



CIO OFFICE MORNING MARKET WRAP

9 January 2025

Yesterday stocks swung between small gains and losses to close little changed. The S&P 500 regained the 5,900 psychological mark while US treasuries stabilized after a solid 30-year auction. The forthcoming employment report is becoming a more important compass to gauge policy and market direction, and Citigroup estimated it could impact the S&P 500 either way by 1.2%. The report should point to moderating yet still healthy job growth. The latest Fed minutes showed a more cautious stance of Fed officials about future cuts amidst rising inflation risks. The S&P 500 and the Dow Industrials added 0.2%, while the Nasdaq was little changed. All sectors ended in the green, with the exception of communication services and energy. The yield on the 10-year note declined two basis points to 4.67%, and the 20-year briefly topped 5%. The short-term correlations between equities and bonds turned positive again, so the conclusion is that if yields keep on rising, markets will sell off. The Dollar Index was up against all major peers to rise 0.4%.

The December Federal Reserve minutes suggest officials adopted a more cautious stance on future rate cutting, deciding to proceed more slowly in the months ahead. The minutes mentioned it would be appropriate to “slow the pace of easing”, due to higher inflation readings, strength in spending and reduced risks to the labor market and economic activity. According to Fed’s staff Trump policies would result into slightly lower growth and firm inflation. This overall message ties in with the Fed officials’ view that “upside risks to inflation have increased”, as well as with the reduced number of cuts expected for 2025 according to the December Summary of Economic Projections. Fed’s Waller offered a somewhat reassuring assessment in his remarks to an OECD event in Paris. He believes inflation would continue to cool and said he would support further cuts.

Deflationary threats on the other hand have persisted in China and reemerged in the CPI and PPI release this morning. Consumer inflation weakened further, falling to +0.1% from a year earlier, while the Producer Price Index was in deflation into a 27th month, at -2.3%. In a more encouraging sign for policymakers, core CPI picked up for a third month to 0.4%. In the back of investors’ minds a Japanese scenario cannot be ruled out, where persistently low prices hold back household spending for longer, damaging corporate balance sheets in a vicious circle that leads to layoffs and further household restraint. The next legislature to look forward to for official communications on stimulus measures is the next National People’s Congress to be held in March. In the euro area the current disinflationary tendencies, that could turn into insidious deflation, still seem to be more manageable, with the ECB expected to cut throughout 2025. Yesterday, producer prices fell 1.2% on a yearly basis, in contrast with consumer prices that picked up a day before on rising energy costs. But overall, generalised disinflation is seen to be in place, to be managed through the current easing cycle by the ECB.

Markets this morning:

Asian shares fell following a US session where traders refrained from making big bets, with US markets closed today in observance of ex-president Jimmy Carter’s death, and ahead of the all-important jobs report due out on Friday. Stocks declined in Japan, Australia, and China. US contracts slipped, and Nvidia fell post market after the Biden administration planned one more round of restrictions on exports of AI chips. The US dollar and gold were little changed, and crude oil slipped. The CPI release in China confirmed deflationary tendencies are setting in, as the CPI weakened further in December, and the PPI remained in negative territory. Despite the uninspiring outlook, the impression is now that both policies and markets are bottoming out in China. The Australian dollar weakened, after retail sales disappointed and reinforced the case for an interest rate cut next month.

Upcoming Key events/data:

The US jobs report, alongside the University of Michigan consumer sentiment survey, will be taking center stage tomorrow. Other releases will be Germany’s and India’s industrial production, and Japan’s leading index.

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