

Stocks hit as tech weakness weighs, eyes turn to NFP

- **SNAPSHOT:** Equities down, Treasuries up, Crude down, Dollar down, Gold up.
- **REAR VIEW:** NY Fed Survey headline disappointed, but outlook was more optimistic; Ukraine's top negotiator said real progress achieved in talks with the US; RBNZ Governor suggested market conditions have tightened "beyond" what RBNZ intended; Strong Japanese Tankan survey; Fed's Williams said Fed policy has moved toward neutral from modestly restrictive; Miran toes usual dovish tune; Collins supported 25bps rate cut, but said it was a "close call".
- **COMING UP:** **Data:** UK Jobs Report (Oct), JP/EZ/UK/US Flash PMIs (Dec), German ZEW Survey (Dec), Japanese Trade Balance (Nov), US Average Weekly Prelim Estimate ADP (4-week, w/e 29 Nov), Non-Farm Payrolls (Oct), Jobs Report (Nov), Retail Sales (Oct), Business Inventories (Sep). **Events:** NBH Announcement. **Speakers:** BoC's Macklem. **Supply:** UK.

MARKET WRAP

Stocks ultimately closed in the red on Monday with the Russell and Nasdaq lagging while sectors were predominantly firmer with Health Care, Utilities and Consumer Discretionary outperforming, but Tech, Energy and Communication lagged with tech still pressured after the ORCL and AVGO reports last week. Energy stocks were hit as oil prices declined on Russia/Ukraine peace progress - with talks taking place today with Ukraine, EU and the US, with all sides seemingly optimistic with Trump suggesting they are closer than ever to peace. The pressure in crude prices gave a helping hand to T-Notes with the curve bull steepening. T-Notes hit a peak after the weak NY Fed Manufacturing survey, albeit the outlook was more optimistic. T-Notes then pared off highs into settlement. Fed speak saw Miran explain his dissent, Williams remarked Fed policy has moved toward neutral from modestly restrictive, while Collins wants more evidence of inflation returning to target before easing again. In FX, the Dollar saw mild weakness while Yen outperformed as rate hike expectations built ahead of Friday's decision, NZD lagged after the RBNZ Governor suggested that market conditions have tightened "beyond" what the RBNZ intended.

US

NY FED: The NY Fed Manufacturing Survey saw headline business conditions fall to -3.9 in December from 18.7 in November. The drop was led by a fall in new orders to 0, from 15.9, while shipments declined to -5.7 from 16.8, with unfilled orders also falling further into contractionary territory, to -14.9 from -5.8. Inventories fell slightly to 4.0 from 6.7. When looking at prices, both Paid and Received eased, falling to 37.6 from 49.0, and to 19.8 from 24.0, respectively. Employment was little changed, the number of employees ticked up slightly to 7.3 from 6.6, while the average employee workweek fell to 3.5 from 7.7. However, firms became more optimistic about the outlook. The six-month outlook for business conditions rose to 35.7 from 19.1, with new orders up to 38 from 23.3, shipments rose to 33.3 from 23.3, and unfilled orders rose to 12.9 from 1.0. Prices Paid are expected to ease, with the six-month index falling to 55.4 from 62.5, but the outlook on prices received rose to 46.3 from 41.3. The outlook for the number of employees declined slightly, to 8.8 from 11.9, while the average employee workweek rose to 12.9 from 5.8.

NAHB: The US NAHB Housing Market Index rose to 39 in December from 38, as widely expected. Current sales conditions rose by 1 to 4, sales expectations in the next six months increased by 1 to 52, while the traffic of prospective buyers held steady at 26. Additionally, the latest survey revealed that 40% of builders reported cutting prices in December (prev. 41%), marking the second consecutive month the share has been at 40% or higher since May 2020. Meanwhile, the average price reduction fell to 5% from 6%. The use of sales incentives was 67%, the highest percentage in the post-COVID period. Oxford Economics writes that the improvement in builders' view of future sales is consistent with their forecast for housing starts to move sideways through Q4 but gradually increase in 2026 in response to lower mortgage rates and an improving economy and labour market.

WILLIAMS in his initial remarks, said that Fed policy has moved toward neutral from modestly restrictive and monetary policy is well positioned for what lies ahead, which somewhat echoes what Chair Powell said after the rate decision that the Fed rate is in a "plausible range of neutral", but it is "at the upper end." Williams expects US unemployment to be 4.5% by the end of 2025, which is in line with the median projection seen in the recent Fed SEPs. In addition, Williams expects inflation to move to 2.5% in 2026 and 2% in 2027, and expects 2026 GDP growth to hit 2.25%, well above the 2025 rate. He reiterated he sees tariffs as a one-off price adjustment, not spilling over into broader inflation. In later remarks, he noted the Fed's baseline forecast is a 'pretty good outcome' with recent rate cuts positioning the Fed to balance both mandates. On the labour market, added that a gradual cooling points to a modestly restrictive monetary policy. Lastly, 'very supportive' of the Fed's decision to cut interest rates last week and expects the coming job data will show a gradual cooling, while it is too early to note what the Fed will need to do in January.

MIRAN (Voter, Dove) argued that current excess inflation does not reflect underlying supply and demand dynamics, and said families are "rightly distraught" about the affordability challenges caused by past inflation. He asserted that prices are "once again stable" and that monetary policy should reflect this reality. Miran emphasised that shelter inflation, which is measured with a lag, overstates current conditions, while the rise in portfolio management fees is unrelated to underlying market forces. Stripping out housing and non-market-based components, he estimated that core PCE inflation may already be below 2.3%, effectively "within the noise" of the Fed's 2% target. He does not believe recent goods inflation is primarily due to tariffs, though he acknowledged not having a complete explanation. Miran added that while goods inflation may now be structurally higher than before the pandemic, this could be more than offset by ongoing housing disinflation. He warned that if the expected decline in shelter inflation fails to materialise, the overall inflation outlook could change. For now, he sees no evidence of concern in inflation expectations data and

maintains that there is no excess underlying inflation relative to the Fed's target. He repeated that keeping policy too tight risks unnecessary job losses and affirmed that the labor market shows no signs of severe stress. He believes the Fed's current policy stance is too tight and continues to contribute to housing affordability problems, in part due to past efforts to inject credit into the housing market. While he prefers an all-Treasury balance sheet, he opposes MBS sales due to the potential for realised losses and broader negative consequences that outweigh balance sheet purity. Finally, he said he anticipates remaining in his current seat until a replacement is confirmed and that President Trump has not spoken to him about the Fed seat or policy direction.

COLLINS (2025 Voter) voted for a 25bps cut in December, but her comments heading into the meeting had indicated a hold. She said that the decision to cut was a close call, but ultimately voted to cut amid a shifting balance of risks. She sees future inflation risks as lower than they were, noting that scenarios with a notable further rise in inflation seem somewhat less likely. However, she does remain concerned about potential inflation persistence, and it was important to her that the forward guidance ("in considering the extent and timing of additional adjustments") now echoes the language in the Dec. 2024 statement, which preceded a pause in cutting rates. She said that policy is not on a preset path, adding that in her view, policy is at the lower end of a range that she views as "mildly restrictive". She wants further clarity about the inflation picture before adjusting policy further, to ensure a timely return of inflation to the Fed's 2% target.

FIXED INCOME

T-NOTE FUTURES (H6) SETTLED 3+ TICKS HIGHER AT 112-09

T-Notes bull steepen ahead of NFP. At settlement, 2-year -2.3bps at 3.508%, 3-year -2.5bps at 3.561%, 5-year -1.7bps at 3.733%, 7-year -1.4bps at 3.940%, 10-year -1.4bps at 4.182%, 20-year -1.1bps at 4.810%, 30-year -0.5bps at 4.853%.

INFLATION BREAKEVENS: 1-year BEI -4.6bps at 2.581%, 3-year BEI -3.0bps at 2.363%, 5-year BEI -2.7bps at 2.211%, 10-year BEI -1.9bps at 2.238%, 30-year BEI -1.2bps at 2.234%.

THE DAY: T-Notes saw mild gains across the curve with upside seen overnight seemingly a function of falling oil prices on hopes around a Russia/Ukraine resolution built after meetings with US/Ukraine and Europe. Upside extended in the wake of the NY Fed Manufacturing survey, taking T-Notes to session highs. Overall, it was a weak survey on the headlines with prices dropping, but the six-month outlook was encouraging. T-Notes had then started to fade the upside into settlement as eyes turn to the NFP reports and Retail Sales on Tuesday, before CPI on Thursday. Fed speak today saw Miran explain his dissent, while Collins said her vote to cut was a close call, but would need to see clear progress before cutting again. Williams said he was very supportive of the cut, but it is too early to see what the Fed will need to do in January - he also suggested that policy is has moved toward neutral from modestly restrictive.

SUPPLY:

Notes

- US Treasury to sell USD 13bln of 20-year bonds on 17th December and USD 24bln of 5-year TIPS on 18th Dec; to settle on 31st Dec

Bills

- US sold 3-month bills at high-rate of 3.560%, B/C 2.68x.
- US sold 6-month at high-rate of 3.495%, B/C 2.84x.
- US to sell USD 75bln of 6-week bills on December 16th; all to settle on December 18th.

STIRS/OPERATIONS

- **Market Implied Fed Rate Cut Pricing: January 5.5bps (prev. 6bps), March 13bps (prev. 13bps), April 20.5bps (prev. 20bps), December 57bps (prev. 55bps).**
- NY Fed RRP Op demand at USD 2.6bln (prev. 0.84bln) across 6 counterparties (prev. 6)
- NY Fed Repo Op demand at USD 16.801bln (prev. 0.001bln) across two operations.
- EFR at 3.64% (prev. 3.64%), volumes at USD 102bln (prev. 99bln) on December 12th.
- SOFR at 3.67% (prev. 3.66%), volumes at USD 3.261tln (prev. 3.299tln) on December 12th.

CRUDE

WTI (F6) SETTLED USD 0.62 LOWER AT 56.82/BBL; BRENT (G6) SETTLED USD 0.56 LOWER AT 60.56/BBL

The crude complex was lower to start the week after positive Ukraine/Russia developments, despite initial strength in the APAC session. On the latter, WTI and Brent reached highs of USD 57.80/bbl and 61.50, respectively, following increased Chinese oil demand and Iran seizing a foreign oil tanker. Nonetheless, oil saw initial pressure as traders digested Ukrainian President Zelensky's potential concessions of Ukraine's NATO membership goals. Thereafter, benchmarks saw further weakness in wake of the conclusion of US/Ukraine meeting, which was productive, and highlighted by Ukraine's Top Negotiator saying real progress was achieved in talks, describing the meeting as constructive and productive. From the US, an official remarked talks were really positive, there is a consensus on a number of issues, but still some things to discuss. As such, the desk awaits any further updates and if there is any further resolution before the Christmas break. For the record, WTI saw a low of USD 56.40/bbl and Brent USD 60.13/bbl. Looking ahead, there is the delayed US payrolls report on Tuesday, as well as the weekly private inventory metrics.

EQUITIES

CLOSES: SPX -0.16% at 6,816, NDX -0.51% at 25,067, DJI -0.09% at 48,417, RUT -0.79% at 2,531.

SECTORS: Health +1.27%, Utilities +0.88%, Consumer Discretionary +0.48%, Real Estate +0.28%, Consumer Staples +0.26%, Industrials +0.15%, Financials +0.12%, Materials +0.04%, Communication Services -0.19%, Energy -0.76%, Technology -1.04%.

EUROPEAN CLOSSES: Euro Stoxx 50 +0.47% at 5,748, Dax 40 +0.30% at 24,260, FTSE 100 +1.06% at 9,751, CAC 40 +0.70% at 8,125, FTSE MIB +1.39% at 44,117, IBEX 35 +1.11% at 17,041, PSI +0.92% at 8,075, SMI +1.12% at 13,032, AEX +0.66% at 946.

STOCK SPECIFICS:

- **Costco (COST)** downgraded at Roth Capital to 'Sell' from 'Neutral'.
- **Dollar General (DG)** upgraded at JPM to 'Overweight' from 'Neutral'.
- **Doximity (DOCS)** upgraded at Morgan Stanley to 'Overweight' from 'Equal Weight'.
- **Google (GOOGL)** is reportedly testing real estate listings. Of note for Zillow Group (ZG).
- **ServiceNow (NOW)** is in advanced talks with Armis on a potential USD 7bln deal; also, downgraded at KeyBanc to 'Underweight' from 'Sector Weight'.
- **Texas Instruments (TXN)** double downgraded at Goldman Sachs to 'Sell' from 'Buy'.
- **Zoetis (ZTS)** announced a USD 1.75bln proposed convertible senior notes offering.

FX

The Dollar saw slight weakness on Monday, with mixed performance vs. peers. For the Greenback, there was little headline-driven newsflow, but there were a lot of headlines, mainly surrounding the Fed (Collins, Williams, Miran) and Ukraine/Russia updates. As such, a lot of attention will turn to the delayed US November payrolls report on Tuesday, which will also see the headline October NFP number alongside it. On the data footing on Monday, NY Fed Manufacturing disappointed as the headline fell 3.9 (exp. 10, prev. 18.7), which was largely driven by the declining new orders. The inflationary price indices eased, while firms became more optimistic about the outlook.

As mentioned, **G10 FX** peers were mixed as the **Yen** was the clear outperformer and saw gains, while the Kiwi lagged. For the former, the Yen has seen gains amidst the strong Tankan Survey and growing bets of a BoJ hike this week, with money markets now pricing in an 80% chance of a 25bps rise overnight. USD/JPY fell to lows of 154.84 from highs of 155.98. Note, reports via Bloomberg said the BoJ is likely to start selling its ETF holdings as soon as January. **Kiwi** is the underperformer, with NZD/USD trading between 0.5766-5808, as it saw losses after the RBNZ Governor suggested that market conditions have tightened "beyond" what the RBNZ intended.

EUR, GBP saw marginal gains, while **CAD, CHF, and AUD** all saw slight losses to differing degrees in thin newsflow. For the Euro and Pound, traders await BoE and ECB later in the week, where the former are widely expected to reduce rates by 25bps, with money market pricing in such a move with 85% probability. Highlighting the narrow trade, Cable traded between 1.3355-3401 and EUR/USD 1.1727-68. Looking to Tuesday, there is a deluge of EU PMIs, as well as UK PMIs and employment data.

For the **Loonie**, although little move was seen the highlight was Canadian CPI. Headline M/M was in line at 0.1% (prev. 0.2%), while Y/Y was slightly cooler than expected at 2.2% (exp. 2.23%, prev. 2.2%). Median and trim metrics were also a tenth shy of consensus, and coupled with common, saw Canadian Average BoC Measures for November edge lower to 2.80% from 2.9%.

EMFX was mixed against the Buck, and the Yuan saw marginal strength despite disappointing Chinese Industrial Output and Retail Sales overnight. Elsewhere, Brazilian economic activity for October surprisingly declined, and in Argentina, BBG reported that the Argentina Central Bank to change currency band system in 2026; to expand FX bands at pace of monthly CPI in 2026 and to begin a reserve accumulation programme in January 2026.

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