Dec 22, 2024

KN Market View

Main Topics

Key Events - **Japan's annual inflation rate rose to 2.9% in November**, reaching its **highest level since October 2023.**

Government Bonds and Currencies - **The Fed cuts rates as the yield curve shows signs of normalization**

Commodities - Silver and natural gas facing a ton of selling pressure.

Stocks - **FED's interest rate decision** adds volatility and uncertainty to US markets.

Crypto - **Bitcoin in the Eye of the Storm:** Impact of Fed Comments and Market Sentiment

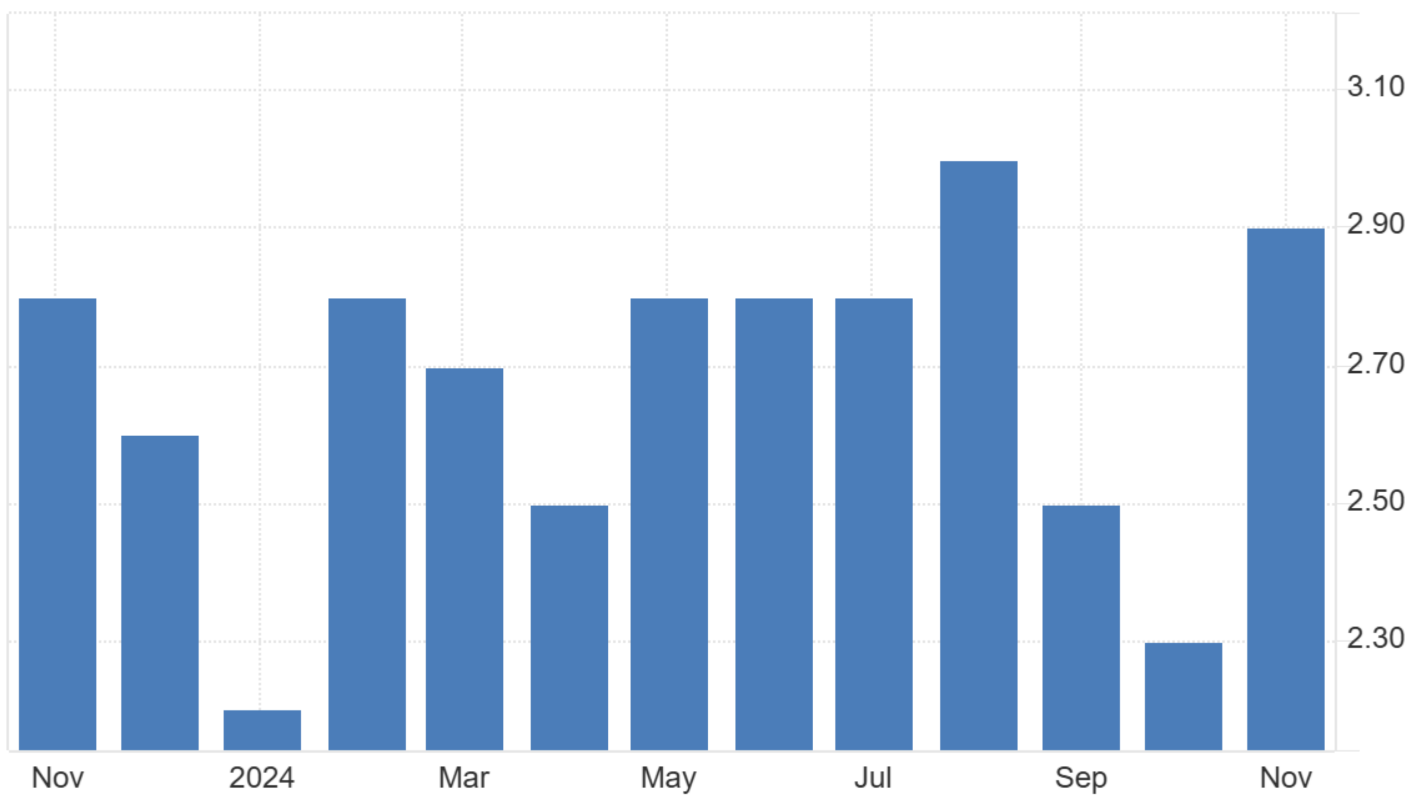
Weekly Paper Picks - A Deep Learning Approach for Trading Factor Residuals

Key Events

Economy at a glance

Japan's annual inflation rate rose to 2.9% in November, up from 2.3% in October, reaching its **highest level since October 2023. Core inflation also climbed to a three-month high of 2.7%,** exceeding October's 2.3% and beating forecasts of 2.6%. On a monthly basis, the consumer price index **(CPI) increased by 0.6%, marking the largest monthly gain in 13 months** link.

Japan Inflation Rate (%)



Source: Trading Economics | Ministry of Internal Affairs & Communications

In November, the US personal consumption expenditures (PCE) price index rose by 0.1% month-over-month, a slowdown from the 0.2% increases recorded in the prior two months and below the 0.2% expected by analysts. Meanwhile, **in December, the Federal Reserve updated its economic projections, revising the 2025 annual PCE inflation forecast upward to 2.5% from 2.1%** link.

President Vladimir Putin acknowledged signs of overheating in the Russian economy, which are driving inflation to concerning levels. He expressed his desire for a "balanced" approach to future interest rate decisions link.

In November, **Germany's producer prices unexpectedly increased by 0.1% year-on-year, reversing a 1.1% decline** from the previous month and exceeding market forecasts of a 0.3% decrease. This was the first year-on-year rise in producer prices **since June 2023** link.

The People's Bank of China (PBoC) kept its key lending rates unchanged for the second consecutive month during the December fixing, in line with market expectations link.

US existing home sales increased by 4.8% in November from the previous month, reaching a seasonally **adjusted annualized rate of 4.15** million—the highest level in eight months. This was up from **3.96 million in October** and exceeded market expectations of 4.07 million link.

Switzerland and the European Union reached a deal securing Switzerland's access to the EU single market, meeting an informal year-end deadline after prolonged negotiations. This agreement follows a three-year impasse that began when Switzerland abandoned earlier efforts for a comprehensive treaty, **straining relations and risking disruptions in trade and other bilateral arrangements** link.

The Bank of England kept its benchmark rate unchanged at 4.75% during its December meeting, as expected. The decision **reflects concerns over rising CPI inflation, wage growth, and inflation expectations**, which heighten the risk of persistent inflation link.

In the coming week, attention will turn to key economic indicators and policy decisions across the globe. The **US** will release updates on **money supply and durable goods orders, while Japan and South Korea will report industrial production figures. South Korea** will also unveil **consumer confidence data**, alongside **business confidence** metrics from **South Korea, Turkey,** and **Russia**.

Russia and Japan will publish updates on **unemployment rates**, and **Mexico** will report its **balance of trade**. Additionally, **Great Britain and Brazil** will release **current account** data. These developments will be closely monitored for insights into global economic trends.

Government Bonds and Currencies

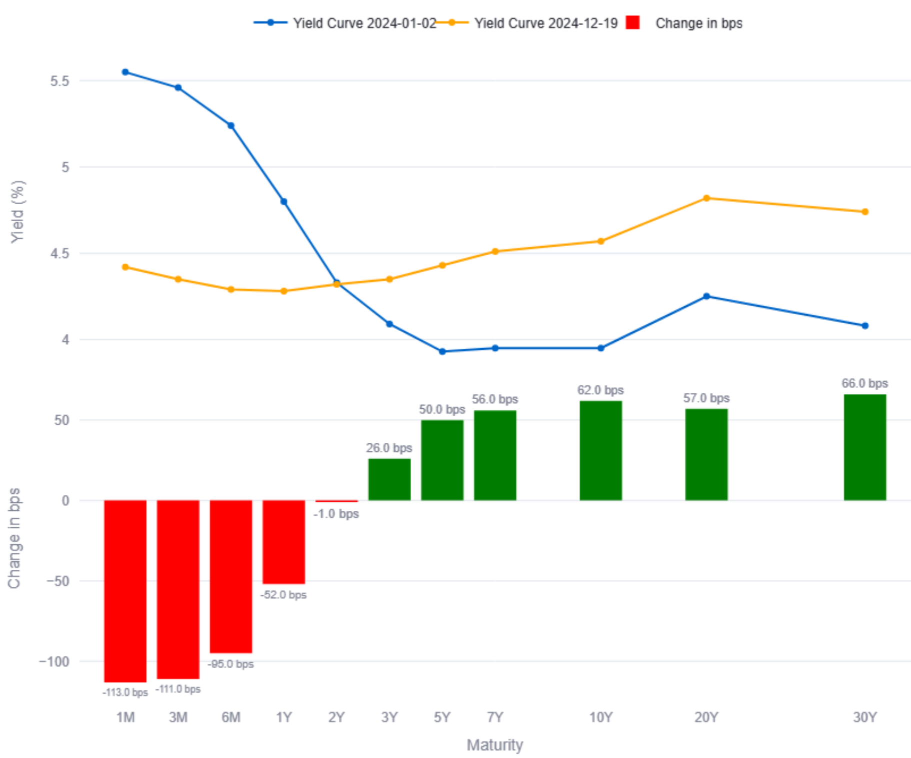
The Fed cuts rates as the yield curve shows signs of normalization

The Federal Reserve (Fed) announced a 25-basis-point rate cut on Wednesday, setting the range between 4.25% and 4.5%. **This adjustment marks the third consecutive cut and reinforces the message of progress toward its goals of price stability and full employment.**

However, **the Fed's statement indicated a shift to a slower pace of reductions in 2025, projecting only two additional cuts that year**. This adjustment reflects both a reduction in inflationary pressures and the need to maintain restrictive financial conditions to ensure economic stability. According to Chicago Fed President Austan Goolsbee, **the current policy remains significantly restrictive, emphasizing that it is still far from reaching the so-called neutral rate, which** neither stimulates nor restrains the economy link.

The Fed's revised projections indicate a stronger-than-expected economic outlook. Growth and inflation forecasts for 2025 have been adjusted upward, while the unemployment rate has been revised downward, signaling a more resilient labor market. Core annual inflation is now projected at 2.5%, slightly higher than the previous estimate of 2.2%. These revisions, alongside a more robust growth environment, underscore the Fed's cautious approach, seeking to gradually and prudently move toward monetary policy normalization.

US Yield Curve

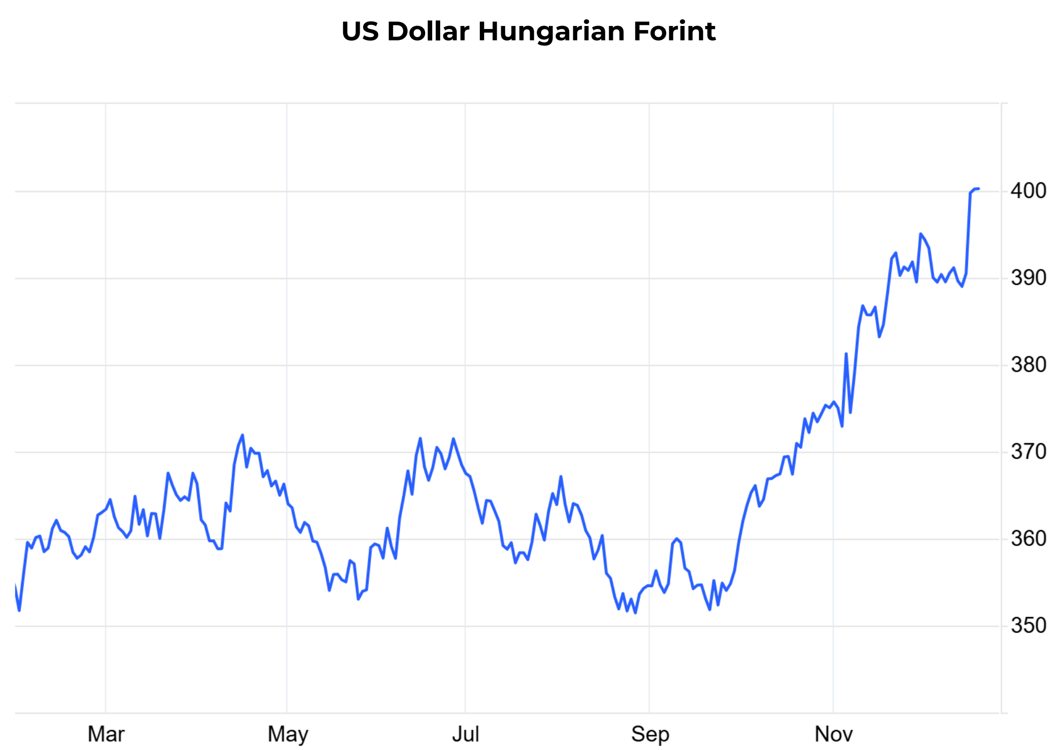


Source: Trading Economics

The yield curve shows distinct movements compared to the start of the year. Short-term yields have dropped significantly, with decreases of up to 113 basis points on 1-month bonds and 111 basis points on 3-month bonds, reflecting expectations of lower interest rates in the near term. **Meanwhile, medium- and long-term maturities have seen substantial increases**. Yields on 2-year and 5-year bonds have risen by 26 to 56 basis points, while 20-year and 30-year maturities experienced gains of up to 66 basis points, suggesting an adjustment in expectations toward a future with reduced uncertainty and improved growth prospects.

In the current environment, the behavior of the yield curve and monetary policy decisions will remain key areas of focus for the markets. With a new administration taking office, the landscape could shift significantly, underscoring the need to monitor how monetary policy adjustments interact with fiscal and economic policies. The evolution of these variables will be critical in shaping market direction in the months ahead.

Hungarian forint falls amid inflation and policy strains



Source: Trading Economics

The **Hungarian Forint fell by 2.72% against the US dollar,** closing at 400.245 forints per dollar, due to a confluence of economic and monetary factors. T**he National Bank of Hungary announced that it has no room to cut interest rates, emphasizing a deteriorating inflation outlook and the ongoing volatility in emerging markets,** which have kept the forint particularly vulnerable. This decision to maintain the key interest rate at 6.5% for a third consecutive month reflects the **central bank's cautious stance, especially given its position as one of the highest rates in the European Union**, tied with Romania link.

The **central bank revised its inflation target, projecting a sustainable return to its 3% goal by 2026, instead of the earlier forecast of 2025.** This revision is attributed to **heightened local price pressures and an increase in global risk aversion impacting emerging economies**. Investors remain watchful, particularly as the forint has depreciated significantly this year, losing more than 11% against the dollar.

Additionally, Hungary's economic policy landscape is experiencing transitions, with the appointment of Finance Minister Mihály Varga as the successor to the central bank's current governor, György Matolcsy, potentially signaling a **stricter emphasis on achieving exchange rate stability and inflation control**. With inflation accelerating to an annual rate of 3.7% in November, driven by sharp increases in service costs, these challenges underline the central bank's balancing act to stabilize the currency amidst a recessionary environment and persistent inflationary risks.

Commodities

Silver Drops to Three-Month Low on Fed Stance and Weak Demand

Source: Trading Economics

Silver fell to $29 per ounce, a three-month low, pressured by a **hawkish Fed and weak industrial demand**. The Fed's stance on fewer 2024 rate cuts, tied to inflation risks from fiscal policy and tariffs, weighed on silver, which underperformed gold in Q4. Overcapacity in China's solar panel industry and a potential yuan devaluation further dampened demand and export prices. [link](#).

Natural Gas Falls on Mild Weather, Strong LNG Exports Persist

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Natural gas (USD/MMBtu)

Source: Trading Economics

Stocks

From the international markets, the last weeks of the year have seen big movements. Russian markets ended the week with a big WoW return of 6.17%, while Indian stocks experienced a -4.98% return.

Main Equity Markets Movers WoW

	Major	Price	Day	%	Weekly	Monthly	YTD
	MOEX	2638	▲ 222	9.19%	6.17%	2.72%	-14.87%
	NZX 50	12904	▲ 150	1.18%	1.17%	1.09%	9.63%
	SHANGHAI	3368	▼ 2	-0.06%	-0.70%	-0.07%	13.21%
	HK50	19721	▼ 32	-0.16%	-1.25%	0.61%	15.68%
	FR40	7274	▼ 20	-0.27%	-1.82%	0.85%	-3.56%
	TSX	24599	▲ 186	0.76%	-2.67%	-3.12%	17.37%
	ASX200	8067	▼ 101	-1.24%	-2.76%	-3.08%	6.27%
	SAALL	84603	▲ 138	0.16%	-2.90%	-1.07%	10.03%
	IT40	33766	▼ 21	-0.06%	-3.22%	1.42%	11.25%
	IPC	49609	▲ 277	0.56%	-3.96%	-1.12%	-13.55%
	SENSEX	78042	▼ 1,176	-1.49%	-4.98%	1.15%	8.03%

Source: Trading Economics

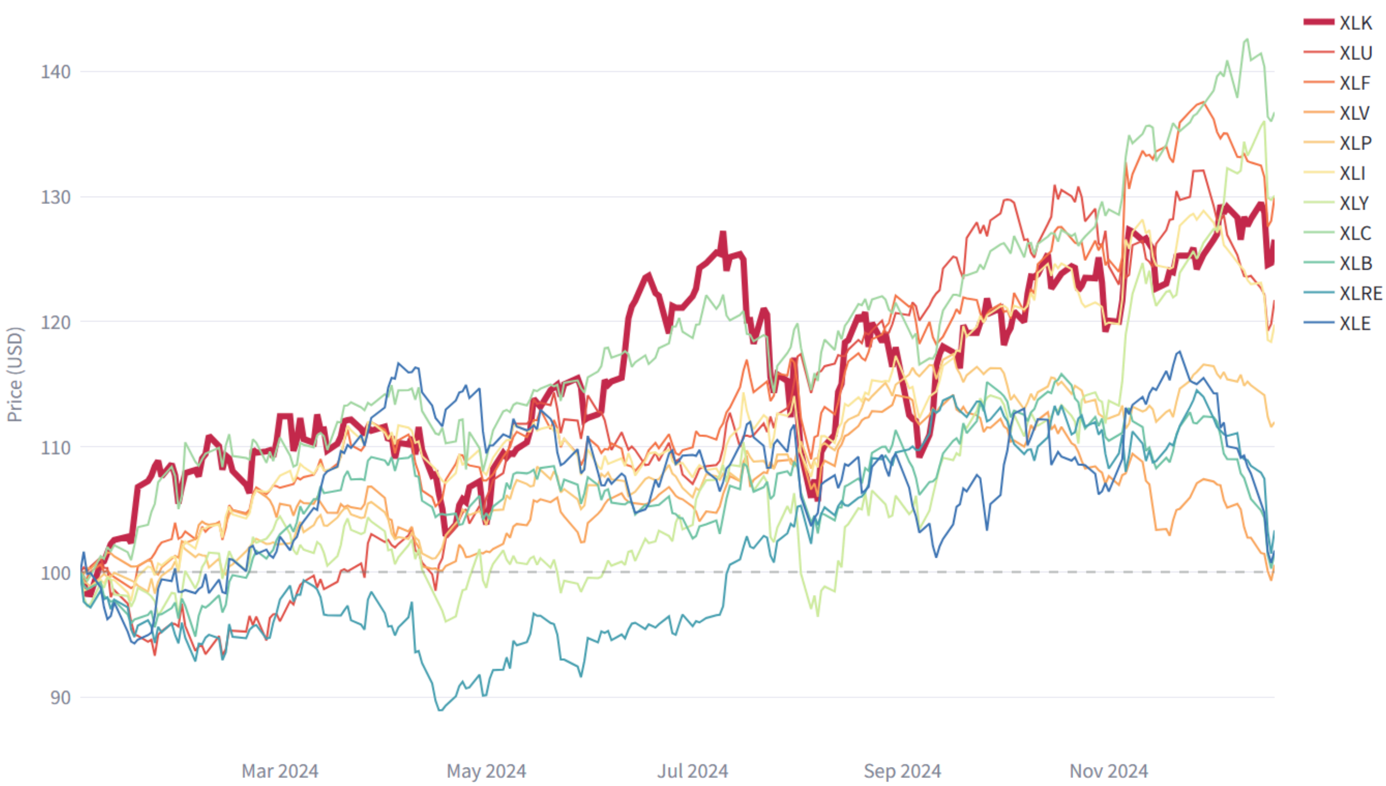
This week was tough for US sectors, after FED's hawkish outlook for next year, leading all sectors to end in red. Energy was the biggest loser, **with a -5.69% return**, while **Tech finished the week with a -1.29% return.**

US Sector Performance

	WoW	YTD
Energy (XLE)	-5.69%	1.73%
Real Estate (XLRE)	-4.76%	3.32%
Materials (XLB)	-4.09%	1.52%
Communication Services (XLC)	-2.95%	36.72%
Consumer Discretionary (XLY)	-2.79%	30.05%
Industrials (XLI)	-2.63%	19.76%
Consumer Staples (XLP)	-2.56%	11.98%
Health Care (XLV)	-2.12%	0.56%
Financials (XLF)	-2.08%	29.95%
Utilities (XLU)	-1.56%	21.72%
Technology (XLK)	-1.29%	26.54%

Source: FMP

US Sector Performance



Source: FMP

This week on earnings season

FedEx

- **Strategic Cost-Cutting and Transformation:** FedEx's DRIVE and Network 2.0 initiatives are progressing well, delivering $540 million in savings this quarter and aiming for $4 billion by FY25. Highlighting the operational efficiency and company's focus on transforming its business model to adapt to changing market demands.
- **Mixed Financial Performance:** Earnings per share (EPS) met expectations at $4.05, but revenue of $22 billion fell short of the $22.17 billion consensus estimate, reflecting a 1% decline year-over-year. FY25 EPS guidance was lowered to $19-$20 (from $20-$21).
- **FedEx Freight Spin-Off:** Plans to spin off FedEx Freight into a separate public company were announced, targeting completion in 18 months.

Nike

- **Mixed Financial Results with Earnings Beat Earnings per Share (EPS):** Nike reported an EPS of $0.78, surpassing analyst expectations of $0.65 by 20%. Despite the earnings beat, revenue fell 8% year-over-year to $12.35 billion, showcasing the challenges in the retail environment and weaker sales across all regions.
- **Focus on Innovation and Core Strengths:** Nike acknowledged losing focus on sports performance, which allowed competitors to gain

market share. Planning to pivot back to sports and athletes as key differentiators. Nike's CEO emphasized on rebuilding relationships with wholesale partners and shifting from promotions to a full-price marketplace to stabilize profitability.

- **Market Reaction and Challenges Ahead:** The face continued pressures, including declining gross margins, competitive threats (especially in China), and the need to balance short-term revenue impacts with long-term strategic goals.

Micron

- **Record Revenue Driven by AI Demand Revenue Growth:** Micron reported a record quarterly revenue of $8.71 billion, up from $7.75 billion in the previous quarter and $4.73 billion a year ago. From the Datacenter and AI segment, the revenue surpassed 50% of total revenue for the first time, growing over 40% sequentially and 400% year-over-year
- **Earnings Beat but Weak Forward Guidance Q1 Performance:** Non-GAAP earnings per share (EPS) were $1.79, slightly above analyst expectations of $1.75. Q2 Guidance: Micron expects Q2 revenue of $7.9 billion (below analyst expectations of $8.98 billion) and adjusted EPS of $1.43, significantly lower than the expected $1.91. This weak guidance triggered a 13% drop in after-hours trading.
- **Strategic Focus on AI and Long-Term Growth AI Expansion:** Micron highlighted its partnerships in AI markets, particularly with Nvidia, as

a key growth driver. While consumer markets remain weak, the company anticipates a return to growth in the second half of the fiscal year, focusing on high-margin, strategically important segments.

Next Week's Earnings

	Company	Release Date	Exp. EPS	Time	MktCap (USD)	Country
OVHFF	OVH Groupe S.A.	Sun, Dec 22	-	BMO	$2,194	FR
SHAOF	SHIMAMURA Co., Ltd.	Mon, Dec 23	-	BMO	$3,602	JP
AMTD	AMTD IDEA Group	Mon, Dec 23	-	BMO	$2,852	HK
AVAL	Grupo Aval Acciones y Valores S.A.	Mon, Dec 23	$0.04	BMO	$2,834	CO
IMKTA	Ingles Markets, Incorporated	Mon, Dec 23	-	BMO	$1,322	US
CHI	Calamos Convertible Opportunities and Income Fund	Mon, Dec 23	-	BMO	$865	US
MIELY	Mitsubishi Electric Corporation	Tue, Dec 24	$0.39	BMO	$33,895	JP
SGIOY	Shionogi & Co., Ltd.	Tue, Dec 24	$0.16	--	$11,116	JP
ASEKY	Aisin Corporation	Tue, Dec 24	$0.87	--	$10,188	JP
TKSHF	Takashimaya Company, Limited	Tue, Dec 24	-	BMO	$2,717	JP
HTD	John Hancock Tax-Advantaged Dividend Income Fund	Tue, Dec 24	-	BMO	$717	US
NVZMY	Novozymes A/S	Thu, Dec 26	$0.57	--	$28,197	DK
NDEKY	Nitto Denko Corporation	Thu, Dec 26	$1.04	--	$10,965	JP
ANGPY	Anglo American Platinum Limited	Thu, Dec 26	$1.05	BMO	$7,975	ZA
HTCMY	Hitachi Construction Machinery Co., Ltd.	Thu, Dec 26	-	--	$6,043	JP
PALAF	Paladin Energy Limited	Thu, Dec 26	-$0.09	BMO	$2,791	AU

Source: FMP

Crypto

A Mixed Performance Ahead of the Year-End

As we approach the end of the year, the altcoin market is showcasing a mix of gains and losses, reflecting the broader cooling-off period in the cryptocurrency market. Among the top performers, **Uniswap** leads the gainers with a daily increase of 3.31%, highlighting its resilience in a volatile environment. Stablecoins such as **Dai** and **Tether** have also seen modest gains of 0.04% and 0.05% respectively, underlining their role as safe-haven assets during periods of uncertainty.

Main Crypto Movers WoW

Crypto	Price	Day	%	Weekly	Monthly	YTD
Dai	1.00009	▲ 0.00040	0.04%	0.03%	0.03%	0.00%
USD Coin	1.00	▼ 0.00	-0.01%	0.00%	0.00%	0.00%
Tether	1.00	▲ 0.00	0.05%	-0.05%	-0.14%	-0.02%
Bitcoin	96963	▼ 987	-1.01%	-4.19%	-1.65%	128.21%
Binance	653.6	▼ 22.2	-3.28%	-8.66%	4.26%	109.16%
Chainlink	22.1123	▼ 0.807	-3.52%	-23.02%	47.64%	47.34%
Uniswap	13.25	▲ 0.43	3.31%	-23.82%	42.04%	82.77%
Polkadot	6.88	▼ 0.12	-1.75%	-24.08%	15.43%	-16.21%
Avalanche	37.33	▼ 1.68	-4.32%	-28.56%	4.11%	-3.31%
Cosmos	6.47	▼ 0.40	-5.83%	-29.37%	0.51%	-38.83%

Source: Trading Economics

On the other hand, the list of top decliners reveals notable losses. **Cosmos** leads the laggards with a sharp drop of 5.83%, followed by **Avalanche**, which recorded a decline of 4.32%, reflecting bearish sentiment in the decentralized ecosystem. Similarly, **Chainlink** faced a daily loss of 3.52%.

This divergence between gainers and losers highlights the dynamic nature of the Altcoin ecosystem, where stability in some assets contrasts sharply with bearish trends in others. As the market transitions into the new year, strategic positioning and cautious risk management remain essential.link

Bitcoin in the Eye of the Storm: Impact of Fed Comments and Market Sentiment

Bitcoin has experienced significant volatility recently, dropping 3.9% over the past week and hitting an intraday low of $95,587, currently trading around $97,212. This correction is part of a broader trend that has resulted in liquidations exceeding $1 billion in the futures market.link

Federal Reserve Chair Jerome Powell clarified during a press conference that the Fed has no plans to hold Bitcoin, stating: “We are not authorized to own Bitcoin.” These remarks followed a recent interest rate cut but reflect a cautious stance on monetary policy for 2025. The lack of institutional support has heightened market uncertainty and increased selling pressure on Bitcoin. Link

BTC / USD

Source: Trading Economics

The key support level for Bitcoin is $95,500; breaking below this threshold could trigger further selling. Despite the decline, the Crypto Fear and Greed Index remains in the "Greed" zone, scoring 62, indicating persistent optimism among investors.

Fear and Greed Index Chart

Source: CoinMarketCap

While Bitcoin faces uncertainties, other cryptocurrencies have also recorded significant losses. Opinions about Bitcoin's future are divided; some experts trust its resilience, while others warn that ongoing regulatory policies could lead to further short-term corrections.

So Bitcoin's recent price movements reflect the interplay between regulatory announcements and market sentiment. Traders will focus on key economic indicators and upcoming statements from central banks, which could influence Bitcoin's price in the coming days.

Weekly Paper Picks

A Deep Learning Approach for Trading Factor Residuals

Link: https://arxiv.org/abs/2412.11432

Residuals in factor models prevalent in asset pricing present opportunities to exploit the mis-pricing from unexplained cross-sectional variation for arbitrage. The paper performs a replication of the methodology of Guijarro-Ordonez et al. (2019) (G-P-Z) on Deep Learning Statistical Arbitrage (DLSA), originally applied to U.S. equity data from 1998 to 2016, using a more recent out-of-sample period from 2016 to 2024. Adhering strictly to point-in-time (PIT) principles and ensuring no information leakage, we follow the same data pre-processing, factor modeling, and deep learning architectures (CNNs and Transformers) as outlined by G-P-Z. The replication yields unusually strong performance metrics in certain tests, with out-of-sample Sharpe ratios occasionally exceeding 10. While such results are intriguing, they may indicate model overfitting, highly specific market conditions, or insufficient accounting for transaction costs and market impact. Further examination and robustness checks are needed to align these findings with the more modest improvements reported in the original study.

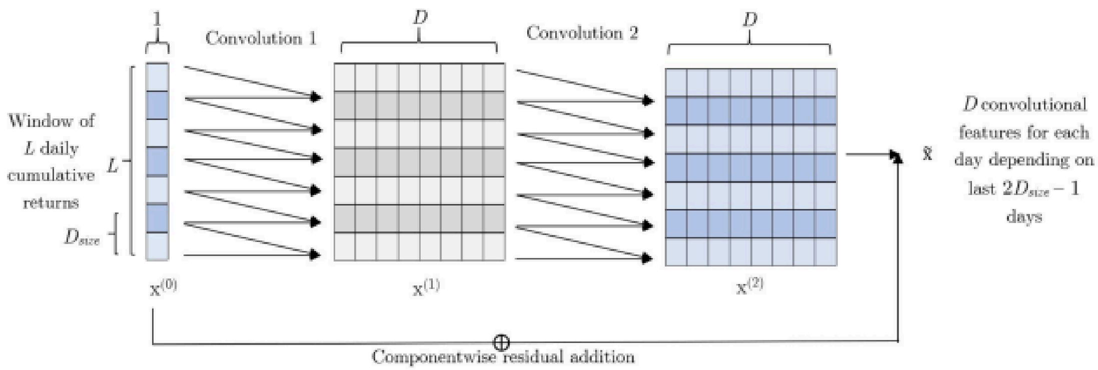


Figure 1: CNN Architecture

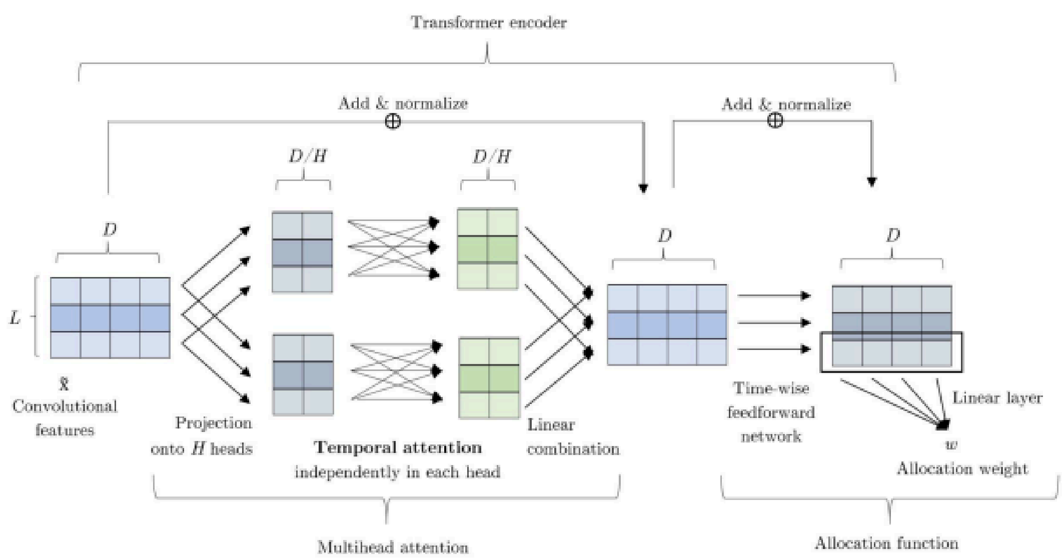


Figure 2: Transformer Architecture

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