US Market Wrap - 30th January 2025

Stocks bid but off highs after Trump announces 25% tariffs on Canada and Mexico

- **SNAPSHOT**: Equities up, Treasuries up, Crude up, Dollar up
- **REAR VIEW**: Trump announces 25% tariffs on Canada and Mexico due to fentanyl, oil tariffs yet to be decided, says China's going to end up paying a tariff as well; US GDP Adv (Q4) falls short, GDP sales & Core PCE Prices in line, Consumer spending surges; Jobless claims fall more than expected; ECB cut by 25bps as expected, sources suggest another cut again in March, but to remove "restrictive" description of rates; BCB hike by 100bps as expected; SARB cut by 25bps; META beats, MSFT disappoints on Cloud, TSLA gains on AI outlook.
- **COMING UP**: **Holiday:** Chinese Spring Festival (Jan 28 - Feb 4 2025). **Data:** German Retail Sales, French CPI, Spanish Retail Sales, German Unemployment, CPI, US PCE, Employment Costs, Canadian GDP (Q4). **Events:** ECB SCE, German Credit Rating. **Speakers:** Fed's Bowman. **Supply:** Australia, Japan
- **DAILY US EARNINGS ESTIMATES:** AON, CVX, XOM, ETN, CL, PSX, CHTR, ABBV, GWW. To download the full report, please click here.

MARKET WRAP

US indices closed in the green (SPX +0.5%, NDX +0.45%, RUT +1%, DJIA +0.4%) albeit well off best levels amid a broad based macro reaction to tariff talk from US President Trump, whereby he said he is to announce 25% tariffs on Canada and Mexico because of fentanyl. In reaction to this, Dollar soared to session highs, paring all weakness, with G10 FX hit as CAD and MXN were hit the hardest. US indices and Treasuries were also sold with oil rising to session highs. Following the initial remarks, the President said China is also going to end up paying a tariff as well. Late in the session Trump took the headlines and dictated the state of play, but it was busy preceding this. In wake of the Fed on Wednesday and mega-cap earnings after-hours from the likes of MSFT, TSLA, and META, US indices saw gains although the former closing down over 6% and weighing on the Tech sector which was the only sector in the red. Data wise, pending home sales tumbled, US Q4 GDP and jobless claims printed underneath expectations, as attention turns to Core PCE (Dec) on Friday whereby WSJ's Timiraos said "with the Dec CPI, PPI and import prices in hand, forecasters who do the math expect core PCE prices to have risen 0.18% (this annualizes to 2.2%)", and Powell last night said total PCE climbed 2.6% in 12 months to December and core PCE climbed 2.8%. Pending home sales tumbled. Elsewhere on Thursday, ECB cut rates by 25bps, as expected, with a modest hawkish reaction seen as Lagarde spoke amid the lack of any fresh dovish signal, with the President sticking to a meeting-by-meeting and data-dependent script. Later source reports later followed from both Reuters and Bloomberg, which both implied another 25bps rate cut in March, but there would be further debate on decisions thereafter while the ECB may also adjust the language around policy that rates are "restrictive".

US

GDP: The first estimate of Q4 GDP was softer than expected, falling to 2.3% from 3.1%, beneath the 2.6% forecast. However, it does match the latest Atlanta Fed GDPNow estimate, which saw a notable revision lower due to the widening December trade deficit on Wednesday, with exports declining while imports surged, which analysts suggest may be due to front-loading ahead of tariffs. Note, imports are a subtraction in the calculation of GDP, so a rise in imports will weigh on GDP but for the quarter overall imports decreased, but perhaps not as much as expected due to the December data. Elsewhere in the report, Consumer Spending surged 4.2%, accelerating from the 3.7% in Q3. Pantheon Macroeconomics highlights that consumer spending helped offset the big drag from inventories and weakness in sentiment, and thinks a substantial share of the consumption gain is due to households pulling forward purchases in anticipation of tariffs threatened by US President Trump. Note, the BEA added a footnote stating that it is not possible to estimate the overall impact of Hurricane Milton on Q4 GDP, but estimates show it resulted in losses of USD 27bln in privately owned fixed assets and USD 3bln in state and local government-owned fixed assets. On prices, Core PCE rose 2.5%, accelerating from the 2.2% in Q3 but fitting with expectations, while headline PCE accelerated to 2.3% from 1.5%. Attention turns to the December report on Friday, Core PCE is expected at 2.8%, maintaining the pace in November, with headline expected at 2.6% from 2.4%, in fitting with guidance from Fed Chair Powell on Wednesday, vs Fed median dot plot for end 2024 of 2.8% for core and 2.4% for the headline.

JOBLESS CLAIMS: Initial jobless claims (w/e 25th Jan, co) fell to 207k from 223k, way shy of the expected 220k and outside the bottom end of the forecast range. Leading the headline was the reverse in claims in California (-13,479), which was likely related to the fires in Los Angeles. On an unadjusted basis, the total saw a decrease of 56,963 W/W, while seasonal factors had expected a decrease of 39,917. The decline in the headline pushed the 4-wk average to 212.5k from 213.5k. Continued claims (w/e 18th), which coincides with the typical payroll survey week, printed 1.858mln (prev. 1.9mln, exp. 1.89mln). Analysts note the jobless claims data continues to be consistent with a labour market characterized by low layoffs and a slow pace of hiring.

PENDING HOME SALES: US pending Sales fell 5.5% M/M in December, seeing the index fall to 74.2 from 78.5, vs. the 2024 cyclical low at 70.2. The report from NAR highlights that all four US regions experienced m/m losses in transactions, with the most significant fall in the West. The NAR Chief Economist noted that "After four straight months of gains in contract signings, one step back is not welcome news, but it is not entirely surprising", adding that "High mortgage rates have not significantly dented housing demand due to greater numbers of cash transactions." Looking ahead, Pantheon Macroeconomics note that home sales are likely to slump in Q1.

ECB

As expected, the ECB pulled the trigger on another 25bps rate cut, taking the Deposit Rate to 2.75%. The policy statement saw the GC reiterate that it will retain its meeting-by-meeting and data-dependent approach whilst not pre-committing to a specific policy path. Despite today's easing, policymakers still see policy as "restrictive". In terms of the economic assessment, the statement noted that the economy is still facing headwinds but demand should pick up over time. Elsewhere, inflation is seen as "high" but has developed in-line with expectations and the disinflation process is well on track. At the follow-up press conference, the overall lack of overtly dovish signals from Lagarde in her opening remarks elicited a hawkish reaction within the marketplace. However, as the Q&A segment got underway, this move faded as Lagarde noted that today's decision was unanimous and there was no discussion of the terminal rate despite recent comments from Germany's Schnabel that the ECB is getting closer to the point at which it needs to look at whether and how much further it can cut interest rates. Elsewhere, Lagarde noted that the debate about neutral rates is "entirely premature" and cannot say if rates will go below neutral. Note, on February 7th the ECB will publish a paper on the revision of the natural interest rate. Additionally, the ECB will publish its debut release of its latest wage tracker. Overall, the ECB is continuing to dial back the level of policy restrictiveness. However, it is cautious in doing so on account of the uncertainty stemming from the looming threat of tariffs by the Trump administration which has clouded the bloc's growth outlook. As the dust settles on the announcement, year-end pricing is little changed with around 70bps of easing seen by the December meeting. Post-meeting and press conference, both Reuters and Bloomberg sources implied another 25bps rate cut in March but further debate thereafter. Highlighting this, Reuters noted that ECB policymakers expect to cut rates again in March with a broader and deeper debate after that, potentially implying an April pause. Later, BBG stated the ECB may drop "restrictive" label on rate stance as soon as March, and with another 25bps rate cut highly likely then, bringing the deposit rate to 2.5%, such a level may not fully deserve that label anymore.

FIXED INCOME

T-NOTE (H5) FUTURES SETTLED 9 TICKS HIGHER AT 109-07+

NOTE: Since the Treasury settlement (and when the below was written), US President Trump announced 25% tariffs on Canada and Mexico ahead of the Feb 1st deadline. The President said this is due to the influx of fentanyl into the US from these nations. In response, T-Notes were pressured post-settlement with T-Note futures falling to 109-03 with tariffs and potential tit-for-tat measures seen as inflationary.

T-Notes extend post Fed bid but drop in jobless claims and surge in consumer spending sees T-Notes off peaks. At settlement, 2s -2.7bps at 4.199%, 3s -3.1bps at 4.238%, 5s -4.2bps at 4.313%, 7s -4.2bps at 4.413%, 10s -3.9bps at 4.516%, 20s -3.8bps at 4.814%, 30s -2.8bps at 4.762%.

INFLATION BREAKEVENS: 5yr BEI -3.8bps at 2.521%, 10yr BEI -3.2bps at 2.379%, 30yr BEI -3.1bps at 2.356%.

THE DAY: T-Notes continued the post FOMC press conference bid overnight and throughout the European morning to peak just before the US data. The data was overall mixed, with jobless claims falling notably below analyst expectations while GDP disappointed on the headline for Q4, but the PCE metrics were in line with forecasts. However, consumer spending surged. The jobless claims data and strong consumer spending metric pressured T-Notes after the post Fed upside with T-Notes heading back towards 109-00 from the earlier peaks of 109-13. Attention turns to US PCE on Friday ahead of NFP and ISMs next week, including the next quarterly refunding announcement. Elsewhere, focus was on the ECB rate decision which was largely as expected but met with a hawkish reaction on the lack of guidance from ECB's Lagarde. Source reports later followed from both Reuters and Bloomberg, which both implied another 25bps rate cut in March but further debate thereafter, with Bloomberg sources noting the ECB will also likely drop its "restrictive" label on its rate stance. Meanwhile, we are still on the lookout on whether US President Trump goes ahead with tariffs on Mexico and Canada from Feb 1st. Meanwhile, Bloomberg reported on the universal tariffs, and the ones slated for China, the Trump team is not close at all to making a decision, according to sources.

STIRS/OPERATIONS:

- **Market Implied Fed Rate Cut Pricing: March 5bps, May 12bps, June 24bps, Dec 48bps.**
- NY Fed RRP op demand at USD 126bln (prev. 122bln) across 45 counterparties (prev. 35).
- SOFR at 4.35% (prev. 4.35%), volumes at USD 2.323tln (prev. 2.283tln).EFFR at 4.33% (prev. 4.33%), volumes at USD 92bln (prev. 95bln).
- US sells USD 95bln in 4wk bills at high rate of 4.250%, B/C 3.02x; sells USD 90bln in 8wk bills at high rate of 4.240%, B/C 2.63
- US to sell USD 84bln of 13-wk bills and USD 72bln of 26-wk bills on February 3rd; to sell USD 85bln in 42-day CMBs on February 4th; all to settle on Feb 6th

CRUDE

WTI (H5) SETTLED USD 0.11 HIGHER AT 72.72/BBL; BRENT (J5) SETTLED USD 0.28 HIGHER AT 75.89/BBL

Note: In wake of the Trump tariff remarks, benchmarks saw notable upside post-settlement to hit new intra-day highs.

The crude complex settled with upside bias, it was a fairly rangebound in light energy specific newsflow. Despite saying this, macro headlines were busy in wake of FOMC and Mag7 earnings on Wednesday, as earnings, ECB, and US data took to the floor. Nonetheless, WTI and Brent were fairly contained in pretty subdued trade as participants continue to digest the known macro themes in the space. Recapping, recent losses had been attributed to tariff fears following US President Trump's recent rhetoric and ahead of the looming Mexico, Canada, and China tariffs on February 1st, although latest reports from BBG sources said "on the universal tariffs and the ones slated for China, the Trump team is not close at all to making a decision". In geopols, Israel initially halted the planned release of Palestinian prisoners in response to the chaos and dangerous scenes in Khan Younes during the handover of the Israeli hostages today, although this was later reversed, and the process began. Desks also noted subdued overnight volumes amid Chinese market closures for the Lunar New Year. For the record, WTI and Brent traded between USD 72.02-73.55/bbl and 74.98-76.50/bbl, respectively.

EARNINGS: Shell (SHEL LN) maintained its share buybacks at USD 3.5bln/quarter despite a larger-than-expected profit drop, which was driven by weaker oil prices; Shell borrowed more to sustain this level of buyback activity. Valero (VLO) beat on revenue, but profit fell way short; Wall St. had anticipated a sharper decline in earnings than the US oil refinery reported as global fuel demand slowed and as the industry braced for potential impact from President Trump's threatened tariffs on crude imports from Canada and Mexico.

EQUITIES

CLOSES: SPX +0.53% at 6,071, NDX +0.45% at 21,508, DJIA +0.38% at 44,882, RUT +1.07% at 2,307

SECTORS: Technology -0.56%, Energy +0.53%, Consumer Discretionary +0.61%, Financials +0.94%, Materials +1.00%, Consumer Staples +1.07%, Communication Services +1.14%, Industrials +1.15%, Health +1.16%, Real Estate +1.36%, Utilities +2.14%.

EUROPEAN CLOSES: DAX: +0.43% at 21,731, FTSE 100: +1.04% at 8,647, CAC 40: +0.88% at 7,942, Euro Stoxx 50: +1.07% at 5,287, AEX: +1.55% at 919, IBEX 35: +1.09% at 12,421, FTSE MIB: +0.16% at 36,430, SMI: +0.54% at 12,597, PSI: +0.07% at 6,535.

EARNINGS

- **Microsoft (MSFT):** Disappointing Azure growth forecasts, higher-than-expected Capex and concerns over comp. from cheaper Chinese AI models, raising investor fears of a price war and delayed returns on AI investments.
- **Meta Platforms (META):** EPS, revenue, and ad sales beat with Q4 sales +21% and net income +49%.
- **Tesla (TSLA):** Reported light EPS and revenue; vehicle sales profit margin narrowed; shares initially dipped, but rebounded with the focus on plans to launch cheaper EVs in early ‘25 & test autonomous vehicles in June.
- **Caterpillar (CAT):** Revenue fell short; Sees Q1 and FY25 sales & revenue lower Y/Y.

- **Sherwin-Williams (SHW):** Light FY profit guidance.
- **Lam Research (LRCX):** Profit beat with a solid next quarter outlook.
- **IBM (IBM):** EPS and revenue beat with FY revenue guidance topping.
- **Levi Strauss (LEVI):** Q4 metrics beat but sees sales declining amid currency effects, 1 fewer fiscal week & divestitures.
- **Cigna (CI):** Profit light as was FY guidance.
- **PulteGroup (PHM):** All major metrics topped and increased share buyback USD 1.5bln.
- **Comcast (CMCSA):** Domestic broadband customers and Peacock metrics missed, but most metrics beat and raised dividend/buyback programme.
- **Mobileye (MBLY):** Weak FY revenue outlook.
- **Mastercard (MA):** Revenue topped expectations while EPS missed.
- **United Parcel Services (UPS):** Revenue light with weak FY view.
- DoJ sues to stop **Hewlett Packard Enterprises (HPE)** USD 14bln deal to buy **Juniper Networks (JNPR),** according to Bloomberg; Companies plan to vigorously defend the transaction in court..
- **OpenAI (MSFT):** In talks for investment round valuing it up to USD 340bln, WSJ reports; in talks to raise up USD 40bln in new round; Softbank would lead USD 40bln round, some of which would go to AI infrastructure venture.

STOCK SPECIFICS

- **American Airlines (AAL)** Flight 5342 collided in midair with a military helicopter. There were 60 passengers and four crew members on board the aircraft; officials believe that all passengers and crew were killed.
- **CVS Health (CVS):** Upgraded at Edward Jones to 'Buy' from 'Hold, citing the potential for new mgmt. improving its health insurance division, believing the Co. will strengthen the business over time by redesigning plans and lowering costs.
- **MeridianLink (MLNK):** Downgraded at BofA to 'Underperform' from 'Buy', arguing expectations of "higher-for-longer" interest rates will likely push out its revenue growth recovery story until 2026.

US FX WRAP

Note: Late into the US session, President Trump announced plans to implement 25% tariffs on Mexico and Canada due to fentanyl. As such, the Dollar saw broad gains, with DXY climbing above 108. CAD slumped the the most in the G10 space, while peers followed. USD/CAD rose to 1.4592 (prev. 1.4415), EUR pared post-ECB strength and the Yuan too saw weakness, furthered on Trump saying China's going to end up paying a tariff as well.

The Dollar was mixed versus major peers, paring earlier downside induced by Euro strength post-ECB, with Pound strength also accelerating. Post to the ECB decision there was a set of mixed US data, whereby the GDP Adv (Q4) came in beneath expectations, (in line with Atlanta Fed's GDP Now Model forecast of 2.3%) while GDP Sales and Core PCE Prices were in line. Initial claims fall was steeper than expected and due to a reversal in claims in California due to the recent LA fire. Ultimately, the DXY was little moved by said data. By the end of the US session, DXY finished modestly lower ~107.78, with US equities continuing to trim DeepSeek R1 losses seen on Monday. Focus ahead will lie on Core PCE (Dec) due on Friday - M/M is expected to rise 0.2% (prev. 0.1%), and Y/Y is seen at 2.8% (prev. 2.8%). Powell last night said total PCE climbed 2.6% in 12 months to December and core PCE climbed 2.8%. Friday will also see employment costs, Chicago PMI, and the end of the Fed blackout, with Bowman to speak, albeit expectations are for commentary on the economy and community bank.

The Euro was modestly firmer vs. the Buck, following the ECB's decision to cut the deposit rate by 25bps to 2.75%, as expected, in a unanimous decision. Upside arose in Lagarde's post-meeting statement, as remarks lacked further dovish signals from the President, revolving around a meeting-by-meeting and data-dependent approach. Additionally, commentary included the expectation of inflation to fluctuate around current levels in the near term and conditions to remain in place for an economic recovery. Later, ECB sources unveiled expectations are for rate cuts again in March with a deeper debate for April. As it stands, money markets price a 88% chance of 25bps rate cut in March, unchanged vs. pre-ECB. EUR/USD reached highs of 1.0467 amid Lagarde's remarks before trimming to around 1.4029. Next on the schedule for the Euro, is Prelim Germany CPI and unemployment change.

G10FX performance had an upward bias, with JPY the clear outperformer as lower treasury yields paved the way for gains. On the flip side, NZD and the CHF were the laggards, while the CAD was flat ahead of Canadian GDP on Friday; expectations are for a 0.1% decline (prev. 0.3%). On the Pound, marginal gains were seen, Cable rose to ~1.2460, off earlier highs of 1.2476. ING notes that fiscal consolidation in March and a drop in services inflation through the second quarter should lead to a 100bp BoE easing cycle this year (~73bps priced in at pixel time by money markets). "We see no reason to change our end-year GBP/USD and EUR/GBP forecasts of 1.19/20 and 0.85 respectively."

EMFX: USD/BRL pared initial upside seen after the BCB hiked rates by 100bps, as expected, to 13.25% in a unanimous decision. The Bank expects further adjustments of the same magnitude in the next meeting if the scenario evolves as expected, and beyond the next meeting. The committee reinforces that the total magnitude of the tightening cycle will be determined by the firm commitment of reaching the inflation target. Later in the day, PM Lula hit the wires, saying "there will be no more fiscal measures; if it depends on me, there will be no more." Elsewhere, the SARB cut the repo rate by 25bps to 7.5% in a split decision, lowering its inflation and GDP forecasts in 2025. Regarding the policy path, SARB expects rates to drift slightly lower over the next few years, stabilising near 7.25%; ZAR saw its third day in a row of gains.

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