US Market Wrap - 31st January 2025

Stocks hit, Dollar bid as Trump sticks with Feb 1st tariffs

- **SNAPSHOT**: Equities down, Treasuries down, Crude up, Dollar up
- **REAR VIEW**: Trump to enforce tariffs on China, Canada and Mexico from tomorrow; Will also tariff chips, oil and gas, steel, aluminium and copper; Will put "very substantial" Tariffs on EU later; PCE in line; Bowman hawkish, Goolsbee dovish; Solid AAPL earnings; WBA suspends dividend.
- **COMING UP**: **Holiday**: Chinese New Year (Market Holiday - Mainland Closed, Hong Kong Open) **Data**: EZ HICP, US ISM Manufacturing **Events**: Fed SLOOS; OPEC+ JMMC Meeting **Speakers**: Fed's Bostic, Musalem **Supply**: Treasury Financing Estimates Earnings: Tyson Foods, Palantir
- **WEEK AHEAD**: Highlights include US, Canada and NZ Jobs, US ISMs, BoE, EZ CPI, BoJ SOO, JMMC. To download the report, please click here.
- **CENTRAL BANK WEEKLY**: Previewing BoJ SOO, BoE, Banxico, RBI; Reviewing FOMC, ECB, BoC, Riksbank, BCB. To download the report, please click here.
- **WEEKLY US EARNINGS ESTIMATES**: Earnings continue with mega-cap highlights including GOOGL, AMD, AMZN. To download the full report, please click here.

MARKET WRAP

Stocks and bonds ended the session lower with focus on tariffs. Sentiment was initially boosted on reports that Trump was set to postpone the tariffs by 1 month to March 1st, however the White House Press Secretary announced this was false and that Canada and Mexico will be hit with 25% tariffs from Saturday, February 1st, while China will face 10% tariffs. This set the tone for the remainder of the session with CAD and MXN selling off while T-Notes were pressured into settlement, and bear steepening. With the deadline fast approaching, Trump hit the wires just ahead of the closing bell noting that nothing can be done by Canada, China and Mexico to forestall tariffs, suggesting the time for negotiations is over. He also announced that there will be tariffs on chips, oil and gas from February 18th. He also said he will put tariffs on steel and aluminium this month or next. In response to the hawkish tariff commentary from Trump, this saw further pressure on CAD, MXN, CNH while oil prices also caught a bid post-settlement, rising to fresh peaks. The Dollar was supported by the Press Secretary's denial of the postponement of tariffs, while she also highlighted that Trump is yet to make up his mind on a tariff timeline for the EU. However, Trump after hours announced they will be doing something very substantial on tariffs with the EU.

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PCE: Overall, US PCE data was in line with expectations on both headline and core while the consumption data came in above expectations, similar to what was seen in the Q4 report released on Thursday. Core PCE rose 0.156% vs exp. 0.2%, accelerating a touch from the prior 0.1%, while the six month annualized rate fell to 2.3%, the lowest level throughout 2024, while the 3mth annualised rate dropped to 2.2% from 2.6% in November. Core Y/Y rose 2.8%, maintaining the prior month's pace. Headline M/M rose 0.2557%, in line with the 0.3% forecast and up from the prior 0.1%. Y/Y rose 2.6%, up from 2.4% in November. Consumption rose 0.7%, above the 0.5% forecast, accelerating from the upwardly revised 0.6%. Overall, the data does little to alter the view of the Fed with Fed Chair Powell largely stressing a no rush approach to future policy changes, particularly with uncertainty ahead due to new Trump policies. Analysts at Capital Economics highlight a lot depends if there is a repeat of the surge in prices at the start of last year, although note that Governor Waller had previously been optimistic on the path of inflation as these base effects abate. CapEco notes that "If we are right in our belief that there is no residual seasonality at work, then the annual core PCE inflation rate should fall markedly over the first few months of this year. Beyond that, however, the growing risk that Trump will impose tariffs a little earlier than we are assuming presents an upside risk to inflation."

ECI: Employment Costs Index rose by 0.9%, in line with expectations after rising 0.8% in Q3, but remained below the 1.2% jump seen in Q1'24. Regarding the components, Benefits rose 0.8% (prev. 0.8%) while wages and salaries increased by 0.9%. Elsewhere, compensation costs accelerated more in the private sector, 0.8% (prev.0.7%) relative to state and local government organisations, which fell to 0.9% from 1.1%. On the increase in the ECI in Q4, Oxford Economics said "it doesn't justify changes to our forecast for inflation, consumer spending, or the path of monetary policy." Ahead the firm, notes residual seasonality will put a little upward pressure on the ECI in Q1, but the Fed should look through this and as the Q4 figure "should reassure the Federal Reserve that the labor market isn't a source of upward pressure on inflation".

BOWMAN: The Fed Governor, in a speech written before the in-line PCE report, towed her usual hawkish remarks. Bowman said that inflation is still elevated and upside risks remain, noting she still expects it to moderate, but more data is needed to confirm that before conducting more rate cuts. The Fed hawk said that current policy is in a good place for the Fed to monitor data and become clear on the impact of the Trump administration policies before cutting rates again. She expects further rate reductions this year, but future moves should be cautious and gradual, with time to assess data. It is not clear whether monetary policy is exerting much pressure on the economy, with easy financial conditions and high asset prices possibly slowing progress on inflation. She is watching long-term Treasury yields as a potential sign that markets are expecting tighter policy will be needed to control inflation. She stressed the labour market is not especially tight, but wage growth is still inconsistent with the 2% inflation target, while she noted how Q1 data will be important to see how quickly inflation will improve going forward. Bowman added that fragility of supply chains, geopolitical tensions, release of pent-up demand post-election, and other factors could also feed inflation.

GOOLSBEE: Speaking on CNBC post-data, the known dove said he is liking today's inflation data, which is a little better-than-expected and added with uncertainty, should slow down as rates are taken toward neutral. He further added that .if they see numbers like we just saw (re. PCE), the 12-month number should lower dramatically as we approach the summer and beyond. The Chicago Fed President continues to believe rates will be lower 12-18 months ahead, and on the Trump admin, in theory, one-time increase in tariffs is transitory and a policy response may not be needed. Goolsbee added have no problems slowing the pace of cutting and the Fed is feeling its way towards neutral rate and the neutral rate is a fair bit below where rates are currently.

FIXED INCOME

T-NOTE FUTURES (H5) SETTLED 12+ TICKS LOWER AT 108-27

T-Notes reverse morning strength as Trump is set to implement tariffs from Saturday . At settlement, 2s +3.7bps at 4.234%, 3s +4.2bps at 4.279%, 5s +5.7bps at 4.368%, 7s +6.6bps at 4.476%, 10s +6.5bps at 4.577%, 20s +6.9bps at 4.881%, 30s +7.0bps at 4.829%.

INFLATION BREAKEVENS: 5yr BEI +4.4bps at 2.583%10yr BEI +3.0bps at 2.418%30yr BEI +2.9bps at 2.392%.

THE DAY: T-Notes were bid throughout the European morning ahead of PCE data and on month-end. There was brief selling pressures in response to the PCE metrics which saw PCE prices in line with expectations while consumer spending beat. At the same time, Fed Governor Bowman spoke, towing her usual hawkish remarks. The move post-data was short-lived, however, with the data doing little to alter the Fed's reaction function, seeing T-Notes pare and go on to print highs of 109-09+ after comments from Goolsbee, who stuck to his usual dovish tone. Thereafter, focus turned to trade with Reuters reporting that Trump plans to postpone the implementation of tariffs until March 1st (from Feb 1st), however this was later denied by the White House. The denial of the reports saw T-Notes pressured into settlement, dipping beneath 109-00. Next week attention turns to Monday's refinancing estimates for the quarter ahead of Wednesday's quarterly refunding. Meanwhile, US ISM Manufacturing PMI (Mon), Services PMI (Wed) and NFP (Fri.), will be the data focus points.

STIRS/OPERATIONS:

- Market Implied Fed Rate Cut Pricing: March 4bps (prev. 5bps), May 12bps (prev. 12bps), June 23bps (prev. 24bps), Dec 45bps (prev. 48bps)
- NY Fed RRP op demand at USD 188bln (prev. 126bln) across 57 counterparties (prev. 45).
- SOFR at 4.36% (prev. 4.35%), volumes at USD 2.369tln (prev. 2.323tln).
- EFFR at 4.33% (prev. 4.33%), volumes at USD 103bln (prev. 92bln).

CRUDE

WTI (H5) SETTLED USD 0.20 LOWER AT 72.53/BBL; BRENT (J5) SETTLED USD 0.22 LOWER AT 75.67/BBL

The crude complex ended the week in the red but was choppy to tariff related headlines before paring into settlement . Recapping th day, WTI and Brent were choppy in the European morning before selling off to session lows of USD 71.94/bbl and 75.16/bbl, respectively, after the cash open albeit seemingly not driven by any particular headline. Benchmarks recovered some losses before falling sharply to test the earlier troughs on a Reuters report that President Trump is expected to issue tariffs against Canada and Mexico that will begin on 1st March, as apposed to the Feb 1st date we had been alluded to previously. However, White House press Secretary later denied this and stated "Reuters reports on tariffs are false and February 1st deadline still holds; President Trump will implement 25% tariffs on Mexico, Canada and 10% on China". As such, WTI and Brent pared all weakness earlier seen to fresh afternoon highs of USD 73.30 and USD 76.37/bbl, before then selling off into settlement. Over the weekend desks will be watching to see the implementation of the tariffs and the effects on the re-opening of markets on Sunday night. For the record, the weekly Baker Hughes rig count saw oil jump 7 to 479, nat gas fall 1 to 98, leaving the total rising 6 to 582. Note, after settlement US President Trump said he will tariff oil and gas by February 18th.

SUPPLY: OPEC+ is reportedly unlikely to alter existing plans to gradually raise output at next week's JMMC, according to Reuters citing sources, and the sources say the JMMC is unlikely to recommend that OPEC+ increase output more than currently planned. Note, the article was framed in the context of the call from US President Trump that OPEC should lower crude prices. Separately, new acting Chairman of Libya's NOC stated he will work to boost crude production and improve transparency.

EQUITIES

- **CLOSES**: SPX -0.51% at 6,040, NDX -0.14% at 21,478, DJIA -0.75% at 44,544, RUT -0.97% at 2,285
- **SECTORS**: Energy -2.74%, Technology -0.79%, Materials -0.73%, Consumer Staples -0.72%, Industrials -0.72%, Financials -0.63%, Utilities -0.63%, Health -0.35%, Real Estate -0.22%, Consumer Discretionary +0.09%, Communication Services +0.74%.
- **EUROPEAN CLOSES**: Euro Stoxx 50 +0.09% at 5,287, DAX +0.02% at 21,732, CAC 40 +0.11% at 7,950, FTSE 100 +0.31% at 8,674, SMI +0.00% at 12,604, FTSE MIB +0.12% at 36,472, IBEX 35 -0.41% at 12,369, PSI -0.16% at 6,524,AEX +0.32% at 922

EARNINGS

- **Apple (AAPL)**: EPS and revenue beat with the latter rising 4%, but iPhone sales missed expected and China sales fell; Mac and iPad sales also topped.
- **Intel (INTC)**: Better-than-expected Q4 metrics, but issued weak guidance, citing seasonality and competition.
- **KLA Corp (KLAC)**: EPS and revenue beat with Q3 guidance topping due to strong AI-driven chip tool demand.
- **Atlassian (TEAM)**: Q2 numbers surpassed expectations and issued stronger-than-expected guidance.
- **Visa (V)**: Revenue and profit beat driven by double-digit growth in cross-border volumes and processed transactions.
- **PPG Industries (PPG)**: EPS and revenue missed with FY EPS view underwhelming.
- **Boot Barn Holdings (BOOT)** : Weak outlook.
- **Novartis (NVS)**: Top and bottom line beat, raised dividend & buyback programme.
- **AbbVie (ABBV)**: EPS and revenue beat w/ strong drug breakdown and solid FY outlook.
- **Exxon Mobil (XOM)**: Bottom line, top missed; confident on delivering on plans for more earnings and cash into 2030 and beyond
- **Chevron (CVX)**: Adj. EPS missed, revenue beat; announced 1.115bln impairment/severance charge.

STOCK SPECIFICS

- **Walgreens Boots Alliance (WBA)** : Suspended quarterly dividend to conserve cash.
- **Mondelez International (MDLZ)**: Downgraded at Piper Sandler as it believes recently elevated cocoa costs will last longer than initially anticipated, adding incremental pressure on Mondelez's earnings, especially in 2026.
- **Electronic Arts (EA)**: Upgraded to 'Buy' from 'Neutral' at MoffettNathanson; said it was "shocked by last week" (underwhelming prelim Q3 numbers), wondering whether if it was a red or yell card. The firm is ""increasingly of the mind that it might be neither".
- **United Airlines (UAL)**: Not in talks with any airline on a merger, according to Bloomberg.

US FX WRAP

The Dollar eventually saw strength on Friday, in what was a very choppy day and accentuated by conflicting tariff reports. The session highlights were Reuters sources said that US President Trump is expected to issue tariffs against Canada and Mexico that will begin on 1st March, pushing them back from Feb 1st. As such, Dollar fell to session lows of 107.78, with G10 FX benefitting across the board, in particular the CAD and MXN where USD/CAD fell to session troughs of 1.4374. However, shortly after the White House said the Reuters reports on tariffs are false and February 1st deadline still holds, and Trump will implement 25% tariffs on Mexico, Canada and 10% on China. As you can imagine we saw an unwind of these moves, and more, with DXY hitting a peak of 108.470. Elsewhere, albeit garnering little reaction, December Core PCE and Q4 ECI came in as expected. Coming out of blackout, Bowman (voter) said inflation is still elevated with an upside risk and still expects inflation to moderate but need data to confirm that before more rate cuts. Dove Goolsbee (voter) said he is liking today's inflation data, which is a little better-than-expected.

G10 FX saw two-way action to end the week, as mentioned above, and although Antipodeans initially saw strong gains they still managed to eke out marginal gains vs. the Buck, the only G10 FX to do so, albeit well off highs. Yen was the laggard all day, and overnight saw a deluge of data from Japan whereby headline Tokyo CPI came in firmer than expected, core in-line, IP and retail sales Y/Y beat. As it stands, the next 25bps hike from the BoJ isn't priced until October. USD/JPY remained within Thursday's 153.78-155.23 range and is in close proximity to its 50DMA @ 154.84.

EUR saw weakness with EUR/USD trading between 1.0361-0433 and the single-currency seeing losses for the fourth straight day as traders continue to digest the ECB rate decision. The latest ECB survey of consumer expectations saw the 12-month inflation projection increased to 2.8% from 2.6%, while French and German CPI came in softer-than-expected ahead of the EZ-wide print on Monday. Meanwhile, on EU tariffs, the White House said US President Trump has not yet made up his mind on a tariff timeline for the EU, but the President after-hours said he will impose tariffs on the EU, but did not give a timeframe.

EMFX was was mixed but with downside bias. CLP and BRL outperformed with the latter notching its 10th consecutive day of gains. For the MXN, and as already mentioned participants will await the implementation of tariffs and if they find a work around. In terms of central banks, ahead of Banxico next week, Colombia Central Bank holds interest rate steady at 9.50% (exp. 25bps cut), decision backed by a "majority" of board members.