

Stocks advance further into 2026 while oil pares gains

- **SNAPSHOT:** Equities up, Treasuries down, Crude down, Dollar up, Gold up.
- **REAR VIEW:** Positive geopolitical headlines on Ukraine, as parties edge nearer to agreement, albeit with no Russian response; NVIDIA highlights strong demand for H200 in China, but uncertainty remains around approval; Disappointing EU S&P Global Final PMIs; Miran toes usual dovish lines; Barkin sees current policy rate within range of neutral; Senior US official says issue of US acquisition of Greenland is "not going away".
- **COMING UP:** **Data:** Australian CPI (Nov), German Retail Sales (Nov), Italian CPI Prelim (Dec), Eurozone HICP Flash (Dec), US ADP, ISM Services PMI (Dec), JOLTS (Nov) **Speakers:** Fed's Bowman **Supply:** Germany, UK.

MARKET WRAP

Stocks advanced on Tuesday with broad-based gains as all indices closed higher, with the Russell and Equal Weight S&P outperforming. Sectors were also predominantly firmer with Health Care, Materials and Industrials leading the giants, while Energy and Communication Services closed lower. NVIDIA (NVDA) closed in the red despite some optimistic commentary from the CEO and CFO, but with weakness still attributed to uncertainty around H200 China orders being approved. Energy stocks tracked crude prices lower, giving up some of Monday's gains in what has been a volatile start to the year for crude. Downside today appeared to stem from optimism surrounding Russia/Ukraine peace following a positive meeting on security guarantees between US, EU and Ukraine, but we are still awaiting Russia's response. T-Notes largely meandered but settled slightly lower ahead of key jobs data this week and potential opinions from the US Supreme Court on Tariffs, while a record-sized Fed Funds block trade (200k in Jan Fed Funds!) and ongoing chunky corporate issuance also weighed. In FX, the Aussie outperformed on risk appetite and ahead of Aussie CPI, while Dollar also saw gains to the detriment of G10 peers. CHF lagged. Precious metals advanced further with gold trading either side of USD 4,500/oz, whilst silver rose above USD 81/oz at its peak.

US

MIRAN: The uber-dove expects data to support more rate cuts and said the Fed should cut more than 100bps this year. Speaking on the inflation side of the mandate, said it is over Fed's target due to statistical quirks, and that underlying inflation is near the Fed's target. Re Fed Chair, the Governor said he has not spoken to Trump about being it, and all names on the short list are credible. Miran remarked that Fed policy is restrictive and holding the economy back, but noted fiscal policy will support growth this year, and he is optimistic about economic growth.

BARKIN: The 2027 voter said the current policy rate is within a range of neutral, and he expects tax changes, deregulation, and impact of rate cuts to add stimulus to the economy in 2026 with uncertainty also diminishing, and building confidence among consumers and businesses. He said inflation has come down, but remains above target. Unemployment remains low, but does not want the labour market to deteriorate much further. He said upcoming rate decisions will be finely tuned given risks to both sides of the mandate.

FIXED INCOME

T-NOTE FUTURES (H6) SETTLED 3 TICKS LOWER AT 112-10+

T-Notes sold on more corporate issuance and a record Fed Funds block sale . At settlement, 2-year +0.8bps at 3.469%, 3-year +0.6bps at 3.533%, 5-year +0.4bps at 3.717%, 7-year +0.5bps at 3.934%, 10-year +0.4bps at 4.175%, 20-year +0.3bps at 4.804%, 30-year -0.3bps at 4.861%.

THE DAY: T-Notes largely meandered throughout the session, with some pressure likely spurred on by more corporate issuance in what is a typically busy week for corporate supply (the first full week back after Xmas/NY). Bloomberg reported there were 22 issuers expected today, with a Broadcom (AVGO) four-parter one of the highlights. Geopolitics was in focus too, where the US Ambassador to NATO said a peace deal for Ukraine could be on the cusp. There appears to have been progress on security guarantees for Ukraine in the event of a peace deal following a meeting with Ukraine, US and the EU, but we still await Russia's response. Elsewhere, Fed speak saw remarks from Barkin and Miran. Barkin said current policy rate is within the range of neutral (echoing Powell), while Miran reiterated his dovish tone, noting the Fed should cut more than 100bps this year (Fed median dot plot pencils in just 25bps of easing). The only data today was the Final December S&P Global Services PMI, which fell more than expected to 52.5, with eyes on the ISM Services PMI due Wednesday. We also see lots of jobs data, including ADP, JOLTS and NFP, as well as the weekly claims data. We are still awaiting any updates on the potential Fed Chair replacement, too. We are also awaiting potential opinions on the US tariffs from the Supreme Court on Friday.

Note, Bloomberg highlighted a huge block trade in Fed Funds Futures, which CME confirmed as the largest ever, 200k in the January 2026 contract, with price action indicating a sale. The weakness seen in Fed funds futures was also seen in the Treasury market around the time of the sale.

SUPPLY

- US sold USD 79bln of 6-week bills at high rate 3.560%, B/C 2.89x
- US to sell USD 69bln of 17-week bills on January 7th; to sell USD 80bln of 8-week bills and USD 80bln of 4-week bills on January 8th; all to settle on January 13th

STIRS/OPERATIONS

- Market Implied Fed Rate Cut Pricing: January 3bps (prev. 3bps), March 11bps (prev. 12bps), April 16bps (prev. 18bps), December 56bps (prev. 59bps)
- NY Fed RRP op demand at USD 2.58bln (prev. 6.5bln) across 10 counterparties (prev. 17)
- EFFF at 3.64% (prev. 3.64%), volumes at USD 88bln (prev. 92bln) on January 5th.
- SOFR at 3.70% (prev. 3.75%), volumes at USD 3.441tn (prev. 3.508tn) on January 5th
- NY Fed Reserve Management Bill Purchases: Buys USD 8.17bln of the USD 48.3bln submitted; offer to cover 5.91x

CRUDE

WTI (G6) SETTLED USD 1.19 LOWER AT 57.13/BBL; BRENT (H6) SETTLED USD 1.06 LOWER AT 60.70/BBL

Oil was choppy, but settled at lows amid constructive geopolitical headlines on Ukraine. Recapping the day, and initially in similar trade to Monday, WTI and Brent edged lower through the European morning, before reversing course as US players entered for the day, and also seemingly coinciding with a flurry of geopolitical updates related to Iranian protests. As the day continued, WTI and Brent moved lower, to settle at troughs, amid positive developments regarding the likelihood of resolving the Ukraine/Russia war, although Russia wasn't involved in the talks. The move lower began as US Ambassador to NATO said a peace deal for Ukraine could be "on the cusp", and this was later further supported as US envoy Witkoff said significant progress was made and thinks they are largely finished on security guarantees and protocols. Further highlighting this, Zelensky remarked they had concrete discussions with US, although the issue of territory needs to be sorted out still. Private inventory data is after-hours, whereby current expectations are (bbls): Crude +0.5mln, Distillate +2.1mln, Gasoline +3.2mln.

EQUITIES

CLOSES: SPX +0.62% at 6,945, NDX +0.94% at 25,640, DJI +0.99% at 49,462, RUT +1.37% at 2,583

SECTORS: Materials +2.04%, Health +1.96%, Industrials +1.38%, Consumer Discretionary +0.94%, Technology +0.66%, Real Estate +0.62%, Utilities +0.49%, Financials +0.45%, Consumer Staples +0.13%, Communication Services -0.49%, Energy -2.81%

EUROPEAN CLOSES: Euro Stoxx 50 +0.17% at 5,934, Dax 40 +0.11% at 24,897, FTSE 100 +1.18% at 10,123, CAC 40 +0.32% at 8,237, FTSE MIB -0.20% at 45,753, IBEX 35 +0.19% at 17,647, PSI +0.53% at 8,514, SMI +0.71% at 13,341, AEX +0.66% at 992.

STOCK SPECIFICS:

- **AMD (AMD)** showcased MI455 and MI440X AI chips at CES & previewed MI500 processors, which are set to launch in 2027.
- **Eli Lilly (LLY)** is in advanced talks to acquire **Ventix Biosciences (VTYX)** for more than USD 1bln, according to WSJ, citing sources.
- Fairfax Financial disclosed a larger stake in **Under Armour (UAA)** and now holds ~42mln shares or 22% of Co.
- Hunterbrook remarked insurance giants are hiding billions meant to lower Americans' drug costs; its year-long investigation details how **CVS (CVS), UnitedHealth (UNH), and Cigna (CI)** created shell Cos. to evade reform efforts and hide payments received from drugmakers.
- **Intel (INTC)** launches next-gen PC chip at CES in Las Vegas.
- **Lennar (LEN)** downgraded at UBS to 'Neutral' from 'Buy'.
- **Microchip Tech (MCHP)** lifted Q3 revenue view
- **Mobileye (MBLY)** upgraded at JPMorgan to 'Neutral' from 'Underweight'.
- **NVIDIA (NVDA)** CEO Huang said next gen of chips is in full production, and there is strong demand from China for H200 chips. Added new chips are 10x more efficient than predecessors, and have to invest in all types of energy. Haven't spoken directly to China on H200 chips, but there is strong demand from Chinese customers. CFO said there have 'already been discussions' about 2027 data centres with customers.
- **OneStream (OS)** to be acquired by HG for USD 6.4bln; shareholders to receive USD 24.00/shr
- **TSMC (TSM)** reportedly planning to build 12 wafer fabs in Arizona.
- **Vistra (VST)** agreed to buy Cogentrix Energy's 10 gas-fired power plants from Quantum Capital Group for c. USD 4.7bln.

FX

The Dollar Index was firmer and recovered from initial losses, supported by higher US Treasury yields. Newsflow in the FX space was fairly sparse on Tuesday, although the US S&P Global Services PMI was revised lower than expected, in addition to Fed speak from Miran and Barkin. The former reiterated his usual uber-dove tones, while the latter said currently policy rate is within the range of neutral. Focus, of course, continues to reside around the geopolitical picture, and there were constructive updates today re. Ukraine, but not much new on Venezuela. From Wednesday the data slate picks up, with ADP, JOLTS, and ISM Services PMI, followed by the job report on Friday. DXY traded between 97.873-98.378.

G10 FX was mixed, as PMIs dominated the slate out of Europe, which saw the **EUR, GBP, and CHF** all notch up losses. The single currency EUR was pressured in wake of a slew of data, and started with French PMI revisions, then as German Composite and EZ PMIs were also revised down, and saw even further weakness due to softer German state CPIs. EUR/USD traded between 1.1748-1663, and currently hovers around the 1.17 mark ahead of further European data on Wednesday.

AUD was the clear outperformer, and seemingly buoyed by the strength in metals prices, which saw AUD/USD hit a peak of 0.6741, a level it sits around now. Given the support from metal prices and firm expectations, the RBA cash rate will soon be well above the Fed's for the first time since 2018, desks write that those catalysts should carry the Aussie beyond the recent high touched in December, especially if Wednesday's inflation data beats expectations. Given the boost the Aussie has at present, desks add that even a soft print is likely to be only a mild setback.

In regard to **APAC trade**, little move was seen on a currency footing, but Chinese press reported that China is considering tightening rare earth exports to Japan, which is a measure being considered in response to Japanese PM Takaichi's remarks regarding Taiwan. In addition, especially for the Yuan, the PBoC held a meeting on January 5-6th, and they will flexibly use RRR cut and rate cut.

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