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US Market Wrap - 22nd January 2025

Nasdaq outperforms on AI investment and NFLX earnings

- **SNAPSHOT:** Equities mixed, Treasuries down, Crude down, Dollar flat
- **REAR VIEW:** US President Trump threatens EU, China & Russia with tariffs, pushes for renegotiation of USMCA, unveils AI project, and at least USD 500bln investment in AI infrastructure; ECB's Lagarde suggests Trump's presidency will not alter rate path at the moment; Strong US 20yr note auction; Japanese PM to present investment plan to Trump; Stellar NFLX earnings.
- **COMING UP: Data:** US Initial Jobless Claims, Australian PMI, Japanese CPI, Canadian Retail Sales. **Events:** Norges Bank, CBRT Policy Announcement. **Supply:** France, UK, US. **Speakers:** SNB Chair Schlegel.
- **DAILY US EARNINGS ESTIMATES:** ELV, GE, UNP, FCX, TXN, CSX, ISRG. [To download the full report, please click here.](#)

MARKET WRAP

Stocks were predominantly bid throughout the session with SPX printing a fresh record high while T-notes saw gradual selling, moreso in the belly. The upside in stocks was led by the Nasdaq with Tech and Communication names the only sectors truly in the green with the upside in heavyweight stocks supporting the overall market. US President Trump unveiled project stargate, a USD 500 bln AI project which supported AI names like Nvidia (NVDA) while Oracle (ORCL) also surged due to its direct involvement with the project. Communication names were also supported by the stellar Netflix (NFLX) earnings report last night. In FX, price action was rather mundane aside from the Yen, which saw notable weakness in the risk on trade with all eyes turning to the BoJ on Friday. The CAD also softened with soft PPI adding to the soft CPI data ahead of the BoC next week. The Euro saw marginal selling in response to commentary from ECB President Lagarde ahead of the ECB blackout period from tomorrow, who suggested Trump's presidency will not affect the ECB's policy path as it currently stands. T-notes were weighed on amid a strong risk environment with upside in US equities while selling was observed ahead of the 20yr bond auction and amid the Saudi PIF launching a USD 4bln 2-parter. The strong 20yr offering put a floor in the selling with T-notes paring into settlement. Crude prices chopped to the dollar and Trump tariff updates. On which, Trump said the EU treats the US badly and they will be in for tariffs, while WSJ reported that Trump is pushing for early renegotiation of the US trade deal with Mexico and Canada. The US President also said they are talking about a 10% tariff on China, for sending them fentanyl. He also threatened Russia, noting if they do not agree to a deal soon regarding Ukraine, he will have to tariff, tax and implement sanctions on Russia.

FIXED INCOME

T-NOTE FUTURES (H5) SETTLED 5+ TICKS LOWER AT 108-18

T-notes sold across the curve amid Trump tariff reports and supply. At settlement, 2s +1.0bps at 4.291%, 3s +1.0bps at 4.339%, 5s +2.1bps at 4.419%, 7s +1.8bps at 4.506%, 10s +1.9bps at 4.593%, 20s +0.5bps at 4.882%, 30s +0.7bps at 4.810%

INFLATION BREAKEVENS: 5yr BEI +0.4bps at 2.495%, 10yr BEI +0.3bps at 2.400%, 30yr BEI +0.3bps at 2.337%.

THE DAY: T-notes saw marginal upside before accelerating in the European morning to a peak of 108-28, tracking EGBs higher after ECB President Lagarde suggested that Trump's presidency, as it stands, will not affect the ECB's policy path. T-notes then started to pare with a bit of chop once US players arrived amid a lack of tier 1 data. T-notes gradually moved lower while risk sentiment improved with the SPX hitting a fresh record high while Saudi Arabia's PIF announced a USD 4bln two-parter ahead ahead of the 20yr bond auction (more below), seeing T-note futures hit a low of 108-14 before the strong auction put a floor in the selling with T-notes settling off lows. With a lack of tier 1 data this week, focus lies on the US Flash PMI data for January (due Friday), while any trade/spending updates from US President Trump will be key. On which, Trump said the EU treats the US badly and they will be in for tariffs, while WSJ reported that Trump is pushing for early renegotiation of the US trade deal with Mexico and Canada. The US President also said they are talking about a 10% tariff on China, for them sending fentanyl. ING highlight that the time for discounting unclear outcomes is behind us and the market now moves into reacting to actual policy prescriptions. The desk also notes there are a lot of forces that can ultimately force the 10yr yield up to 5% in the weeks and months ahead, but for now, ING suggests the bias is in the other direction, for now. ING provide three reasons, firstly, there has already been a move higher in yields, which is typically followed by a test lower. Second, "mutual fund data flows show a re-setting of duration longs for the first couple of weeks of 2025, reversing the significant preference for duration shorts into the turn of the year". And third, the market continues to await policy announcements from Trump, while fiscal and tax policies require congressional approval, which will take time.

20YR: Overall, a strong auction. The US Treasury sold USD 13bln of 20yr bonds with a high yield of 4.900%, stopping through the when issued by 1.1bps, a much better result than the prior tail of 1.5bps and vs a six auction average of a tail of 1.3bps. The bid-to-cover was also strong at 2.75x, above the prior 2.5x and average of 2.53x. The breakdown saw direct demand unchanged at 20.1% while indirect demand jumped back up to 69.5% from 62%, a touch above the six auction average. The rise in indirect demand saw dealers (forced surplus buyers) take just 10.4% of the offering, down from the prior 17.9% and average 15.3%.

THIS WEEK SUPPLY: US to sell USD 20bln of 10yr TIPS, USD 95bln in 4-week bills and USD 90bln of 8-week bills on January 23rd; all to settle on January 28th.

STIRS/OPERATIONS:

- **Market Implied Fed Rate Cut Pricing: January 0bps (prev. 0bps), March 6bps (prev. 7bps), May 12bps (prev. 12bps), December 39bps (prev. 38bps).**
- NY Fed RRP op demand at USD 124bln (prev. 96bln) across 24 counterparties (prev. 31).
- SOFR at 4.29% (prev. 4.29%), volumes at USD 2.361tln (prev. 2.326tln).
- EFFR at 4.33% (prev. 4.33%), volumes at USD 100bln (prev. 102bln).
- Treasury Buyback (Liquidity support, 3-5yr nominal coupons): Accepts 17/49 eligible issues, receives 14.065bln of offers, accepts USD 4bln (max amount USD 4bln), offer-to-cover 3.52x.
- US sold USD 64bln of 4mth bills at high rate of 4.205%, B/C 3.28x
- US sold USD 65bln 33-day CMBs at high rate 4.265%, B/C 2.70x

CRUDE

WTI (H5) SETTLED USD 0.39 LOWER AT 75.44/BBL; BRENT (H5) SETTLED USD 0.29 LOWER AT USD 70.00/BBL

The crude complex was choppy, but settled in the red as dollar moved from lows with initial upside capped by Trump tariffs threats.

On the latter, Trump spoke about a 10% tariff on China for sending them fentanyl, as well as offering threats to the EU noting they could be hit by tariffs too. Regarding Russia relations, Trump said if Putin does not come to the table on Ukraine, it is likely that he would put sanctions on Russia, which led to remarks from Russian Deputy Foreign Minister noting as of today, there is a "small window of opportunity" for agreements with new US admin. Thereafter, benchmarks saw chopiness in wake of Trump posting on Truth that he is not looking to hurt Russia but if they don't make a deal soon, they have no other choice but to put high levels of taxes, tariffs, and sanctions on anything sold by Russia to the US. In the Middle East, the Israel-Hamas in Gaza ceasefire has held, for now, but reports suggested the IDF operation in the West Bank has expanded, whilst on Hezbollah, "Israel is trying to extend the 60-day deadline for the withdrawal of forces from Lebanon by three days", according to Lebanese press cited by Israeli journalist Kai. Elsewhere, Lyondell Basel is to begin closure of its Houston refinery (268k) this weekend, while Port Freeport, Texas has reopened following the winter storm, but Galveston ports remain closed, with Houston Ports set to reopen from Thursday. WTI and Brent traded between USD 75.28-76.45/bbl and 78.81-79.90/bbl, respectively. Ahead, private inventory data is after-hours and a day delayed on account of MLK Day on Monday. Current expectations are (bbl): Crude -1.2mIn, Distillates -0.01mIn, Gasoline +2.3mIn.

EQUITIES

CLOSES: SPX +0.61% at 6,086, NDX +1.33% at 21,853, DJIA +0.30% at 44,157, RUT -0.61% AT 2,304

SECTORS: Utilities -2.18%, Real Estate -1.76%, Energy -1.75%, Materials -0.79%, Financials -0.41%, Consumer Staples -0.26%, Health -0.25%, Industrials -0.17%, Consumer Discretionary -0.07%, Communication Services +1.14%, Technology +2.49%.

EUROPEAN CLOSES: DAX: +1.03% at 21,259, FTSE 100: flat at 8,545, CAC 40: +0.86% at 7,837, Euro Stoxx 50: +0.80% at 5,207, AEX: -0.02% at 914, IBEX 35: +0.16% at 11,883, FTSE MIB: -0.57% at 35,854, SMI: +0.63% at 12,188, PSI: -0.96% at 6,506.

EARNINGS

- **Seagate Technology (STX):** EPS & revenue beat.
- **Netflix (NFLX):** EPS & revenue topped with subscriber growth above expected & buyback announcement.
- **United Airlines (UAL):** Top & bottom line beat with next quarter profit view much better than expected.
- **Capital One Financial (COF):** Revenue, NIM, & NII missed.
- **Interactive Brokers Group (IBKR):** Major Q4 metrics beat.
- **Johnson & Johnson (JNJ):** Beat on EPS, revenue with solid FY outlook, although, MedTech and Stelara revenue fell short.
- **Travelers (TRV):** EPS & revenue topped.
- **Abbott (ABT):** EPS & revenue in line with next quarter & FY profit midpoint view falling short. Exec says Co. expects to see an unfavorable impact of about 2.5% on 2025 sales due to a stronger dollar, via conference call.

STOCK SPECIFICS

- **Oracle (ORCL):** President Trump unveiled USD 500bln AI infrastructure project, "Stargate," a JV between OpenAI, Oracle, & SoftBank.
- **Darden Restaurants (DRI):** Upgraded to 'Outperform' from 'Market Perform' at Bernstein.
- **Ford (F):** Downgraded at Barclays to 'Equal Weight' from 'Overweight'.
- **NRG Energy (NRG):** Raised quarterly dividend 8% to USD 0.44/shr (prev. 0.4075/shr)

US FX WRAP

The Dollar was slightly firmer against most major peers but DXY was flat following reports late Tuesday that US President Trump has threatened the EU and China with tariffs. Additionally, WSJ noted Trump is pushing for an early renegotiation of the US trade deal with Mexico and Canada. For the remainder of the day, newsflow was fairly light, though Trump via Truth Social said if they don't make a "deal" (regarding Ukraine/Russia), and soon, they have no other choice but to put high levels of taxes, tariffs, and sanctions on anything sold by Russia to the US; muted reactions were seen in FX. Now attention is fixed towards Trump's pre-taped interview with Fox News at 9PM EST/ 2AM GMT and remarks at Davos on Thursday.

G10FX was skewed to the downside, gains were seen in the Aussie and NOK, with the latter up vs EUR & USD ahead of the Norges bank's meeting on Thursday, where expectations are for the key policy rate to stay firm at 4.5%. As a reminder, the Central Bank in December held rates at 4.5%, noting that it will most likely be reduced in March 2025, with the Q4-2025 projection at 3.80% (prev. 3.73%) offsetting any dovishness observed from its statement. Separately, the Kiwi lagged its neighbour, incurring modest losses, despite a stickier than expected CPI Y/Y (Q4) print, 2.2% (exp. 2.1%, prev. 2.2%) ,with ING pointing out "the closely monitored non-tradable index slowed slightly faster than expected from 4.9% to 4.5%, the lowest level since the fourth quarter of 2021 and 0.2% below the Reserve Bank of New Zealand's November projections". Ahead, ING noted "This set of figures paves the way for a 50bp RBNZ cut at the 19 February meeting, which markets are now fully pricing in."

CAD gains were seen late Wednesday on reports of negotiations between the US and Canada, yet upside was unwound throughout Wednesday as fears over escalating trade relations remained. Future moves in USD/CAD will likely serve as a function of USD, but until further updates arrive regarding the outcomes of US/Canada trade relations, retail sales will be of focus, with sales expected to rise 0.2% in November.

EUR/USD was modestly lower, remaining above 1.04, yet still below the 1.0426 seen late Tuesday upon US President Trump saying the European Union treats the US badly and will be in for tariffs. That said, ECB's President Lagarde at Davos downplayed the possibility of Trump's presidency having an impact on the ECB's policy path, thus likely facilitating Lagarde's reasonable optimism about the future, and confidence in the EZ inflation target over the course of 2025. Also on the ECB front, many members made appearances, with Holzmann maintaining their Hawk stance, voicing a danger of cutting rates and then hiking again, noting it would be better to wait a bit longer on rate cuts. At the time of writing, the first 25bps rate cut is expected in the January meeting, with the second fully priced by April, but with an 88% probability of it occurring in March.

EMFX: PLN saw its third straight day of gains vs the EUR & USD, as growing higher for longer sentiment surrounds the NBP, outweighing a series of soft data, that is employment, industrial output, corp sector wages, and PPI coming in beneath expectations. Underperformance was seen in CZK, amid remarks from CNB's Prochazka that the bank should be able to resume monetary easing in February, according to

Bloomberg. Going forward, CBRT Repo Rate decision (Thu) is ahead, with the rates anticipated falling to 45% from 47.5%, its second consecutive month of easing, after spending 9-months unchanged at its 14-month high of 50%.

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