MARKET RECAP at 4 pm ET

Wall Street’s major indexes and Treasury yields extended gains on reports that the U.S. has reached a deal in principle on trade with China. The dollar rose against the yen, while increased risk appetite pushed gold prices lower. Oil prices rallied.

The U.S. Commerce Department is likely to report that retail sales rose 0.5% in November, after having gained 0.3% in October. Another report is expected to show that business inventories rose 0.2% in October, after being flat in the previous month. Also, trade data from Labor Department is likely to show import prices having rebounded 0.2% in November from a fall of 0.5% in the previous month.

Federal Reserve Bank of New York President John Williams is scheduled to give a lecture, “Topics on Monetary Policy” at an event organized by Borough of Manhattan Community College.

KEY ECONOMIC EVENTS

**Events** | **ET** | **Poll** | **Prior**
---|---|---|---
Import prices mm for Nov | 0830 | 0.2% | -0.5%
Export prices mm for Nov | 0830 | 0.1% | -0.1%
Import prices yy for Nov | 0830 | -- | -3.0%
Retail sales ex-autos mm for Nov | 0830 | 0.4% | 0.2%
Retail sales mm for Nov | 0830 | 0.5% | 0.3%
Retail ex gas/autos for Nov | 0830 | -- | 0.1%
Retail control for Nov | 0830 | 0.3% | 0.3%
Retail sales YoY for Nov | 0830 | -- | 3.10%
Business inventories mm for Oct | 1000 | 0.2% | 0.0%
Retail inventories ex-auto rev for Oct | 1000 | -- | 0.6%

KEY RESULTS

No major S&P 500 companies are scheduled to report.
Wall Street's main indexes hit record highs following news that the United States had reached a “deal in principle” with China to resolve a trade war that has rattled markets for nearly two years. "It's extremely important the new tariffs don’t go into place," said Burns McKinney, portfolio manager at Allianz Global Investors in Dallas. "For the last several months there’s been a lot of noise on trade. This is not noise. This is the real thing, an important deadline." Delta Air Lines shares rose 2.9% as the company projected annual rise in profit and revenue in 2020. The Dow Jones Industrial Average rose 0.79% to 28,131.92, the S&P 500 gained 0.86%, to 3,168.56 and the Nasdaq Composite added 0.73%, to 8,717.32, at close.

Treasury yields spiked on a report that said the United States has reached a deal in principle on trade with China. "The sell-off in bonds is all based on the trade news. But it's all binary outcomes -- when we get positive news, bonds sell off and on days that we don't get positive news, we see a bond rally," said Subadra Rajappa, head of rates strategy, at Societe Generale in New York. Meanwhile, The Treasury Department sold $16 billion in 30-year bonds at a high yield of 2.307%. The bid-to-cover ratio was 2.46. Benchmark 10-year notes fell 31/32 to yield 1.89%, while short-dated two-year notes fell 3/32 yielding 1.66%.

The dollar jumped against the safe-haven Japanese yen on reports that the United States has reached a deal in principle on trade with China, just days before new U.S. tariffs on Chinese imports were due to be imposed. The report follows U.S. President Donald Trump's comments from earlier in the session when he said the United States was "very close" to nailing down a deal with China. Against the Japanese yen, the dollar rose 0.72% to 109.32 yen. The dollar index rose 0.2% to 97.27.

Oil prices extended gains on reports that the United States has reached a deal in principle on trade with China, just days before new U.S. tariffs on Chinese imports were due to be imposed. Oil prices earlier rose after Trump tweeted that the United States was very close to a big deal with China amid reports that the country was considering a delay or possible cancellation of tariffs scheduled to go into effect on Dec. 15. Brent crude futures rose 1.21% to $64.49 a barrel. West Texas Intermediate crude futures rose 1.11% to $59.41 a barrel.

Gold prices fell on reports that the United States has reached a deal in principle on trade with China, just days before new U.S. tariffs on Chinese imports were due to be imposed. Spot gold dropped 0.36% to $1,469.58 per ounce. U.S. gold futures fell 0.10% to $1,473.50 an ounce. Palladium, meanwhile, raced to a fresh all-time high of $1,944 in the session and was last up 1.64% at $1,941.39 an ounce.
U.S. reaches 'deal in principle' with China on trade -source
The White House has reached a "deal in principle" with Beijing to resolve the 17-month U.S.-China trade war, according to a source briefed on the trade talks. "The written agreement is still being formulated, but they have reached an agreement in principle," the source said. In an attempt to secure a "phase one" trade deal, U.S. negotiators offered to cut existing tariffs on Chinese goods by as much as 50% and suspend new tariffs that were scheduled to go into effect on Sunday, two people familiar with the negotiations said earlier. The U.S.-China trade war has slowed global growth and dampened profits and investment for companies around the world. If President Donald Trump does not suspend the new tariffs, Beijing officials will apply more tariffs on U.S. goods and may suspend talks until after the U.S. presidential election in November 2020, trade experts believe. The Dec. 15 tariffs would apply to almost $160 billion of Chinese imports such as video game consoles, computer monitors.

Boeing delays plans for record 737 production until 2021 -sources
Boeing has delayed plans to reach a record production rate of 57 737 jets per month next year, industry sources said, even before the U.S. FAA announced a new delay in the 737 MAX return to service that raised uncertainty over production plans. The world's largest planemaker has also delayed plans to step up from the current rate of 42 jets per month to 46 jets this year until March 2020, as the company struggles to win regulatory approvals for its best-selling jet after deadly crashes. Separately, Southwest Airlines said it had reached a confidential compensation agreement with Boeing for a portion of a projected $830 million hit to operating income in 2019 arising from the grounding of its 737 MAX aircraft. To read more, click here

Apple's China iPhone shipments fall 35% in November -Credit Suisse
Apple's iPhone shipments in China fell more than 35% in November, marking their second straight double-digit decline as sales of the cheaper iPhone 11 remained sluggish, brokerge Credit Suisse said. Total iPhone shipments in China in the September-November period dropped 7.4% from a year earlier, Credit Suisse analyst Matthew Cabral said, citing data from China's Ministry of Industry and Information Technology. The latest iPhone 11 range hit stores in China in September, with short queues of die-hard fans contrasting with the hundreds who camped out ahead of some previous launches. Cabral also wrote that Apple would have a tough time pushing through tariff-related price increases to U.S. consumer if the 15% tariffs on billions in Chinese-made consumer goods come into effect on Dec. 15.

Australia tells Facebook and Google to commit to competition rules, or else
Australia said technology giants such as Facebook and Google will have to agree to new rules to ensure they do not abuse their market power and damage competition, or the government will impose new controls on them. Prime Minister Scott Morrison said the Australian Competition and Consumer Commission (ACCC) will create a code of conduct to address complaints that the technology companies have a stronghold on advertising, the main income generator of local media operators. The guidelines will ensure substantial market power is not used to lessen competition in media and advertising services markets. "I want us to be the
model jurisdiction in the world for how we are dealing with digital platforms, social media platforms," Morrison told reporters in Melbourne.

**Cadillac vehicles shifting to electric from gas by 2030 – executive**
The head of General Motors' Cadillac luxury brand said that a majority, and possibly all, of the brand's models would be electric vehicles by 2030. Cadillac president Steve Carlisle also said Cadillac was on track for "low double-digit" sales growth in China in 2019, despite a drop in overall sales in the world's largest vehicle market. Retail Cadillac sales in the United States were on track this year for their first increase since 2013, Carlisle said. Cadillac has previously signaled a move toward electric models. Carlisle also confirmed Cadillac would offer a large electric sports-utility vehicle (SUV) similar to the Escalade and that it could continue to sell internal combustion models alongside electric vehicles, depending on consumer demand.

**3M to sell drug delivery business for $650 million**
Industrial conglomerate 3M said it would sell its drug delivery business to investment firm Altaris Capital Partners for about $650 million as part of its plan to shed non-core assets. The unit, which makes inhalers and skin patches, accounted for about 1.4% of the company's 2018 revenue of $32.77 billion. Sales from the business were flat on an organic local currency basis in the recently reported third quarter. The company said it would retain its transdermal drug delivery components business.

**Chevron moves ahead with Gulf of Mexico project**
Chevron gave the green light to its Anchor project in the Gulf of Mexico and said the deepwater oilfield would require an investment of about $5.7 billion. Announcing its final investment decision (FID) on the project, the company said first oil from the field is expected in 2024. "Chevron's sanction of the Anchor project shows that the U.S. Gulf of Mexico still offers attractive investment opportunities for large greenfield developments," said Justin Rostant, an analyst with Wood Mackenzie's Gulf of Mexico team. The Anchor field is located about 140 miles off the coast of Louisiana and is in water depths of 5,000 feet. It also requires technology capable of handling pressure of 20,000 pound-force per square inch.

**Delta predicts 2020 profit growth; CEO says more people turning to air travel**
Delta Air Lines sees another annual rise in profit and revenue in 2020 driven by what Chief Executive Ed Bastian called a growing interest in air travel by consumers across the generational spectrum. "People are more inspired to travel," Bastian told Reuters ahead of the carrier's investor day, citing the increased affordability of flying and advances in social media and technology, even as environmental and "flight-shaming" activists threaten air travel growth in Europe. Atlanta-based Delta is forecasting 2020 profit of $6.75 to $7.75 per share, versus analysts' mean estimate of $7.06 according to IBES data from Refinitiv, on revenue growth of 4% to 6% and $4 billion of free cash flow.

**Constellation pulls brands from E. & J. Gallo deal, price lowered by $600 million**
Constellation Brands said it had withdrawn some brands, including Cook's California, from its deal with E. & J. Gallo Winery after regulatory concerns, reducing the deal value by about $600 million. The deal price has now been revised down to about $1.1 billion, of which $250 million is an earnout based on divested brands' performance over a two-year period, Constellation said. The brewer said it would also divest its New Zealand-based Nobilo Wine brand for $130 million to E. & J. Gallo. The deal is expected to close by the end of fiscal 2020, while the transaction for Nobilo Wines in the first half of fiscal 2021 and is subject to FTC and New Zealand regulatory approval.

**CVS to increase genetic testing for some cancer patients**
CVS Health said it will make it easier for patients with advanced cancer enrolled in some Aetna insurance plans to receive broad genetic gene sequencing tests that can help identify the best drug or treatment for them. CVS has been running an oncology program in 12 states in which patients prescribed treatment regimens that follow National Comprehensive Cancer Network guidelines automatically receive prior authorization approval, speeding the time to starting their treatment. It will now add easier access to broad-panel gene sequencing tests to that program for patients in its at-risk Aetna plans, Alan Lotvin, CVS' chief transformation officer, said in an interview. In at-risk insurance plans CVS, which acquired Aetna last year for $69 billion, takes on the risk of higher member costs.
'Black Swan' index flashes yellow: Wall Street is not scared
The options-based Black Swan index may be signaling surging demand from investors for protection against a stock market crash, but Wall Street analysts see little reason to panic. The Cboe Skew Index is near a 14-month high. It tracks the implied volatility of deep out-of-the-money options - that is, contracts that need a large move in the market before they come into play - on the S&P 500. On Monday, the Skew Index hit 136.56, its highest since October 2018. It last traded at 134.37. The gauge is also known as the Black Swan index, a reference to the book "Black Swan" by former options trader Nassim Nicholas Taleb that looks at the potentially catastrophic effects of unpredictable events.

EXPLAINER-Repo is Wall St's big year-end worry. Why?
The $2.2 trillion repurchase agreement market - part of the inner workings of the U.S. financial system - is facing what could be another strain as the year comes to a close. That could have wider implications than just Wall Street. A flash stress in the market in September meant that cash available to short-term borrowers all but dried up as demand for funds to settle Treasury purchases and pay corporate taxes overwhelmed loans made available in the repurchase agreement (repo) market. Interest rates in U.S. money markets shot up to as high as 10% for some overnight loans, more than four times the Fed's rate. Since September, the New York Federal Reserve has offered daily operations where it injects liquidity into the overnight market, in addition to frequent offerings of longer-term loans. It is the Fed's first major market intervention since the financial crisis more than a decade ago.
Bank of Canada sees persistently low global growth and interest rates

Low interest rates and slow economic growth will likely persist as the world grapples with structural factors such as a demographic slowdown and sluggish productivity, Bank of Canada Governor Stephen Poloz (pictured) said. Speaking to a business audience in Toronto, Poloz stressed he was not making a near-term prediction about the Canadian central bank's interest rate policy. The bank has kept rates unchanged since October 2018. "On balance, then, it looks like the global economy is set for continued slow economic growth for mostly structural reasons," Poloz said. "For these same reasons, this means that low interest rates are likely to persist too." Poloz also said there was a chance inflation could unexpectedly jump, fueled by a combination of high household and government debt as well as populist politics in some nations.

Canada will consider climate plan in Teck oil project decision – minister

The government will take into account its plan to make Canada carbon neutral by 2050 when it considers whether to approve Teck Resources' plan for a giant oil sands mine, the new environment minister said. Teck wants approval for its C$20.6 billion Frontier project, which involves an open pit mine to eventually produce 260,000 barrels per day (bpd). The mine in northern Alberta would open in 2026 and operate until 2067. Prime Minister Justin Trudeau's government is supposed to decide by the end of February. Environment Minister Jonathan Wilkinson told Reuters he could not "pre-judge" the outcome of a decision that might involve a cabinet vote, "but what I will say is the issue around climate and the integrity of our climate plan will be one of the very significant issues that will be discussed."

RBC to sell Eastern Caribbean operations to group of regional banks

Royal Bank of Canada said it would sell its Eastern Caribbean banking business to a group of local banks, making it the latest Canadian lender to shrink its operations in the region. The bank did not disclose financial terms of the deal, but said the sale included RBC's branches in Antigua, Dominica, Montserrat, St. Lucia and St. Kitts and Nevis. The deal is expected to be finalised in the coming months and is subject to regulatory approvals, the Canadian lender said.

Canada's main stock index inched higher with the Toronto Stock Exchange's S&P/TSX composite index rising 0.04% to 16,946.90.

The energy sector climbed 2.07% to 138.86.

The U.S. dollar was 0.04% up against its Canadian counterpart at C$1.3176.
ECONOMIC REPORT
U.S. producer prices tepid; jobless claims at more than two-year high
U.S. producer prices were unexpectedly unchanged in November as increases in food and gasoline prices were offset by declining costs for services, pointing to muted inflation despite a recent uptick in consumer prices. The Labor Department said the flat reading in its producer price index for final demand last month followed a 0.4% rebound in October. The PPI gained 1.1% in the 12 months through November, matching October's rise, which was the smallest increase since October 2016. Excluding the volatile food, energy and trade services components, producer prices were also unchanged last month after edging up 0.1% in October. The so-called core PPI increased 1.3% in the 12 months through November, the smallest gain since September 2016, after advancing 1.5% in October. In another report on Thursday, the Labor Department said initial claims for state unemployment benefits surged 49,000 to a seasonally adjusted 252,000 for the week ended Dec. 7.

ARAMCO HITS $2 TRILLION
Saudi Aramco hits Crown Prince's $2 trillion goal despite valuation doubts
Saudi Aramco hit the $2 trillion target sought by de-facto Saudi leader Crown Prince Mohammed bin Salman as its shares racked up a second day of gains, despite some scepticism about the state-owned oil firm's value.

MEDICARE PAYMENTS
U.S. watchdog finds $6.7 billion in questionable Medicare payments to insurers
A U.S. government watchdog is raising fresh concerns that health insurers are exaggerating how sick Medicare patients are, receiving billions of dollars in improper payments as a result.

OIL OUTLOOK
Oil market to remain oversupplied despite deepening OPEC+ cuts -IEA
Global oil inventories could rise sharply despite OPEC and its allies deepening their output cuts and slowing U.S. production growth, the International Energy Agency (IEA) said.

PSA-FIAT MERGER
PSA calls supervisory board meeting for Tuesday for possible FCA deal review – sources
French carmaker PSA could discuss a merger deal with rival Fiat Chrysler at a meeting of its supervisory board it has called for Tuesday, two sources familiar with the situation told Reuters.

UCOMMUNE U.S. IPO
Citi, Credit Suisse drop China's Ucommune U.S. IPO over valuation -sources
Citigroup and Credit Suisse have dropped out of the U.S. initial public offering (IPO) of Chinese shared workspace provider Ucommune, baulking at its desired valuation, two people with direct knowledge of the matter said.

AUSTRALIA CARTEL CASE
JPMorgan witness in Australia cartel case says no collusion with Citi, Deutsche
A prosecution witness in an Australian criminal cartel case against Citigroup and Deutsche Bank testified he had just 30 seconds' notice about an underwriting conference call and that there was no collusion.
A policeman rides a motorcycle past a damaged vehicle that was set on fire by demonstrators during a protest after India's parliament passed a Citizenship Amendment Bill, in Guwahati, India, December 12. REUTERS/Anuwar Hazarika