

Stocks and bonds bid on dovish Fed

- **SNAPSHOT:** Equities up, Treasuries up, Crude up, Dollar down, Gold up
- **REAR VIEW:** Fed cuts rates as expected but with bigger support than anticipated; Powell leans net dovish, noting of increased downside risks to labour and job growth overstatement; US seizes oil tanker near Venezuela; US employment costs print slightly soft; US manufacturers reportedly pull back harder on parts and raw materials due to trade and tariff uncertainty; BoC holds rates as expected; China reportedly weighs NVDA chip purchase in an emergency meeting; Bytedance & BABA reportedly keen to place large NVDA H200 chip orders; Kazakhstan to raise oil exports; Chinese CPI comes in hot Y/Y as expected; EIA crude stock draw smaller than expected; GEV provide impressive update; EU set to fine GOOGL over Google Pay breaching EU rules.
- **COMING UP:** **Data:** Australian Employment Report (Nov), Swedish CPI (Nov), US Initial Jobless Claims (6 Dec, w/e). **Events:** SNB/CBRT Rate Announcement, IEA OMR, OPEC MOMR. **Speakers:** SNB's Schlegel; BoE's Bailey; ECB's de Guindos. **Supply:** Japan, Italy, US. **Earnings:** Broadcom, Costco, lululemon.

MARKET WRAP

US indices and Treasuries ended the day with gains, while the Dollar was sold after a surprisingly dovish FOMC and Powell press conference (summary below). Briefly recapping, the Fed cut rates by 25bps to 3.5-3.75%, as expected, but in a dovish 9-3 vote split - Goolsbee and Schmid voted to leave rates unchanged, while Miran wanted a larger 50bps reduction. Heading into the meeting, as many as 4 hawkish dissenters were touted. In the following presser, Powell largely put more emphasis on the labour side of the mandate vs inflation, but he did acknowledge that rates are in a plausible range of neutral. Looking to January, he noted the Fed has not made a decision yet, they will wait and see how the data comes in, stressing there is a lot of data due to come. As a reminder, next week, we will see the October and November NFP, the November Unemployment rate, and the November CPI. On account of the aforementioned broad Dollar weakness, all G10 FX peers profited, with the CAD ultimately firmer following the BoC's decision to hold rates at 2.25% in an expected decision, reiterating that the current rate is about the right level to keep inflation close to 2% as long as the economy and inflation evolve in line with projections. Oil saw slight gains, but had seen initial weakness in the wake of Kazakhstan announcing it is to raise oil exports via alternative routes to the CPC routes. However, upside ensued on reports, that were later confirmed, that the US seized an oil tanker off the coast of Venezuela. Precious metals moved higher in response to the dovish Fed. Elsewhere, sectors were almost exclusively in the green, aside from Utilities, with Industrials the outperformer and buoyed by a stellar GE Vernova update.

NORTH AMERICA

FOMC ANALYSIS: Fed cuts rates, and vote split triggered a dovish market reaction. The FOMC cut rates by 25bps to 3.50-3.75% as expected, with a 9-3 vote split; Miran sought a 50bps cut, while Goolsbee and Schmid preferred no change. It reiterated data dependence, signalling that further adjustments will hinge on the evolving outlook, labour market conditions, inflation dynamics, expectations, and global and financial developments. Policy guidance was tweaked, changing the phrase "in considering additional adjustments" to "in considering the extent and timing of additional adjustments." In its updated SEP, the Fed Funds projections are essentially unchanged, signalling steady expectations for a gradual return toward the longer-run rate. However, the 2025 dot plot composition shows six members projecting end-2025 rates at 3.75-4.00%, indicating that four non-voters would have voted to keep rates on hold at today's meeting if they had voting rights. The Fed noted slower job gains and a slight rise in unemployment through September, with the December statement updating October's labour-market phrasing by replacing "the unemployment rate has edged up but remained low through August" with "the unemployment rate has edged up through September." Unemployment forecasts are only marginally firmer in the out-years, suggesting a slightly more resilient labour market. Inflation has increased since earlier in the year and remains somewhat elevated, while core PCE expectations have eased modestly, pointing to a marginally softer inflation path and slightly more confidence in disinflation over the forecast horizon. Economic activity is described as expanding at a moderate pace, with uncertainty around the outlook still high and downside risks to employment having risen recently. The Fed said reserve balances have declined to ample levels and will use shorter-term Treasury purchases when needed to maintain sufficient reserves. October's balance-sheet guidance, "the Committee decided to conclude the reduction of its aggregate securities holdings on December 1," is removed; instead, December adds: "the Committee judges that reserve balances have declined to ample levels and will initiate purchases of shorter-term Treasury securities as needed to maintain an ample supply of reserves."

POWELL PRESSER: Overall, it was a net dovish press conference from Powell, particularly compared to the tone of the October press conference. Powell appeared more concerned about the labour market side of the mandate than inflation. Powell stressed several times that there are downside risks to employment, while saying it is a reasonable base case that the tariff effects on inflation will be one-time. He was optimistic on growth too, noting the baseline outlook would be solid growth next year as fiscal policy will be supportive, consumer continues to spend, and AI spending continues. When asked about why they cut today after a hawkish October press conference, he said there has been a gradual cooling in the labour market, and they think there is -20k payrolls per month, while inflation has come in a touch lower. He also suggested the overcount of payrolls is around 60k per month, while labour supply has come down sharply. He said it does not feel like a hot economy, and evidence is growing that services inflation has come down, and goods inflation is entirely due to tariffs. Some hawkishness was seen as Powell said they are well-

positioned to determine adjustments to the policy rate, noting that rates are now in a plausible range of neutral, later describing policy rates as in the high end of neutral. He was quizzed about the guidance, noting that the "extent and timing" phrase points out that they will carefully evaluate incoming data. He also said the Fed is well-positioned to wait and see how the economy evolves, but they will see a great deal of data before January, so they have not made up their mind yet. He also said that with rates in a plausible range of neutral, the base case is still not for rate hikes.

BOC REVIEW: The BoC held rates as expected at 2.25%, reiterating that the current rate is about the right level to keep inflation close to 2% as long as the economy and inflation evolve in line with projections. It sees underlying inflation still around 2.5% before moving higher in the near term, likely due to the effects of last year's GST/HST holiday on the prices of some goods and services. Ahead, the central bank expects ongoing economic slack to roughly offset cost pressures associated with the reconfiguration of trade, keeping CPI inflation close to the 2% target. Despite the last three job reports topping expectations, Macklem notes recent job data haven't changed the BoC's economic outlook, but are encouraging. BoC added that the job markets in trade-sensitive sectors remain weak and economy-wide hiring intentions continue to be subdued. Moreover, the recent GDP beat was somewhat downplayed due to trade volatility. Macklem and the BoC anticipate GDP growth likely to be weak in Q4 before picking up in 2026, although uncertainty remains high. On the decision to cut in October, Macklem wrote that they agreed that a policy rate at the lower end of the neutral range was appropriate to provide some support for the economy as it works through this structural transition while keeping inflationary pressures contained. Hawkish 2026 bets were trimmed since the announcement, with ~29bps of hikes priced in by year-end (prev. 34bps), with the first 25bps hike now seen by December rather than October; accordingly, Canadian 2-year government bond yields fell. Rabobank remains sceptical as to how strong the Canadian labour market really is, and maintains the view that this signals an underemployment problem due to the decline in full-time employment being offset by increases in part-time employment. Rabobank expects the overnight policy rate to be at 2.25% throughout 2026.

FIXED INCOME

T-NOTE FUTURES (H6) SETTLED 4 TICKS HIGHER AT 112-07

T-notes bull steepen as Fed was more dovish than expected. At settlement, 2-year -7.9bps at 3.534%, 3-year -7.0bps at 3.578%, 5-year -5.8bps at 3.722%, 7-year -4.8bps at 3.920%, 10-year -4.3bps at 4.143%, 20-year -2.8bps at 4.753%, 30-year -2.1bps at 4.788%.

INFLATION BREAKEVENS: 1-year BEI +3.6bps at 2.695%, 3-year BEI -1.2bps at 2.419%, 5-year BEI -0.4bps at 2.242%, 10-year BEI 0.0bps at 2.252%, 30-year BEI -0.3bps at 2.230%.

THE DAY: T-notes bull steepened in the wake of the dovish FOMC and press conference. Going into the rate decision, Wall Street had largely been expecting a hawkish cut. However, it ultimately was more of a dovish cut. The vote split was more dovish than expected, with only two members voting to leave rates on hold (Schmid and Goolsbee), while Miran opted for another 50bps cut. Note, according to the 2025 dot plot, there were four non-voters who would have voted to keep rates on hold today. The dot plot medians were left unchanged throughout the forecast horizon, with the median pencilling in just one rate cut in 2026, unchanged from September. Meanwhile, inflation forecasts were lowered for 2026, while unemployment was maintained at 4.4%. The Fed did adjust guidance to signal a slowdown of the pace of rate cuts, by tweaking language to "in considering the extent and timing of additional adjustments" from "in considering additional adjustments". Based on the vote split and positioning going into the FOMC, T-notes rallied across the curve in response to the decision and vote split. Meanwhile, Fed Chair Powell was clearly more dovish than in the October presser - appearing more concerned about the labour side of the mandate vs inflation, noting the base case is that tariffs will be a one-time effect. However, he was optimistic about growth. He also noted that rates are now in a plausible range of neutral, but towards the top end of neutral. He reiterated a data-dependent stance for decisions ahead, noting there is a great deal of data due between now and then. However, he did state that the Fed thinks payroll growth is at -20k per month, and official figures are overstating growth by 60k.

SUPPLY:

Notes

- US to sell USD 22bln of 30-year bonds on Dec 11th.

Bills

- US sold 17-week bills at a high rate of 3.610%, B/C 3.04x
- US to sell USD 85bln of 4-week bills (prev. 90bln) on Dec 11th.
- US to sell USD 80bln of 8-week bills on Dec 11th.

STIRS/OPERATIONS

- **Market Implied Fed Rate Cut Pricing: January 5.5bps (prev. 3.3bps), March 12.7bps (prev. 8.6bps), April 19.5bps (prev. 14.8bps)**
- NY Fed RRP Op demand at USD 5.05bln (prev. 3.2bln) across 17 counterparties (prev. 10)
- NY Fed Repo Op demand at USD 0.001bln (prev. 0.107bln) across two operations.
- EFFR at 3.89% (prev. 3.89%), volumes at USD 85bln (prev. 84bln) on December 9th.
- SOFR at 3.93% (prev. 3.95%), volumes at USD 3.244tln (prev. 3.209tln) on December 9th

CRUDE

WTI (F6) SETTLED USD 0.21 HIGHER AT USD 58.46/BBL; BRENT (G6) SETTLED USD 0.27 HIGHER AT USD 62.21/BBL

The crude complex was choppy on Wednesday, settling green following the US seizure of an oil tanker near Venezuela. On

geopolitics, Zelensky said Ukraine and the US are to hold talks on a peace plan draft on Wednesday [today], and it is worth noting that Russian Foreign Minister Lavrov said Russia has no intention of fighting a war with Europe, but Russia will respond if European forces are deployed in Ukraine. On the day, WTI and Brent saw downside throughout the European session to hit lows of USD 57.66/bbl and 61.35, respectively, and downside was aided amid reports that Kazakhstan is to raise oil exports via alternative to CPC routes, and that Kazakhstan is to raise oil exports via BTC by 58k tons. Elsewhere, in the weekly EIA data, energy saw a shallower draw than expected, against Tuesday's larger-than-anticipated draw. Distillates and Gasoline both saw greater than forecasted builds, with overall crude production +38k W/W to 1.3853mln. Ahead of the Fed, oil prices gained after the US conducted a "judicial enforcement action on a stateless vessel" that was last docked in Venezuela, according to Bloomberg, citing a senior Trump administration official; further details were absent. In response to the Fed cutting rates as expected, but with a more dovish vote split than forecasted, prices were unfazed.

EQUITIES

CLOSES: SPX +0.67% at 6,887, NDX +0.42% at 25,776, DJI +1.05% at 48,058, RUT +1.32% at 2,560

SECTORS: Utilities -0.11%, Consumer Staples 0.00% (unch), Technology +0.05%, Real Estate +0.06%, Communication Services +0.13%, Energy +1.11%, Financials +1.13%, Health +1.45%, Consumer Discretionary +1.52%, Materials +1.77%, Industrials +1.84%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.16% at 5,709, Dax 40 -0.22% at 24,110, FTSE 100 +0.14% at 9,656, CAC 40 -0.37% at 8,023, FTSE MIB -0.25% at 43,465, IBEX 35 +0.17% at 16,763, PSI -0.89% at 8,019, SMI -0.09% at 12,919, AEX -0.35% at 944.

STOCK SPECIFICS:

- **AeroEnvironment (AVAV)** profit light and cut FY EPS view.
- **Amazon (AMZN)** plans to invest more than USD 35bln in India by 2030 to expand AI capabilities and exports.
- DeepSeek is reportedly using banned **NVIDIA (NVDA)** chips in its race to build its next model, via The Information.
- **EchoStar (SATS)** upgraded at Morgan Stanley to 'Overweight' from 'Equal Weight'.
- **GameStop (GME)** revenue missed.
- **GE Vernova (GEV)** lifted share repurchase authorisation to USD 10bln (prev. 6bln) and doubled quarterly dividend to USD 0.50/shr; FY25 rev. trending toward the upper end range and & raised FY25 FCF outlook.
- **Intel (INTC)** and **AMD (AMD)** have been accused of failing to block chips in Russian missiles, via Bloomberg.
- **Mastercard (MA)** raised quarterly dividend 14% to USD 0.87/shr & approved a new share repurchase programme of up to USD 14bln.
- **Meta (META)** reportedly plans a price hike for its virtual reality devices, via Business Insider, citing an internal memo. In other news, Zuckerberg reportedly directs a pivot away from open-source AI at Meta, according to Bloomberg, and Meta refined a new AI model using Alibaba's (BABA) Qwen.
- **PepsiCo (PEP)** upgraded at JPM to 'Overweight' from 'Neutral'.

FX

The Dollar Index was lower both before and after the Fed cut the FFR to 3.50-3.75% as widely anticipated. Dollar weakness accelerated on the unanticipated dovish vote split, meaning fewer FOMC voters were arguing for unchanged rates, with only 2 favouring to leave rates unchanged, against many expecting 4. The Fed argued downside risks to employment had risen, with the Fed statement acknowledging the move higher in the Unemployment Rate in September. Powell echoed the dovish theme in his press conference, arguing the job growth overcount is around 60k per month, and he does not feel like the economy is hot. Currently, DXY trades around lows of 98.586 from earlier 99.258 highs.

CAD was modestly firmer following the BoC's decision to hold rates at 2.25% in an expected decision, reiterating that the current rate is about the right level to keep inflation close to 2% as long as the economy and inflation evolve in line with projections. CAD strength accelerated after the dovish Fed rate cut caused broad-USD weakness. Hawkish bets were trimmed following the BoC announcement, with both the CB and Governor Macklem downplaying the recent jobs data, arguing that job markets in trade-sensitive sectors remain weak and that economy-wide hiring intentions continue to be subdued.

USD/CHF and **EUR/CHF** traded lower as CHF strength led G10 gains against the dollar ahead of the SNB's quarterly rate announcement on Thursday. The SNB is widely expected to keep its policy rate at 0.00% at Thursday's meeting, with markets assigning a 97% probability to such a decision. However, a move into NIRP cannot be ruled out after a cooler-than-expected inflation report. [Click here for the SNB Newsquawk Preview.](#)

USD/CNH was flat following China's Y/Y CPI rising 0.7% in November (as expected), its highest reading in 21 months. The third consecutive CPI acceleration was due to food prices, particularly fresh vegetable prices, +14.5%Y/Y.

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