

newsquawk

US Market Wrap - 27th January 2025

Tech tumbles and havens rise as DeepSeek rattles markets

- **SNAPSHOT:** Equities down, Treasuries up, Crude down, Dollar down
- **REAR VIEW:** DeepSeek threatens US AI dominance; Trump may slap tariffs on Canada and Mexico before talks; Trump threatens Colombia with tariffs to push them to a deportation deal; Pending home sales beat; Soft China PMIs; Encouraging German IFO; AT&T earnings beat; Mixed US auctions.
- **COMING UP: Holiday:** Chinese Spring Festival (Jan 28 - Feb 4 2025). **Data:** Australian NAB Business Confidence, US Durable Goods, Richmond Fed Index, ECB BLS (Q1). **Events:** NBH Policy Announcement, US Senate Committee. **Speakers:** ECB's Cipollone, Lagarde. **Supply:** Australia, Netherlands, Italy, UK, Germany, US
- **WEEK AHEAD:** Highlights include FOMC, ECB, BoC, US PCE, EZ GDP, Tokyo and Australian CPI. [To download the full report, please click here.](#)
- **CENTRAL BANK WEEKLY:** Previewing FOMC, ECB, BoC, Riksbank, BCB; Reviewing BoJ, PBoC, Norges, CBRT. [To download the full report, please click here.](#)
- **WEEKLY US EARNINGS ESTIMATES:** Deluge of mega-cap earnings with highlights including META, MSFT, TSLA, AAPL. [To download the full report, please click here.](#)

MARKET WRAP

Stocks were broadly hit on Monday with steep losses in AI and tech names leading the downside with NVDA closing down c. 17%. The weakness was observed with questions now hanging over the AI dominance in the US after China's DeepSeek (an openAI rival) saw impressive performances at a fraction of the costs, bringing into question the need for extortionate CapEx from tech companies expanding their AI portfolios. The sell-off sparked a flight to quality bid with T-notes higher across the curve while Yen and Swissy outperformed in FX. However, gold and the buck were lower with lower equity demand weighing on the Dollar and likely position squaring in gold to help cover the equity losses. Nonetheless, the Dollar is trading off its lows with the threat of tariffs still overhanging with more reports over the weekend suggesting US President Trump is to implement tariffs on Canada and Mexico, seeing MXN tumble. There was also the threat of tariffs on Colombia after they refused to take deportation flights, but once Trump threatened high tariffs on all Colombian goods, they decided to accept the flights. T-notes were also off peaks with front-loaded supply weighing in likely dealer concession ahead of the auctions, which saw a soft 2yr offering but a better 5yr offering ahead of the 7yr supply on Tuesday. Crude prices were weighed on by the downbeat risk sentiment. Meanwhile, US President Trump said he spoke with Saudi Arabia's Crown Prince and discussed bringing oil prices down. However, Bloomberg reported that oil traders expect OPEC+ will stick with its current supply policy at a review meeting next week. Looking ahead, attention turns to the FOMC and BoC on Wednesday, ECB and US Q4 GDP and PCE on Thursday before the December PCE data on Friday.

US

NEW HOME SALES: New home sales rose 3.6% in December to 698k, above the expected 675k from the upwardly revised 674k. Furthermore, the median price for homes was USD 427,000 while the average sales price was USD 513,600. Also, the inventory of homes for sale was 494,000, equivalent to 8.5 months at the current sales rate. Behind the move higher, Oxford Economics said sales may have been propped up by unseasonably warm weather in December, but "we think the pace of sales may also indicate that homebuyers are proving to be more resilient than expected to mortgage rates around 7%." Once January is behind us, the consultancy expects new home sales to improve modestly in 2025, based on their forecast for mortgage rates to decline modestly over the course of the year, incentives offered by builders, a healthy amount of supply and a strong economy, and a healthy labour market.

FIXED INCOME

T-Notes rally in flight to quality as DeepSeek rattles US tech, hitting sentiment. At settlement, 2s -7.5bps at 4.197%, 3s -8.5bps at 4.244%, 5s -9.6bps at 4.332%, 7s -9.8bps at 4.429%, 10s -9.1bps at 4.532%, 20s -8.4bps at 4.831%, 30s -7.8bps at 4.770%

INFLATION BREAKEVENS: 5yr BEI -2.5bps at 2.527%, 10yr BEI -1.8bps at 2.401%, 30yr BEI -1.6bps at 2.382%.

THE DAY: T-notes were bid across the curve on Monday in a flight to quality bid with risk assets hit as China's DeepSeek threatened US AI dominance, with NVDA and other AI stocks plummeting. T-notes hit a peak of 109-12 before paring into settlement with attention turning to key risk events this week, including the FOMC on Wednesday, Q4 GDP & PCE on Thursday and December PCE on Friday. Elsewhere, there are rate decisions from the ECB (Thur.) and BoC (Wed.). The only US data released on Monday was the December New Home sales, which rose above expectations but had little impact on markets given the focus on the equity weakness sparked by DeepSeek. However, overnight saw disappointing China PMI data while the German IFO survey was better than expected. Aside from the flight to quality, focus was on the front-loaded 2 and 5yr supply. T-notes had pared from the morning peaks ahead of the supply in likely dealer concession, but ultimately the auctions saw mixed receptions - the 2yr tailed and the 5yr stopped through the when issued (more below).

2YR: Overall, a soft 2yr auction which took place ahead of the 5yr supply. The US Treasury sold USD 60bln in 2yr notes at a high yield of 4.211% (a lower yield than the prior auction of 4.335%), tailing the when issued by 0.1bps, a worse reception than the prior stop through of 0.1bps and six auction average of a stop through of 0.7bps. The bid-to-cover ratio of 2.66x was marginally beneath the six auction average of 2.68x and underneath the prior 2.73x. After the huge 82.1% indirect taking in December, that has pared with indirects taking a more normal 65% of the auction, beneath the 70.8% six auction average. Meanwhile, direct demand rose back up from the low December taking of 6.6% to 21.27%, above the 17.1% average. Nonetheless, dealers took home 13.7% of the auction, above the 12% average and 11.3% prior.

5YR: Overall, a strong 5yr auction after softer 2yr demand earlier on. The US Treasury sold USD 70bln of 5yr notes at a high yield of 4.330%, a lower yield than December's 4.478%. Nonetheless, the auction stopped through the when issued by 0.6bps, a stronger sign of demand than the prior stop through of 0.2bps and six auction average tail of 0.5bps. The bid-to-cover was in line with the prior and recent averages at 2.40x. Dealers took 11.1% of the auction, a bit beneath the prior and average of c. 12.5%, while direct demand improved above the average and indirect demand declined below the recent average.

THIS WEEK SUPPLY:

- US Treasury to sell USD 44bln of 7yr notes on 28th Jan; to settle 31st Jan.
- To sell USD 30bln 2yr FRN on 28th Jan, to settle 31st Jan.
- To sell USD 85bln in 42day CMBs on 28th Jan; to settle Jan 30th.

STIRS/OPERATIONS:

- **Market Implied Fed Rate Cut Pricing: January 1bps (prev. 0bps), March 8bps (prev. 7bps), May 16bps (prev. 14bps), December 51bps (prev. 42bps).**
- NY FED RRP op demand at USD 93bln (prev. 105bln) across 26 counterparties (prev. 23)
- SOFR at 4.34% (prev. 4.35%), volumes at USD 2.289tln (prev. 2.269tln).
- EFR at 4.33% (prev. 4.33%), volumes at USD 97bln (prev. 93bln).
- US sold USD 79bln of 6mth bills at high-rate 4.140%, B/C 2.92x
- US sold USD 92bln pf 3mth bills at high rate of 4.195%, B/C 3.18x

CRUDE

WTI (H5) SETTLES USD 1.49 LOWER AT USD 73.17/BBL; BRENT (H5) SETTLES USD 1.37 LOWER AT USD 76.18/BBL

The crude complex started the week on the back foot amid the broader risk aversion in wake of Chinese start-up DeepSeek challenging US AI tech dominance. As such, WTI and Brent were largely sideways through the European morning to reach peaks of USD 75.15/bbl and 77.96/bbl respectively, before selling off as US players entered the fray. Thereafter, benchmarks sold off throughout the afternoon to hit troughs of USD 72.38/bbl and 75.50/bbl, respectively, ahead of the week's risk events, namely Fed (Wed) and PCE (Fri). Away from the global macro picture, US President Trump said he spoke with Saudi Arabia's Crown Prince and discussed bringing oil prices down, although latest reports from Bloomberg note that oil traders expect OPEC+ to stick with its current supply policy at a review meeting next week, resisting pressure from US President Trump to open the taps and bring down crude prices. Geopolitics remain simmering in the background with reports of more Israeli soldiers deployed to South Lebanon, while in Russia, the Ryazan oil refinery halted operations following last week's drone attacks, according to Reuters sources, and separate source reports noted that Russian refineries have raised oil processing by 2% following new US sanctions.

EQUITIES

CLOSES: SPX -1.46% at 6,012, NDX -2.97% at 21,127, DJIA +0.65% at 44,714, RUT -1.03% at 2,284

SECTORS: Technology -5.58%, Utilities -2.33%, Industrials -1.32%, Communication Services -0.81%, Energy -0.74%, Materials +0.07%, Consumer Discretionary +0.3%, Real Estate +1%, Financials +1.14%, Health +2.19%, Consumer Staples +2.85%.

EUROPEAN CLOSES: DAX: -0.54% at 21,280, FTSE 100: +0.02% at 8,504, CAC 40: -0.27% at 7,907, Euro Stoxx 50: -0.57% at 5,190, AEX: -0.72% at 895, IBEX 35: +0.27% at 12,015, FTSE MIB: -0.03% at 36,191, SMI: +1.14% at 12,417, PSI: -0.57% at 6,466.

STOCK SPECIFICS:

- Tech names sold, **META, GOOGL, NVDA, ASML, MSFT**, after Chinese AI startup DeepSeek challenges US AI tech dominance. Specifically, data centre names (VRT, ETN, SU FP), power providers for AI infrastructure (CEG, VST, OKLO, NLR), those who've invested heavily into AI models and data centres (META, AMZN, GOOGL), and US chip names were all hit.
- **AT&T (T):** EPS, revenue and subs. metrics beat, but FY profit view light.
- **SoFi Technologies (SOFI):** Weighed on by aforementioned AI news, but EPS and revenue topped with better than expected FY guidance.
- **Amazon (AMZN):** Shifting focus towards live sports to boost profits.
- **US Steel (X):** Activist investor Ancora urged Co. to cancel its acquisition by Nippon Steel.
- **BHP (BHP):** Paused plans to bid for Anglo American.
- **Qorvo (QRVO):** Upgraded to 'Overweight' from 'Neutral' at Piper Sandler with a USD 100 PT (prev. 85), citing Qorvo's potential for improving fundamentals given Starboard's involvement for the upgrade: "ripe for this activist to come in and derive operational and capital efficiencies.
- **TikTok (SNAP, META)** decision expected within 30 days.
- **Pfizer (PFE):** Reportedly to avoid challenge from activist Starboard for now, according to Bloomberg; Starboard didn't name Pfizer board nominees by deadline.
- **Sage Therapeutics (SAGE):** Board has commenced a review into strategic alternatives and has rejected **Biogen's (BIIB)** unsolicited proposal to acquire Sage for USD 7.22/shr.
- **Nvidia (NVDA),** in statement about DeepSeek, says inference requires significant numbers of its GPUs; We now have three scaling laws: pre-training and post-training, which continue, and new test-time scaling."

US FX WRAP

The Dollar was weighed on by sharp US equity losses, driving haven strength (ex Dollar) as a risk-off trade across global markets was seen with steep weakness in tech/AI-related names. Tech was hit after Open AI rival, China's DeepSeek's R1 model, challenged the US's dominance in the space for a fraction of the cost. DXY hit lows of 106.96, although, losses had since trimmed, with the index returning to ~107.36. Fresh drivers for the bounce were less clear, though given US President Trump's February 1st deadline for tariffs on Mexico and Canada is approaching, fears over trade wars remain elevated, potentially limiting the Dollar's downside. Additionally, the weekend saw Trump carry out the threat of tariffs successfully against Columbia, ensuring its policy aim of returning illegal immigrants. Focus in the week, will remain attentive to the equity space, regarding mega-cap earnings, in addition to the FOMC (exp. to hold), Core PCE, Durable Goods, and if tariffs are implemented on Mexico/Canada by Saturday. [Please click here for the Newsquawk FOMC preview.](#)

G10 FX price action was in accordance with the risk-averse sentiment across markets, namely, JPY and CHF were the clear outperformers, particularly the former ahead of BoJ Minutes (Tue). While, Antipodes and the NOK saw the heaviest selling, with the soft China NBS PMI metrics adding further pressure on the former (more detail in EMFX). Also in the red, was the CAD, weighed both on potential incoming tariffs alongside lower crude prices hit on the defensive trade in markets, thus, leaving USD/CAD moderating higher at ~1.4375, albeit off the 1.4401 highs ahead of the BoC on Wednesday. [For the Newsquawk BoC Preview, please click here.](#)

The Euro failed to sustain a move above the 1.05 handle, despite the lack of demand for USD and a better outturn for German IFO data. The increase in the headline was driven entirely by the current conditions component whereas the expectations component edged down. On the

report, CapEo noted the German economy is clearly still struggling. "The BCI was very low compared to its average level in the pre-pandemic period and at face value is consistent with a sharp contraction in GDP." Elsewhere, newsflow for the Pound was light, which ended the US session flat vs the buck. Regarding future moves, ING thinks there is a good case for Cable to be trading 1.19/20 later this year as the BoE picks up the pace of its easing cycle and the Chancellor may have to come back to the table with more fiscal tightening later this year. At pixel time, Cable sits at ~ 1.2490.

EMFX: COP was the centre of attention over the weekend following the confrontation between US President Trump and Colombian President Petro over the denial of two US deportation flights. Eventually through the threat of US-imposed emergency tariffs on all Colombian goods coming into the US, the threat of a subsequent rise to 50% in one week, and many other sanctions, Petro backtracked and offered his presidential plane to repatriate migrants coming back from the US; USD/COP gained after a four-day losing streak. MXN was the biggest loser in the LatAm space, as WSJ reports noted momentum is growing among Trump's advisers to place 25% tariffs on Mexico and Canada as soon as Saturday ahead of negotiations. Elsewhere, lower gold prices weighed on the ZAR, seeing the pair erase Friday's losses.

The Yuan was modestly weaker though well of lows, following China's NBS PMIs; Services fell to 50.2 (exp. 52.1, prev. 52.2), and the mfg turned into contraction territory, 49.1 (exp. 50.1, prev. 50.1). This marked the first contraction in the manufacturing sector since September and the steepest decline in five months, amid sluggish factory activity ahead of the Lunar New Year festival while confidence improved to a ten-month high.

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