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US Market Wrap - 16th January 2025

Stocks chop, while Treasuries bid and Dollar drops after dovish Waller

- **SNAPSHOT:** Equities down, Treasuries up, Crude down, Dollar flat.
- **REAR VIEW:** Dovish Waller; Stellar MS earnings; Strong TSM earnings & guidance; Philly Fed surges; Mixed US Retail Sales; Initial jobless claims rose above exp.; Source reports good chance of BoJ Jan. hike; UK GDP shy of consensus; US Treasury Secretary nominee Bessent says sanctions on Russia over Ukraine war were not forceful enough; Israel/Hamas ceasefire deal still not signed; Strong Aussie jobs report.
- **COMING UP:** **Data:** Chinese Retail Sales, GDP, UK Retail Sales, US Industrial Production **Events:** CBO Budget and Economic Outlook **Speakers:** ECB's Cipollone **Supply:** Australia **Earnings:** SLB, Fastenal, Truist, State Street, Citizens.

MARKET WRAP

US indices (SPX -0.1%, NDX -0.7%, RUT +0.1%, DJIA -0.2%) closed largely lower, albeit with sectors having an upward skew as Utilities and Real Estate sit atop of the pile with mega-cap sectors (Consumer Discretionary, Communications, Tech) the only ones in the red. On the earnings footing, MS and BAC continued the strong bank earnings (despite the latter slipping), while TSM also impressed. One of the main events of the day came from Fed Governor Waller, who toed a dovish line noting he does not think that March can be completely ruled out (re. a cut), though data could disrupt this, and three or four cuts are possible this year, if the data cooperates. This saw the DXY slide to session lows of 108.820, and spark upside in Treasuries and stocks. Elsewhere, there was a deluge of US data where Philly Fed (Jan) surged to its highest reading since April 2021, Retail Sales (Dec) was mixed, and initial jobless claims rose above expectations. Elsewhere, JPY was the clear G10 outperformer on Bloomberg sources noting there is a good chance of a January hike barring a major market rout following Trump's inauguration. Meanwhile, Pound was flat despite UK GDP falling short of expectations in the UK morning and adding further pressure on the Pound. The crude complex was lower, and took a break from the CPI-induced surge on Wednesday, as an initial Dollar rebound and constructive, albeit mixed, Middle East comments weighed. Treasuries were initially rangebound, but as mentioned saw a bid on dovish Waller. Ahead, the calendar is fairly sparse on Friday with Fed blackout at the conclusion of the day before the meeting on January 29th.

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Fed Governor Waller was dovish. He spoke on CNBC noting the December inflation data was very good, and he does not think that March can be completely ruled out [regarding a cut], though data could disrupt this. He said that if inflation numbers continue like this, it is reasonable to think rate cuts could come in H1, however, if there is a surprise like last year, the Fed will stay on hold but he is optimistic that disinflation will continue. Waller said cuts could start several months from now if current inflation expectations are met, noting that three or four cuts are possible this year, if data cooperates. Waller believes he may be a little more optimistic on inflation than his colleagues, and thinks inflation will continue to print towards target and the Y/Y stickiness is to abate. He highlighted how six of the last eight months of inflation have been near target, and it is reasonable to expect this to continue. On the labour market, he said some of the strength in the December report was due to making up from weak reads earlier in the year, and he suggests that BLS revisions, due alongside the January jobs report on February 7th, could take 50-60k off headline job numbers. Regarding Trump tariffs, Waller does not think it will have a significant impact on inflation, noting in the first Trump administration, there was not a lot of tariff pass-through, except in some specific areas. He suggests that tariffs will have a marginal/short-lived price impact and it is not persistent on inflation.

RETAIL SALES: Retail Sales M/M fell 0.4% in December, shy of the expected 0.6% and the prior 0.8%. Ex-autos M/M lifted to 0.4%, as forecasted, from 0.2% and Ex Gas/Autos ticked higher to 0.3% from 0.2%. Retail control surged to 0.7% from 0.4%, above the St. consensus of 0.4% and also the top end of the range. For the headline, the downside surprise was largely due to an unexpected 2.0% M/M fall in building materials sales and a 0.3% M/M dip in food services sales. Further still, Capital Economics notes the 1.5% M/M rebound in gasoline station sales values was less than they were expecting given the 4.4% M/M increase in prices. Note, all those components are excluded from the control group sales measure. Overall, CapEco notes the 0.4% M/M gain to end the year would also represent a strong handover to Q1, when the consultancy expects consumption growth to slow only modestly, particularly if households increase spending in an attempt to front-run likely tariffs.

PHILLY FED: The Philly Fed Business Index headline surged to 44.3 from -10.9 (revised up from -16.4), showing the largest increase in the index since June 2020. The components were strong, supporting the surge in the headline. The survey's indicators for general activity, new orders, and shipments lifted sharply and reached multiyear highs. New orders jumped to 42.9 (prev. -3.6), highest since Nov. 2021. Shipments 41.0 (prev. 1.7), highest since Oct. 2020. Inventories and unfilled orders 11.7 (prev. -3.8) and 24.0 (prev. 18.3), respectively, while delivery times fell to 6.8 from 9.2. On the labour market, number of employees rose to 11.9 from 4.8, with the average employee work week rising to 20.5 from -3.7, the highest since March 2022. The employment index moved higher and continues to suggest increasing levels overall - almost 87% of the firms reporting said no change in employment levels, nearly 13% reported increases, while 1% reported decreases. Price indices indicate overall increases, and both indices rose above their long-run averages. Prices Paid lifted to 31.9 from 26.6, the highest since Dec. 2022; 36% of firms reported increases in input prices, 4% reported decreases, and 60% reported no change. Prices received surged to 29.7 from 5.6, the highest since Jan. 2023. 25% reported increases in prices of their own goods (vs. 9% in Dec), 5% reported decreases (little changed) and 60% reported no change (prev. 85%). Respondents also noted that "For all categories, the average percent change in costs expected for 2025 was smaller than the average percent change in costs reported for 2024". Looking ahead, most future indicators strengthened further. Future general activity rose from a revised reading of 33.8 in Dec. to 46.3 in Jan. Future new orders and shipments lifted to 57.3 (prev. 52.1) and 60.2 (prev. 48.8), respectively, with the latter the highest since July 2021. The report notes that "On balance, firms continue to expect increases in employment over the next six months, and the future employment index rose 8 points to 40.4, its highest reading since Dec. 2021. Both future price indices were above their long-run averages".

JOBLESS CLAIMS: Initial jobless claims (w/e 11th Jan) rose to 217k from 203k, and above the expected 210k, which meant the 4wk average ticked marginally lower to 212.75k from 213.5k. Continued claims (w/e 4th Jan) fell to 1.859mln from 1.877mln, and shy of forecasted 1.871mln. Note, for the headline seasonal factors had expected an increase of 22,498 (7.3%) W/W. Michigan saw an unadjusted rise of 15,175 in the week, whereby desks note heavy snowfall in the Midwest appears to have boosted initial claims, probably by forcing work to stop at many construction sites. In addition, California saw a jump of 13,074 which was likely due to the LA fires.

IMPORT/EXPORT: Import Prices rose 0.1% in December, in line with the consensus and the prior. Higher fuel and nonfuel prices in December contributed to the overall rise in import prices. Fuel import prices rose 1.4%, the largest monthly move since April 2024 and was led by higher prices of natgas and petroleum. On a Y/Y basis, import prices rose 2.2% over the past 12 months, the largest over-the-year increase since the index rose 3.2% for the year ended December 2022. Nonfuel import prices rose 0.1%, matching the prior month pace, while higher prices for foods, feeds, and beverages in December more than offset lower prices for nonfuel industrial supplies and materials, capital goods, and automotive vehicles. Export prices rose 0.3%, above the 0.2% forecast and up from the prior unchanged print with higher prices for non-agricultural and agricultural exports contributing to the rise. Y/Y export prices rose 1.8%, the largest since January 2023. With import prices rising just 0.1%, it is another sign of welcome inflation related data this week following soft PPI and CPI. On the data, Oxford Economics note "The recent rise in global oil prices will feed through to higher fuel import prices and some volatility to the data, but we expect the Fed will look through any temporary sources of inflation."

NAHB: NAHB housing market index unexpectedly rose to 47 in January from 46 (exp. 45). Within the report, current sales conditions rose three points to 51 after holding steady in December, while sales expectations in the next six months fell six points to 60, in part due to the elevated interest rate environment. Additionally, the traffic of prospective buyers posted a two-point gain to 33. The latest HMI survey saw 30% of builders cut home prices in January (been stable between 30-33% since last July), the average price reduction at 5% (unch. from December) and the use of sales incentives at 61%. Ahead, Oxford Economics notes any regulatory relief for homebuilders would be unlikely to occur quickly, believing the largest burdens are at the state and local levels. The firm maintained the view of a modest increase in housing starts in 2025 given mortgage rates likely edging lower this year.

FIXED INCOME

T-NOTE (H5) FUTURES SETTLED 9 TICKS HIGHER AT 108-19+

T-Notes catch bid after dovish Waller. At settlement, 2s -2.5bps at 4.239%, 3s -3.6bps at 4.301%, 5s -4.8bps at 4.396%, 7s -4.7bps at 4.504%, 10s -4.7bps at 4.606%, 20s -3.3bps at 4.917%, 30s -3.3bps at 4.845%.

INFLATION BREAKEVENS: 5yr BEI -1.1bps at 2.534%, 10yr BEI -1.0bps at 2.418%, 30yr BEI -1.3bps at 2.350%.

THE DAY: T-Notes were relatively flat overnight before chopping in European trade and selling off as US players arrived ahead of a plethora of US data. T-Notes bottomed out at 108-00 in a knee-jerk reaction to the data which saw a huge beat in the Philly Fed survey, mixed retail sales, mixed jobless claims and in line import prices. T-Notes immediately bounced from 108-00 to grind higher to 108-10 before paring. Nonetheless, the driver of price action was Fed Governor Waller which saw T-Notes rally across the curve. The governor was dovish, noting March cannot be completely ruled out for rate cuts, and that three or four reductions were possible this year, if data cooperates (vs Fed median of two rate cuts), while he also noted he may be a little more optimistic than his colleagues on inflation. Waller suggested that rate cuts could start several months from now if current expectations are met. T-Notes continued to rally into settlement, finding a peak of 108-22. The upside post Waller was also supported by the commentary from US Treasury Secretary Nominee Bessent at the Senate hearing; Bessent stressed the US government has a significant spending problem, noting fiscal support may be hard to provide given the US deficit.

NEXT WEEK SUPPLY: US Treasury to sell USD 13bln of 20yr bonds on 22nd January and USD 20bln of 10yr TIPS on 23rd January; as expected

STIRS/OPERATIONS:

- **Market Implied Fed Rate Cut Pricing: January 1bps (prev. 1bps), March 8bps (prev. 8bps), May 14bps (prev. 13bps), December 42bps (prev. 39bps).**
- NY Fed RRP op demand at USD 94bln (prev. 120bln) across 34 counterparties (prev. 39).
- SOFR at 4.28% (prev. 4.28%), volumes at USD 2.280tln (prev. 2.179tln).
- EFFR at 4.33% (prev. 4.33%), volumes at USD 108bln (prev. 112bln).

CRUDE

WTI (G5) SETTLED USD 1.36 LOWER AT 78.68/BBL; BRENT (H5) SETTLED USD 0.74 LOWER AT 81.29/BBL

The crude complex was lower, and took a break from the CPI-induced surge on Wednesday, as an initial Dollar rebound and constructive, albeit mixed, Middle East comments weighed. Recapping the latter, despite reports an agreement has been reached, Sky News Arabia noted that an Israeli government spokesman told them that Hamas made some changes in the agreement at the last minute, although Axios have since noted that final disputes surrounding hostage deal has been resolved. As such, while news outlet continue to offer conflicting news flow, participants continue to await the signing of the deal. Thereafter, WTI and Brent saw session lows of USD 76.93/bbl and 80.39/bbl, respectively, before paring some of its weakness after US Treasury Secretary nominee Bessent stated sanctions on Russia over Ukraine war were not forceful enough and he would be in favour of increasing sanctions on Russian oil majors to levels that would bring Russia to negotiating table. Elsewhere on the supply side, desks flagged that Colonial Pipeline's line 1 is set to remain closed until Friday, which shut down due to a leak earlier in the week - with a capacity to carry some 1.5mln BPD of gasoline from the US Gulf Coast to the East Coast; in afternoon trade, Motiva reportedly told suppliers that shipments are resuming.

EQUITIES

CLOSES: SPX -0.03% at 5,947, NDX -0.69% at 21,091, DJIA -0.16% at 43,153, RUT +0.12% at 2,266.

SECTORS: Utilities +2.57%, Real Estate +2.23%, Industrials +1.19%, Materials +0.80%, Energy +0.62%, Financials +0.59%, Consumer Staples +0.56%, Health +0.43%, Consumer Discretionary -0.91%, Communication Services -0.96%, Technology -1.31%.

EUROPEAN CLOSES: DAX: +0.29% at 20,634, FTSE 100: +1.09% at 8,392, CAC 40: +2.14% at 7,635, Euro Stoxx 50: +1.44% at 5,105, AEX: +1.53% at 908, IBEX 35: -0.49% at 11,841, FTSE MIB: +0.48% at 35,820, SMI: +1.34% at 11,942, PSI: +0.55% at 6,494.

EARNINGS:

- **Bank of America (BAC):** EPS, revenue, and NII all topped with Q1 NII guide impressive. In conference call said it should report record NII in 2025.
- **Morgan Stanley (MS):** All major metrics topped.
- **TSMC (TSM):** Net income and operating profit beat with record quarter profit. Expects robust revenue growth in first 3 months of 2025 as demand surges for chips used in AI processing.
- **United Health (UNH):** Marginal miss on revenue and medical care ratio slightly worse than expected; affirmed 2025 guidance.
- **US Bancorp (USB):** Q4 numbers were solid but FY25 revenue underwhelmed.

STOCK SPECIFICS:

- **Target (TGT):** Strong Q4 comp. sales guidance with FY25 midpoint outlook in line.
- **Apple (AAPL)** in talks with **Barclays (BCS)** and **Synchrony Financial (SYF)** to replace **Goldman Sachs (GS)** as its credit card partner.
- **Apple (AAPL):** Fell to 3rd in China's smartphone market in 2024, with shipments down 17%, its largest annual decline.
- **Concentrix (CNXC):** Q4 metrics topped but guidance disappointed.
- **Rio Tinto (RIO):** Iron ore production down, copper up & raised '25 aluminium output view.
- **Amazon (AMZN)** cuts jobs in its fashion and fitness group, affecting roughly 200 people, via Business Insider.

BROKER MOVES:

- **Netflix (NFLX):** Upgraded at Seaport Research, arguing operational tailwinds should support Netflix's position with industry-leading original content accolades.
- **Southwest Airlines (LUV):** Downgraded at Citi seeing valuation correcting to more normalized levels, as the Cos. premium travel gains, limit Southwest's efforts to penetrate that category.
- **Ball (BALL):** Downgraded at Wells Fargo, citing concerns over its over-exposure to beer, near-term exposure to beverage consumption associated with the Los Angeles fires, and the stock's valuation.

US FX WRAP

The Dollar was more-or-less flat on Thursday, as an initial bid in the European morning to highs of 109.40 was unwound of extremely dovish comments from Fed Governor Waller. Recapping some of his main remarks, he does not think that March can be completely ruled out, though data could disrupt this, and added cuts could start several months from now if current inflation expectations are met, and three or four cuts are possible this year, if data cooperates. This saw the DXY slide to session lows of 108.820, whereby it currently sits around 108.95. Elsewhere, there was a deluge of US data where Philly Fed (Jan) surged to its highest reading since April 2021, Retail Sales (Dec) was mixed, and initial jobless claims rose above expectations. On the earnings footing, MS and BAC continued the strong bank earnings. In addition, US Treasury Secretary nominee Bessent had his nomination hearing. Ahead, the calendar is fairly sparse on Friday with Fed blackout at the conclusion on Friday before the meeting on January 29th.

JPY was the clear G10 outperformer against the Greenback with USD/JPY hitting a low of 155.11 against an earlier peak of 156.53. JPY saw strength as expectations of a BoJ hike next week continue to ramp up with money markets pricing in a c. 80% chance of a 25bps hike. In terms of recent updates, a source reporting via Bloomberg noted that the BoJ is said to see a good chance of a January rate hike barring a major market rout following Trump's inauguration.

CAD, AUD, and NZD were the G10 underperformers and were more a function of broader macro moves, although the focus for the Aussie's was the employment data overnight. The headline came in above expectations and also surpassing the top end of analysts range, while the unemployment rate ticked higher to 4.0%, as expected. For the Loonie, BoC Deputy Governor Gravelle was on the wires and noted a Trump tariff on exports would have a big negative impact on economic growth.

EUR and **CHF** saw slight gains, whilst **GBP** was flat as it attempted to pare some of its recent heavy selling. On the data docket, UK GDP M/M (Nov) fell short of consensus, which sparked pressure in Bunds, with Gilts not open, potentially driven by the narrative that the softer growth data will work to reduce the Chancellor's fiscal headroom. In Europe, ECB Minutes were largely a non-event while final German CPI M/M (Dec) was revised higher. Cable traded between 1.2176-2260, while EUR/USD saw a low of 1.0261 and a high of 1.0314.

EMFX was largely weaker vs. the Buck, with **MXN** one of the clear laggards ahead of Trump's inauguration on Monday, 20th January. In terms of newsflow, NBP held rates at 5.75%, as expected, and said it may intervene in FX markets and further decisions will depend on data. Out of Asia, BoK maintained its base rate at 3.0% vs expected 25bps cut, with a slew of commentary from officials thereafter.

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