

Treasuries and JPY weighed by Japanese earthquake while tech outperforms

- **SNAPSHOT:** Equities down, Treasuries down, Crude down, Dollar up, Gold down.
- **REAR VIEW:** NY FED SCE sees inflation expectations unchanged and households more pessimistic on current & future financial conditions; US reportedly to allow NVDA H200 chip exports to China; Decent US 3yr note auction; 7+ magnitude earthquake strikes Northern Japan; ECB's Schnabel 'comfortable' on bets that next move will be a hike; IBM to acquire CFLT; PSKY launches all-cash tender offer for WBD.
- **COMING UP: Data:** German Trade Balance (Oct), US Average Weekly Prelim Estimate ADP (4-week, w/e 22 Nov), JOLTS (Sep). **Events:** RBA Rate Announcement, EIA STEO. **Speakers:** RBA's Bullock; ECB's Nagel; BoJ's Ueda; BoE's Ramsden, Lombardelli, Mann, Dhingra; RBNZ's Breman. **Supply:** Japan, UK, US. **Earnings:** GameStop.
- **WEEK AHEAD:** Highlights include FOMC, RBA, BoC, SNB, UK GDP, Aussie Jobs, Chinese Trade and Inflation. [Click here for the full list.](#)
- **CENTRAL BANK WEEKLY:** Previewing FOMC, RBA, BoC, SNB, CBRT; Reviewing RBI [Click here for the full list.](#)
- **WEEKLY US EARNINGS ESTIMATES:** Highlights include AVGO, ORCL, COST, ADBE, and SNPS. [Click here for the full list.](#)

MARKET WRAP

US stocks were mostly lower to start the week, with all sectors but Technology in the red. Communications and Consumer Discretionary were the worst performers, the former weighed by downside in Alphabet (GOOGL, -2.3%) and Netflix (NFLX, -3.4% due to an attractive all-cash PSKY bid for WBD). Tesla (TSLA, -3.4%) weighed on Consumer Discretionary after receiving a downgrade at Morgan Stanley due to its high valuation, a more cautious EV outlook, and non-auto growth being priced in. A blip of reprieve was seen for US indices following a Semafor report that the US is to allow NVIDIA (NVDA, +1.7%) H200 chip exports to China. That said, the move swiftly pared for US indices, and mostly did for NVIDIA as well. US updates included the NY Fed SCE showing consumer inflation expectations across 1yr, 3yr, and 5yr horizons unchanged, while pessimism increased surrounding current and future financial conditions. In FX, the DXY was flat to start the week with currency-specific newsflow light. NZD outperformance was perhaps due to Chinese exports topping November expectations, while the Yen was weighed by a 7.6 earthquake striking Japan. The earthquake, in combination with hawkish remarks from ECB's Schnabel, were the dominant factors behind the pressure across global fixed, with T-Notes managing to trim losses into settlement. In the US afternoon, the US sold USD 58bln of 3yr notes, which was met with strong indirect demand; reaction was muted. For commodities, crude prices settled lower amid little newsflow, while gold & silver incurred marginal downside.

US

NY FED SCE: NY Fed Survey of Consumer Expectations for November saw the 1yr, 3yr, and 5yr ahead inflation expectations unchanged at 3.2%, 3%, and 3%, respectively. Within the report, the perceptions about households' current financial situations deteriorated notably, with a larger share of respondents reporting that their households were worse off Y/Y. Expectations about year-ahead financial situations also deteriorated slightly. On the labour footing, mean unemployment expectations improved slightly, decreasing by 0.4ppt to 42.1%. Lastly, perceptions of credit access vs. a year ago deteriorated, with a decrease in the net share of respondents who expect that credit will be easier to obtain a year from now.

FIXED INCOME

T-NOTE FUTURES (H6) SETTLED 8+ TICKS LOWER AT 112-08

US yields rise in tandem with global bonds amid a hawkish ECB Schnabel and a 7.6 earthquake striking Japan. At settlement, 2-year +1.7bps at 3.581%, 3-year +2.7bps at 3.615%, 5-year +3.6bps at 3.752%, 7-year +3.9bps at 3.945%, 10-year +3.3bps at 4.172%, 20-year +3.0bps at 4.785%, 30-year +2.5bps at 4.817%.

INFLATION BREAKEVENS: 1-year BEI -1.3bps at 2.729%, 3-year BEI -2.3bps at 2.442%, 5-year BEI -1.2bps at 2.248%, 10-year BEI -0.2bps at 2.249%, 30-year BEI +0.3bps at 2.228%.

THE DAY: Treasuries were gradually sold through overnight trade before accelerating in the US morning. Driving the overnight/EU move were hawkish remarks from the ECB's Schnabel, who said she's 'comfortable' on bets that the next move will be a hike, albeit not any time soon. The remarks pressured global bonds, particularly Bunds. Thereafter, a 7.6-magnitude earthquake struck Japan, sparking concerns about supply-side driven inflationary pressures, and as such, added to downside in the space. That said, the Japanese government later downgraded the tsunami warning to a tsunami advisory after the earthquake, and JGBs Dec'25 managed to recover from the earlier downside. Domestic updates for T-Notes were limited to the NY Fed SCE and the 3-year auction, with both events having a muted impact on price action. The NY Fed survey saw consumer inflation expectations across all durations unchanged, while pessimism over current and future financial situations in November grew. Meanwhile, the 3-year auction was strong, led by Indirect demand. T-Notes hit lows of 112-02+ after the earthquake in Japan before trimming losses into settlement.

SUPPLY:

Notes

- US sold USD 58bln of 3yr notes
- Overall, a strong 3yr note auction supported by Indirect demand and highlighted by the 0.8bps stop through, again above the six-auction stop-through of 0.2bps. B/C, however, dropped to 2.6x from 2.85x, but in keeping with the average. Dealer demand fell to 9.03% from 9.7%, a result of a jump in Indirect demand to 72% from 63%, now comfortably above the 62.5% average. Direct demand dropped to 19.00% below the 24.5% average from 27.3%.

Bills

- US sold 3-month bills at a high rate of 3.650%, B/C 2.73x; sold 6-month bills at high rate of 3.580%, B/C 3.01x.

STIRS/OPERATIONS

- **Market Implied Fed Rate Cut Pricing: Dec 21.5bps (prev. 21bps), January 29bps (prev. 29bps), March 35bps (prev. 36bps).**
- NY Fed RRP op demand at USD 1.7bln (prev. 1.485bln) across 6 counterparties (prev. 8)
- NY Fed Repo Op demand at USD 0.000bln (prev. 0.002bln) across two operations.
- EFFR at 3.89% (prev. 3.89%), volumes at USD 88bln (prev. 87bln) on December 5th.
- SOFR at 3.93% (prev. 3.92%), volumes at USD 3.221tln (prev. 3.300tln) on December 5th.

CRUDE

WTI (F6) SETTLED USD 1.20 LOWER AT USD 58.88/BBL; BRENT (G6) SETTLED USD 1.26 LOWER AT USD 62.49/BBL

The crude complex started the week on the back foot with benchmarks settling at lows, as focus resides around Ukraine/Russia updates. On Monday, Zelensky met key European allies as he faces US pressure to reach a swift peace deal with Russia, and while little new was reported, the UK Government stated leaders all agreed that "now is a critical moment and must continue to ramp up support to Ukraine and economic pressure on Putin". While benchmarks moved lower throughout the duration of the US session, WTI and Brent saw a little boost to pare some losses, amid Iraq energy officials noting Iraq shuts down entire west Qurna 2 production of ~460kbpd due to export pipelines leak. Overall, newsflow was light on Monday ahead of a raft of central bank decisions this week, namely the Fed on Wednesday. For the record, WTI traded between USD 58.68-60.30/bbl and Brent USD 62.34-63.96/bbl.

EQUITIES

CLOSES: SPX -0.35% at 6,847, NDX -0.25% at 25,628, DJI -0.45% at 47,739, RUT -0.02% at 2,251

SECTORS: Communication Services -1.77%, Materials -1.66%, Consumer Discretionary -1.53%, Utilities -1.30%, Health -1.27%, Energy -1.04%, Consumer Staples -0.90%, Real Estate -0.65%, Financials -0.39%, Industrials -0.14%, Technology +0.93%.

EUROPEAN CLOSES: Euro Stoxx 50 +0.01% at 5,724, Dax 40 +0.11% at 24,056, FTSE 100 -0.23% at 9,645, CAC 40 -0.08% at 8,108, FTSE MIB +0.00% at 43,433, IBEX 35 +0.14% at 16,712, PSI +0.02% at 8,200, SMI +0.37% at 12,984, AEX -0.25% at 945.

STOCK SPECIFICS

- **Paramount Skydance (PSKY):** Launched an all-cash tender offer to acquire Warner Bros Discovery (WBD) for USD 30/shr; proposed deal for USD 108.4bln.
- US to allow **NVIDIA (NVDA)** H200 chip exports to China, Semafor reports, according to a person with knowledge of the plan.
- **Confluent (CFLT):** IBM confirmed it is to acquire Confluent for USD 31/shr in cash.
- **Carvana (CVNA), CRH (CRH), Comfort Systems (FIX):** Will join SPX BMO on Dec. 22nd
- **General Motors (GM):** Upgraded at Morgan Stanley to 'Overweight' from 'Equal Weight'.
- **NextEra Energy (NEE):** Co. & Google Cloud announce strategic energy & tech partnership to accelerate AI growth.
- **Netflix (NFLX), Warner Bros Discovery (WBD):** Trump voiced potential antitrust concerns regarding Netflix's planned \$72bln acquisition of WBD.
- **Tesla (TSLA):** NHTSA opened a preliminary evaluation into TSLA vehicles using FSD after 62 complaints, 4 media reports & 14 SGO reports alleging traffic violations; downgraded at Morgan Stanley to 'Equal Weight' from 'Overweight' due to its high valuation (30x 2030 EBITDA), a more cautious EV outlook, and non-auto growth being priced in, they await a better entry point.
- **CoreWeave (CRWV):** Proposed USD 2bln convertible senior notes offering.
- **Unilever (UL):** Chair of Ben & Jerry's independent board, Anuradha Mittal, refuses to resign despite Co. pressure.
- **Marvell (MRVL):** Microsoft is reportedly in talks to design custom chips with Broadcom, switching its business from Marvell.
- **Occidental Petroleum (OXY):** Downgraded at JPMorgan to 'Underweight' from 'Neutral'.

FX

The Dollar saw slight gains on Monday, albeit in thin newsflow, as participants largely await the FOMC on Wednesday, whereby they are widely expected to cut by 25bps. Back to today, in the latest NY Fed SCE for November, 1yr, 3yr, and 5yr inflation expectations were all left unchanged at 3.2%, 3%, and 3%, respectively; households were more pessimistic on current and future financial situations in November, but labour market expectations improved in November. DXY traded between 98.792-99.229, as it very much is the calm before the storm.

G10 FX performance was mixed against the Greenback. NZD, EUR, and GBP were all flat, while AUD, CAD, JPY, and CHF saw simila

weakness, with little currency-specific headlines. Despite saying that, USD/JPY hit a peak of 155.98, and the Yen was hit after a 7.6-magnitude earthquake hit Japan, with a tsunami advisory issued. Elsewhere, the Euro saw strength as ECB's Schnabel said she is 'comfortable' on bets that next move will be a hike, albeit not any time soon.

As mentioned, the **Kiwi** was one of the gainers and perhaps benefiting as participants digest positive Chinese exports data, although imports disappointed. Recapping the metrics, Chinese exports surged 5.9% in November (exp. 3.8%, prev. -1.1%), and Imports rose just 1.9% (exp. 3%, prev. 1%).

Regarding **EUR/USD**, ING still believes it heads to 1.22 by end-2026 as lower US rates, lower energy prices and, crucially, the arrival of German fiscal stimulus support higher valuation levels for the euro. ING adds that, in Europe, this will be played out in a higher EUR/GBP and perhaps even a higher EUR/CHF, too. Elsewhere in Europe, the think tank believes the Swedish krona should be the outperformer, supported by fiscal stimulus in an election year. ING also continues to like the Czech koruna, amid strong domestic growth and high real interest rates.

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