 10yr BEI -2.8bps at 2.429%, 30yr BEI -2.1bps at 2.364%

THE DAY: T-notes saw marginal upside in the European morning, tracking Gilts which gapped higher at the open with all eyes turning to US CPI. The inflation data was on the soft side (headline M/M was hotter than consensus, but primarily led by rising energy costs), with headline Y/Y in line, while core Y/Y was softer than forecast and M/M was in line. T-notes rallied on the data to eventually see a peak of 108-12+ from c. 107-19 pre-data. T-notes held around peaks into settlement with traders increasing their rate cut bets with money markets now pricing in c. 40bps of easing through year-end once again, back to pre-NFP levels while analysts at Morgan Stanley suggest to position for a March rate cut. In the wake of the data, PCE forecasts were revised once again to incorporate the CPI data after the PPI data on Tuesday, with Pantheon Macroeconomics now looking for Core PCE to print 0.19%, while Oxford Economics looks for a 0.22% print. Elsewhere, Fed speak saw Goolsbee stick to his dovish tone while Williams and Barkin were neutral but all three were in agreement that inflation is expected to return to target.

STIRS/OPERATIONS:

- **Market Implied Fed Rate Cut Pricing: January 1bps (prev. 1bps), March 8bps (prev. 6bps), May 13bps (prev. 10bps), December 39bps (prev. 30bps).**
- NY Fed RRP op demand at USD 120bln (prev. 160bln) across 39 counterparties (prev. 59)
- SOFR at 4.28% (prev. 4.29%), volumes at USD 2.179tln (prev. 2.211tln).
- EFR at 4.33% (prev. 4.33%), volumes at USD 112bln (prev. 104bln).
- Treasury Buyback (Liquidity support, 5-7yr nominal coupons): Accepts USD 2.1bln of USD 7.8bln offered (max amount USD 4bln). Accepts 13 issues of 25 eligible
- US sold USD 64bln in 17wk bills at high rate of 4.210%, covered 3.19x

CRUDE

WTI (G5) SETTLED USD 2.54 HIGHER AT USD 80.04/BBL; BRENT (H5) SETTLED USD 2.11 HIGHER AT USD 82.03/BBL

The crude complex was firmer through the duration of the US session amid Dollar weakness post US CPI and continuing angst between Russia and Ukraine. In the European morning, benchmarks were initially fairly rangebound, but some weakness was seen as in the IEA OMR it trimmed its 2025 world oil demand growth forecast. Thereafter, the crude complex saw support on geopolitical worries in wake of Russian Defence Ministry stating they struck critical energy infrastructure in Ukraine. The upside was further accentuated after the dovish US inflation report, as the Dollar sold with a dovish shift in Fed pricing to the benefit of energy. Thereafter, WTI and Brent ground higher to hit session peaks of USD 80.31/bbl and 82.21/bbl, respectively. There was a brief dip lower on Axios' sources that Gaza hostage and ceasefire reached, which has since been confirmed and is set to take effect from 19th Jan. Aside from Wednesday specific catalysts, Russian energy sanctions continue to support the crude complex. For the record, in the weekly EIA data crude saw a larger draw than expected, albeit not as great as the private inventory figures, while Gasoline and Distillates both experienced greater builds than forecasted, in fitting with the private numbers last night.

EQUITIES

CLOSES: SPX +1.83% at 5,950, NDX +2.31% at 21,238, DJIA +1.65% at 43,222, RUT +1.99% at 2,263

SECTORS: Consumer Staples -0.09%, Health +0.24%, Real Estate +0.44%, Industrials +0.67%, Materials +0.91%, Energy +1.39%, Utilities +1.46%, Technology +2.22%, Financials +2.58%, Communication Services +2.66%, Consumer Discretionary +3.02%.

EUROPEAN CLOSES: DAX: +1.70% at 20,616, FTSE 100: +1.21% at 8,301, CAC 40: +0.69% at 7,475, Euro Stoxx 50: +1.09% at 5,035, AEX: +1.01% at 894, IBEX 35: +1.25% at 11,899, FTSE MIB: +1.49% at 35,647, SMI: +0.69% at 11,784, PSI: +1.29% at 6,459.

EARNINGS:

- **JPMorgan (JPM):** Stellar report; EPS, revenue and NII all topped with strong revenue breakdown. FY25 NII guidance better than expectations.
- **Goldman Sachs (GS):** Numbers impressed as all major numbers beat.
- **Wells Fargo (WFC):** Profit and NII exceeded forecasts as did 2025 NII view.
- **Citigroup (C):** EPS, revenue, and NII beat; announced USD 20bln stock buyback.
- **BlackRock (BLK):** EPS & revenue surpassed the St. consensus.
- **Bank of New York Mellon (BK):** EPS, revenue, and NIM topped.

STOCK SPECIFICS:

- **Microsoft (MSFT):** Laying off employees across several teams, albeit described as small.
- **Samsung Electronics (SSNLF):** Scaling back NAND wafer production at its Xi'an factory by over 10, aiming to stabilise prices amid a global oversupply.
- **Social Media:** Chinese officials considering involving Musk to broker a deal for TikTok's US operations.

- **Intel (INTC):** Intel Capital will become a standalone investment fund in 2025.
- **QXO (QXO):** Proposed to acquire **Beacon Roofing Supply (BECN)** for USD 124.25/shr. That said, Beacon later reiterated the rejection of the unsolicited proposal, noting it significantly undervalues the Co.
- **Apollo Management (APO):** CEO Marc Rowan to enter into 5yr employment agreement extension.
- **Quantum names:** Microsoft issued positive commentary in the space, saying "we are right on the cusp of seeing quantum computers solve meaningful problems and capture new business value."
- US FTC sued **Deere (DE)**
- Muddy Waters posted a short report on **FTAI Aviation (FTAI)**.
- Biden administration sued **Southwest Airlines (LUV)** over chronically delayed flights.
- **Honeywell (HON):** Reportedly expected to announce its split on 6th February, citing sources via CNBC.
- **Adobe (ADBE):** Upgraded at Exane BNP Paribas; sees an improved risk/reward and thinks the shares may find near-term support with management seeking to address near-term concerns.

US FX WRAP

The Dollar initially saw weakness upon the US CPI report which saw the Core CPI Y/Y ease to 3.2% (exp. 3.3%) from the prior 3.3%, a level it had been stuck at since September, while M/M eased as expected to 0.2% (prev. 0.3% for four consecutive months). That said, a decent reversal took place with DXY erasing the CPI-induced downside to reclaim 109 from lows of 108.59. Prompting the reversal, fresh clear drivers were hard to identify. However, despite the softer-than-expected CPI Core Y/Y, key themes behind the DXY's ~8% rally since October, namely, an upcoming administration whose policies are perceived to add inflationary pressures, and US data since pointing to a more resilient US economy than anticipated remain in play. Separately, NY Fed Mfg slumped in January to negative, well below expectations as a sharp decline in New Orders weighed. The day saw many Fed members hit the wires, with highlights including Williams noting the government policy outlook is the main source of uncertainty while seeing the unemployment rate between 4-4.25% but doesn't see higher yields reflecting a big inflation view shift. Elsewhere, January's Fed Beige Book saw consumer spending move up moderately, with most districts reporting holiday sales exceeding forecasts. Thursday's US schedule will see Retail Sales for December, expected to rise 0.6% (prev. 0.7%); weekly initial claims and Philly Fed is also due.

Sterling was firmer as gains were seen against the buck and Euro despite a much softer-than-expected UK CPI report. The report saw Core CPI and Services (Y/Y) ease more than expected, especially in Services. Thereafter, movement was choppy, at first unchanged after the CPI report, but gaining on the US CPI figures, before the USD clawed back losses. As to why GBP saw little downside off the back of soft UK CPI, ING notes that it's another testament to it currently acting like an EM currency, being more sensitive to long-term borrowing costs than the short-term central bank outlook. Ahead, the desk notes it's too early to turn optimistic on a sterling rebound, but some recovery in the UK bond market is a necessary condition for preventing new major FX sell-offs. Meanwhile, BoE's Taylor's remarks sparked little reaction in the space, with his base case for 100bps of rate cuts this year, although suggested as much as 150bps in certain scenarios. As it stands, BoE pricing has 56bps of easing by year-end. Major updates ahead (Thu) include UK GDP estimates and UK Services growth in November.

G10FX-ex CHF, EUR was higher on the day with a soft US CPI report giving the space a boost. Leading the charge was the Yen, which extended on existing gains derived from BoJ's Governor Ueda reiterating the notion the BoJ will raise rates and adjust the degree of monetary support if improvement in the economy and price conditions continues. Also, the possibility of a hike at the meeting next week remains in play, with the Governor noting the decision/discussion over a hike will be made at that time. Money markets currently price a ~70% chance of said hike occurring. Soft US data accompanied by hawkish BoJ commentary narrows rate differential expectations between the US and Japan, supporting the Yen. The EUR was modestly weaker ahead of ECB Minutes (Thu), retreating well off 1.0354-US CPI highs, to just beneath 1.03. Meanwhile, little reaction was seen from Germany's economy incurring its first two-year contraction since the early 2000s.

AUD was amongst the top G10 performers, breaching above 0.6214 (21 DMA) ahead of employment data overnight, where the economy is expected to add 15k jobs (prev. 35.6k). Key AUD/USD levels to watch to the upside are the January highs of 0.6302 and 0.6362 (50 DMA) beyond. On the direction of future Aussie moves, Rabobank notes ahead of Trump's inauguration next week the market has started to question if it has priced in too much inflation risk into US assets suggesting scope for profit-taking in USD long positions which could limit downside potential in AUD/USD near-term. However, with USD strength being a key theme anticipated in 2025 and China's economic headwinds remaining, the bank sees AUD/USD at 0.60 around mid-2025.

EMFX: In LatAm, MXN was stronger, while peers, CLP, COP, and BRL all weakened, although to varying degrees, with BRL hurt the most. On data, Brazil's Service sector growth disappointed in November. Additionally in Brazil, Treasury Secretary Ceron noted the government will target the centre of the primary budget goal in 2025, with the law to renegotiate states' debt with the federal government having an impact of BRL 20bln per year, though, the impact doesn't affect the primary budget balance. Elsewhere, chatter surrounding the RBI remained, with more traders cited by Reuters that the RBI is conducting buy/sell USD/INR swaps. Ahead, the focus now turns to the NBP (Thu) who are expected to hold the base rate at 5.75%.

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