

Santa rally continues after strong US GDP

- **SNAPSHOT:** Equities up, Treasuries flatten, Crude up, Dollar down, Gold up.
- **REAR VIEW:** Strong US Q3 GDP; Durable Goods disappoints, but driven by volatile aircraft orders; Consumer Confidence underwhelms; IP impresses; Further jawboning from Japanese FinMin; Novo Nordisk's Wegovy pill approved in the US; Decent US 5yr auction; Solid US 2yr FRN auction; BoC board says it is hard to predict whether next move is a hike or cut
- **COMING UP: Note:** The desk will run until 18:05GMT/13:05EST on Wednesday, 24th December. The desk will be closed for business between 25th December 2025 and 1st January 2026. However, we will run a shortened service to cover the FOMC Minutes on 30th December 2025 - where the desk will open from 18:45GMT/13:45EST - 19:30GMT/14:30EST. Normal service will resume at 0700GMT/02:00EST on Friday, 2nd of January 2026 for the beginning of the European Session. **Data:** US Jobless Claims (w/e 20 Dec) **Events:** Christmas Eve Supply: US.

MARKET WRAP

US indices (ex Russel) closed in the green as the initial downside seen in the wake of a deluge of US data pared. Treasuries initially held onto and extended the losses seen after the strong US Q3 GDP report, but settled with the curve flattening as the long-end pared its earlier losses, but the short end remained sold. Other US data included Durable Goods (Oct) declining more than expected, but largely due to a plunge in the volatile aircraft orders, while Consumer Confidence (Dec) notably underwhelmed, and IP (Nov) rose slightly greater than forecasted. As mentioned, the Treasury curve flattened, but little reaction was observed after a solid 2yr FRN and 5yr auction. Sectors closed with upward bias as Communication Services and Technology outperformed, and were buoyed by gains in the likes of NVIDIA (NVDA). Consumer Staples and Health were the laggards, with Eli Lilly (LLY) seeing slight weakness as competitor Novo Nordisk (NOVO DC) had its Wegovy pill approved in the US. The crude complex was choppy, but settled with gains, albeit in a tight daily range as focus continues to surround the ongoing global geopolitics. In more recent trade, we heard the US Envoy to UN said that the US will impose and enforce sanctions to deprive Venezuela's Maduro of resources to fund Cartel de Los Soles, including oil profits. The Dollar was sold to the benefit of G10 FX peers while the Yen remains at the forefront due to continued jawboning from Finance Minister Katayama. Precious metals (XAU, XAG) gained, once again, with spot silver soaring past USD 70/oz. Looking ahead, the calendar is very thin on Wednesday as traders look to the Christmas holidays. [Please click here for the Newsquawk Christmas schedule.](#)

US

GDP: The Q3 advance GDP report was strong, rising 4.3% in Q3, accelerating from the 3.8% gains seen in Q2. The increase in real GDP reflected increases in consumer spending, exports, and government spending that were partly offset by a decrease in investment. Imports, which are a subtraction in the calculation of GDP, decreased. Consumer Spending rose 3.5%, accelerating from the 2.5% in Q2, while the GDP Sales rose 4.6%, cooling from the 7.5%, with the Deflator +3.7%, above the 2.7% expected and 2.1% prior. Regarding PCE, headline prices rose 2.8%, accelerating from 2.1%, but matching the 2.8% forecast, with Core PCE also matching forecasts at 2.9%, accelerating from the 2.6% prior. Looking into the breakdown, exports rose 8.8%, and imports fell 4.7% - both boosting the headline GDP. ING highlight that net trade is what lifted GDP growth to its fastest rate since Q3 23. It noted key drivers remain high-income consumers and tech capex, and that seems unlikely to change in 2026. ING highlights that net trade contribute 1.6% of the 4.3% headline growth rate. Nonetheless, consumer spending was still strong at 3.5%. ING describe the report as a fantastic outcome, but Q4 GDP is likely to record growth that is considerably slower, due to the government shutdown. It also expects net trade to contribute less than it did in Q3, while also noting that consumer spending is set to slow.

DURABLE GOODS: Durable Goods for October tumbled 2.2% (prev. 0.5%, exp. -1.5%), which was largely due to the volatile aircraft orders component, which plummeted close to 30%, reflecting a weak month for Boeing. Ex-transport rose 0.2% (prev. 0.6%, exp. 0.3%), which Pantheon Macroeconomics notes looks consistent with little change in real terms, while the 0.5% increase in orders of Nondefe cap ex-air (prev. 0.9%, exp. 0.4%) is consistent with a real-terms increase of around 0.3%. Pantheon remarks that core capital goods orders have picked up slightly in recent months following a long stagnation, but most survey measures of capex intentions remain very depressed, suggesting further strong gains are unlikely.

CONSUMER CONFIDENCE: Consumer Confidence in December declined to 89.1 from 92.9, which was revised notably higher from the initial 88.7, and beneath the expected 91.0. The Present situation index tumbled to 116.8 (prev. 126.3), while the Expectations index remained relatively steady at 70.7. Within the report, consumers' assessments of current business conditions turned mildly pessimistic, as 18.7% of consumers said conditions were "good" (prev. 21.0% in Nov), while 19.1% said they were "bad" (prev. 15.8%). Views of the labour market also weakened, as 26.7% of consumers said jobs were "plentiful" (prev. 28.2%), and 20.8% (prev. 20.1%) said they were "hard to get". Looking forward, consumers were moderately less pessimistic about future business conditions, as 18.0 expected conditions to improve (prev. 18.1%), although 21.8% (prev. 25.8%) expected them to worsen. In general, consumers were a bit more concerned about the labour market outlook in December, and income prospects were slightly less positive.

INDUSTRIAL PRODUCTION: We saw the October and November Industrial production reports, where the November IP rose 0.2%, above the 0.1% forecast and October's -0.1%. Manufacturing Output rose by 0.0% from October's -0.4%, while capacity utilisation rose to 76% from 75.9%. The report notes that there were swings in both mining and utilities output over October and November,

though, on net, both sectors posted gains. Oxford Economics highlight that the details fell short of expectations, but suggests the outlook is better for next year as trade uncertainty fades and the full benefits of Trump's One Big Beautiful Bill Act kick in. The desk expects "increases in manufacturing production to broaden next year and look for output of electrical equipment to register stronger advances on the back of AI-related investment. The drag from motor vehicle production should also subside."

FIXED INCOME

T-NOTE FUTURES (H6) SETTLED 1+ TICK LOWER AT 112-09+

Treasury curve flattens after strong GDP data. At settlement, 2-year +1.29bps at 3.528%, 3-year +2.24bps at 3.581%, 5-year +1.94bps at 3.736%, 7-year +1.05bps at 3.939%, 10-year +0.20bps at 4.169%, 20-year -0.50bps at 4.788%, and 30-year -0.71bps at 4.831%.

INFLATION BREAKEVENS: 5-year TIPS +1.4bps at 1.464%, 10-year TIPS -0.1bps at 1.912%, 30-year TIPS -1.7bps at 2.624%.

THE DAY: T-Notes traded in a narrow range overnight before the Q3 GDP report. The data revealed much higher than expected growth, rising 4.3%, well above the 3.3% forecast and accelerating from the prior 3.8%. This immediately pressured the Treasury complex with the front-end leading the moves lower as stronger growth prospects - coupled with in-line inflation data - reduced the need for more Fed action, albeit money markets still price in two more rate cuts this year (now pricing 53bps of easing vs 58bps pre-data). T-Notes had pared off lows across the curve after the US Consumer Confidence data disappointed. Meanwhile, following the strong GDP growth, NEC Director Hassett (front-runner for Fed Chair) and US President Trump reiterated calls for lower rates while simultaneously cheering the GDP growth. Meanwhile, the 5-year auction was decent but saw no reaction, and the 2-year FRN was solid too.

SUPPLY:

Notes:

- The US Treasury sold USD 70bln of 5-year notes at a high yield of 3.747%, a higher yield than the prior 3.562% but in line with recent averages. The auction still tailed, albeit by 0.1bps - an improvement on the prior 0.5bps and six-auction average of 0.4bps. The bid-to-cover of 2.35x, however, was lower than the prior 2.41x, but more in line with the 2.36x average. The breakdown of demand was solid with a rise in direct demand to 31.7% from 27.6% (avg 27.5%), more than offsetting the drop in indirect demand to 59.5% from 61.4%, leaving dealers with 8.8% of the auction - an improvement from the prior 11% and average 10.7%.
- The 2-year FRN auction (USD 28bln) was solid. The high discount margin fell from the prior to 0.14% from 0.17%, beneath the 0.18% average. The bid-to-cover of 3.75x was notable above the prior and averages, with dealer demand dropping thanks to an increase in indirect demand.
- US to sell USD 44bln 7-year notes on December 24th.

Bills

- US sold 6-week bills at a high rate of 3.580%, B/C 2.87x.
- US sold 1-year bills at a high rate of 3.380%, B/C 3.74x.
- US to sell USD 80bln in 8-week bills, USD 80bln in 4-week bills and USD 69bln in 17-week bills on December 24th; to settle Dec 30th.

STIRS/OPERATIONS

- Market Implied Fed Rate Cut Pricing: January 3bps (prev. 5bps), March 11.7bps (prev. 15bps), April 18.3bps (prev. 22bps), December 53.7bps (prev. 55.7bps).
- NY Fed RRP Op demand at USD 5.893bln (prev. 1.523bln) across 14 counterparties (prev. 7).
- EFRF at 3.64% (prev. 3.64%), volumes at USD 87bln (prev. 93bln) on December 22nd.
- SOFR at 3.68% (prev. 3.66%), volumes at USD 3.253bln (prev. 3.238tln) on December 22nd.
- Treasury Buyback (10- to 30-year TIPS, max USD 500mln): Accepts USD 108mln of USD 1.19bln offers, accepts 4 out of 15 eligible issues; Offer to cover 11.02x

CRUDE

WTI (G6) SETTLED USD 0.37 HIGHER AT 58.38/BBL; BRENT (G6) SETTLED USD 0.31 HIGHER AT 62.38/BBL

The crude complex was choppy, but in a very contained range, amid light energy-specific newsflow on Tuesday. The focus continues to surround the global geopolitical concerns, but WTI traded between USD 57.74-58.41/bbl and Brent USD 61.72-62.43/bbl, highlighting the thin session. On Ukraine/Russia, President Trump overnight said that Ukrainian talks are going along, and are going 'okay'. As we edge towards the Christmas break, geopolitical headlines will remain a key focus in the short-term that could keep supporting crude benchmarks. In the weekly Baker Hughes Rig Count, which was brought forward due to the truncated week, oil rigs rose 3 to 409, Nat Gas was unchanged at 127, leaving the total up 3 at 545. After-hours, we get the weekly private inventory metrics, whereby current expectations are (bbls): Crude -2.4mln, Distillate +0.4mln, Gasoline +1.1mln.

EQUITIES

CLOSES: SPX +0.46% at 6,910, NDX +0.50% at 25,588, DJI +0.16% at 48,442, RUT -0.69% at 2,541.

SECTORS: Communication Services +0.99%, Technology +0.95%, Energy +0.64%, Utilities +0.29%, Materials +0.23%, Consumer

Discretionary +0.18%, Financials +0.17%, Real Estate -0.01%, Industrials -0.05%, Health -0.19%, Consumer Staples -0.41%.

EUROPEAN CLOSSES: Euro Stoxx 50 +0.14% at 5,752, Dax 40 +0.22% at 24,337, FTSE 100 +0.24% at 9,889, CAC 40 -0.21% at 8,104, FTSE MIB +0.03% at 44,607, IBEX 35 +0.14% at 17,183, PSI -0.27% at 8,169, SMI +0.68% at 13,254, AEX -0.05% at 942.

STOCK SPECIFICS:

- **Johnson & Johnson (JNJ)** ordered to pay over USD 1.5bln in a lawsuit that alleged Cos. talc-based personal products gave a Maryland woman cancer; JNJ said it will appeal.
- **Kroger (KR)** board approves additional USD 2bln share repurchase authorisation.
- **Novo Nordisk's (NVO)** Wegovy pill was approved in the US as the first oral GLP-1 treatment, and said it plans to launch the drug in the US in January 2026.
- PHMSA approves **Sable Offshore's (SOC)** Las Flores Pipeline restart plan.
- Raymond James notes renewed speculation around US approval of GPU sales to China has highlighted potential upside for **NVIDIA (NVDA)** and **AMD (AMD)**. Estimates AMD could add USD 500–800mln in revenue, or USD 0.10–0.20 in non-GAAP EPS; NVDA's opportunity is larger, with USD 7–12.5bln in potential revenue and USD 0.15–0.30 in 2026 EPS upside.
- **ServiceNow (NOW)** is to acquire Armis for USD 7.75bln in cash.
- US President Trump plans to meet with several defence industry execs next week to urge them to spend more on weapons and R&D. Of note for **Huntington Ingalls Industries (HII)**, which saw gains.
- **ZIM Integrated Shipping Services (ZIM)** provided an investor update on its strategic review process, and the board is evaluating strategic proposals.

FX

The Dollar was weaker on Tuesday ahead of the upcoming Christmas break, as a data deluge took the headlines. Q3 GDP was very strong, which weighed on T-Notes and global fixed income. Durable Goods (Oct) declined more than expected, but largely due to a plunge in the volatile aircraft orders. Consumer Confidence (Dec) notably underwhelmed, while IP (Nov) rose slightly greater than forecasted. Elsewhere, newsflow was spare, and no Fed speak was on the docket, although Bessent's comments from a podcast "All-In" did the rounds, who thinks November CPI is a pretty accurate number. DXY traded between 97.85-98.237 ahead of a very quiet Christmas Eve, whereby there is little scheduled on the calendar. The Dollar Index was lower for most of the session following strength in other currencies, but it pared off its worst levels after the strong GDP, but gains were capped after the weak consumer confidence.

G10 FX saw gains against the Dollar, with **Antipodeans** outperforming and buoyed by ongoing strength in metals prices. Overnight, the Aussie was unreactive to the latest RBA Minutes, whereby the Board discussed whether a rate increase might be needed at some point in 2026, and holding the cash rate steady for some time could be sufficient to keep the economy in balance. NZD/USD and AUD/USD chopped between 0.5792-5843 and 0.6655-6700, respectively.

The Yen was once again much the talk of the town amid further jawboning from Finance Minister Katayama overnight. She declined to comment on FX levels or interest rates and said Japan will take appropriate action, and reiterated that they have a "free hand" to respond to excessive moves in the JPY. As such, USD/JPY fell to lows of 155.66 from earlier highs of 157.07.

For the **Loonie** watchers, Canadian October GDP and BoC Minutes were the only things of note. The data declined 0.3%, more than the expected -0.2%, albeit little reaction was seen, and the latest BoC Minutes noted the GC agreed to remain cautious in interpreting data given recent volatility, and felt it was hard to predict whether the next move would be a hike or a cut.

Lastly, the **Yuan** saw slight gains, while on the trade footing, US tariffs on Chinese semiconductors will be at 0% until June 2027, and will then increase with the rate to be announced not fewer than 30 days before June 23rd, 2027.

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newsquawk.com · +44 20 3582 2778 · info@newsquawk.com