US Market Wrap - 3rd February 2025

Stocks and Dollar chop to Trump tariff talk

- **SNAPSHOT**: Equities down, Treasuries flatten, Crude up, Dollar up
- **REAR VIEW**: US to impose tariffs on Canada and China, but reaches deal with Mexico to delay imposition by one month; Considers 10% tariff on EU & EU warns of firm response; ISM Mfg tops exp. & into expansionary territory after 26 months; US President Trump to speak with China's Xi over the next 24 hours; Fed's Collins in no rush to lower rates again; Bostic voices patience for further easing; Trump signs executive order to create Sovereign Wealth Fund; OPEC+ JMMC meeting goes as expected.
- **COMING UP**: Holiday: Chinese New Year (Market Holiday - Mainland Closed, Hong Kong Open). **Data:** US JOLTS Job Openings, NZ HLFS Jobs. **Events:** Riksbank Minutes. **Speakers:** Fed's Bostic, Daly. **Supply:** Japan, UK.
- **WEEK AHEAD:** Highlights include US, Canada and NZ Jobs, US ISMs, BoE, EZ CPI, BoJ SOO. To download the full report, please click here.
- **CENTRAL BANK WEEKLY:** Previewing BoJ SOO, BoE, Banxico, RBI; Reviewing FOMC, ECB, BoC, Riksbank, BCB. To download the full report, please click here.

MARKET WRAP

US indices closed in the red, albeit well off worst levels, as Trump tariff talk dominated markets to start the week. The Dollar saw hefty gains to the detriment of G10 FX (ex- GBP and JPY), but saw a large range (108.57-109.88) amid mixed tariff talk. The week began with a gap lower in US equities and T-notes, a gap higher in the Dollar and notable strength in oil in the wake of Trump announcing 25% tariffs on all imports from Canada and Mexico, but Canadian energy products will face a 10% tariff. On China, there will be an additional 10% tariff on top of existing levies, with no exclusion. However, Mexican President Sheinbaum and Trump had a constructive debate whereby he agreed to delay tariffs a month, which saw a large paring of earlier moves with MXN wiping out all earlier losses. Nonetheless, tariffs on Canada and China are still due to come into effect tomorrow, but at the writing Trump and Trudeau are currently speaking so we await any readout. Elsewhere, ISM Mfg. was a strong report but took the backseat with focus on tariffs while the OPEC+ JMMC meeting was a non-event and went as expected. Ahead of QRA on Wednesday, the US Treasury announced it expects to borrow USD 815bln in privately-held net marketable debt in Q1 25, below the USD 823bln that was guided for Q1 25 in Q4 24. This is primarily due to a higher beginning-of-quarter cash balance but partially offset by lower net cash flows. On the Fed footing, Bostic and Collins spoke, both echoing Powell in not being in a hurry to cut rates again. Both also noted the uncertainty on US policies, with Collins suggesting tariffs should have an impact on prices. Bostic said there is an outcome where the Fed might look through tariff impact on prices, but also one where it could impact expectations and thus warrant a Fed response.

US

ISM MANUFACTURING: ISM Manufacturing rose back into expansionary territory in January for the first time in 26 months, as the headline printed 50.9, above the prior 49.2 and the expected 49.8. Within the release, the inflationary gauge of prices paid lifted to 54.9 from 52.5 (exp. 53.5), while employment and new orders soared to 50.3 (prev. 45.4) and 55.1 (prev. 52.1), respectively. Production, supplier deliveries, new export orders, and imports all lifted while the backlog of orders slightly declined. Despite a positive release, the big question is whether this upturn reflects a lasting improvement or a fleeting boost from purchases brought forward in anticipation of tariffs. Desks note pre-emptive purchases driven by worries about tariffs on imported goods from Canada, China, and Mexico surely will unwind sharply if extensive new tariffs are applied to those countries. Nonetheless, Pantheon Macroeconomics said it seems more likely that disruption to supply chains and a hit to demand from higher prices start to weigh heavily on US manufacturing soon. For the record, comments from panelists were also positive, though these would not include reactions to the recent tariff announcement.

CONSTRUCTION SPENDING: US Construction Spending for December rose 0.5%, above the prior and consensus for a 0.2% gain. However, given it is December data it is dated given we have already had Q4 GDP. Looking ahead, OxEco stresses that trade policy actions matter much more. The desk writes that they "modelled the new higher tariffs on Canada, Mexico, and China. Even if they are watered down this year and eventually lifted, new protectionist measures will cut growth in residential investment and business investment in structures by 1ppt and 1.6ppt, respectively, in 2025." However, OxEco also add that no matter how the trade war unfolds, there will be pockets of resilience as spillovers from AI support data-centre construction and solid finances guard against the risks to state and local government investment.

Fed's Collins (2025 voter), on US policies, said there is a lot of uncertainty, noting broad-based tariffs should have an impact on prices, adding the US has limited experience with large scale tariffs. She warned they would push up prices across production levels and have second round impacts. She acknowledged the Fed would try to look through one time price level increase, but also warned tariffs can have an impact on the demand side too. Collins echoed Fed Chair Powell, noting it is appropriate to be patient and careful on policy and that there is no urgency to change rates. She said the US economy is in a good place, and the Fed is well positioned to look holistically at the data, warning the Fed must weigh both sides of its dual mandate. She stressed there is still more work to do to lower inflation, but the underlying inflation trend has softened. She noted the labour market has been in good shape and near full employment, while there are several reasons why long-term rates are moving as they have been.

Fed's Bostic (2027 voter) said the current degree of uncertainty has broadened considerably. Tariffs are an aspect of uncertainty, challenging to figure out how to incorporate them and tariffs are a type of a tax; impacts depend on details, application, and retaliation. Further, Bostic added there is an outcome where the Fed might look through tariff impact on prices, but also one where it could impact expectations and thus warrant a Fed response. On the labour market, said the US can support a much tighter one than was previously understood, and the outlook is for it to remain solid. The Atlanta Fed President said 'compelling' reason to expect housing inflation to fall. Looking ahead, Bostic is prepared to wait for a while to cut again and sees a nominal neutral rate at 3-3.5%. Bostic noted businesses are not confident in their outlook at this point, currently in wait-and-see mode. To cut again would want to see housing inflation begin to slow, and does not expect clarity on inflation enough by March to move.

FIXED INCOME

T-NOTE FUTURES (H5) SETTLED 3+ TICKS HIGHER AT 108-30+

T-Notes chop but ultimately flatter in response to Trump tariffs. At settlement, 2s +2.5bps at 4.263%, 3s +1.3bps at 4.292%, 5s -0.9bps at 4.355%, 7s -1.7bps at 4.454%, 10s -2.4bps at 4.543%, 20s -3.7bps at 4.830%, 30s -4.1bps at 4.771%.

INFLATION BREAKEVENS: 5yr BEI +4.6bps at 2.647%, 10yr BEI +2.1bps at 2.451%, 30yr BEI -0.2bps at 2.399%.

THE DAY: T-Notes gapped lower on the reopening of trade with markets reacting to the tariffs on Canada, Mexico and China, as well as tariff threats/promises to the EU. T-Notes hit a low of 108-21+ before paring pretty swiftly overnight. Nonetheless, pressure was seen during the European session likely as European traders reacted to the tariff enactments, although T-Notes bottomed at 108-27+ before moving higher once again in US trade with T-Notes peaking at 109-15+ after the US and Mexico agreed to push back the tariff implementation by one month. Although at the time of writing, tariffs are still set to be implemented on Canada and China. Elsewhere, the ISM Manufacturing Data was strong, rising to 50.9 from 49.2, above the 49.8 expectation, supported by upside in New Orders while prices paid and the employment metrics rose, which saw a brief knock to UST's but swiftly pared with focus on tariffs. After hitting the peaks on tariff optimism with Mexico, T-Notes reversed once again to c. 109-00 heading into settlement with attention turning to US financing estimates alongside the settlement, ahead of QRA on Wednesday. Data wise, focus lies on NFP on Friday with ISM Services on Wednesday. Elsewhere, Fed's Bostic and Collins spoke, both echoing Powell in not being in a hurry to cut rates again. Both also noted the uncertainty on US policies, with Collins suggesting tariffs should have an impact on prices. Bostic said there is an outcome where the Fed might look through tariff impact on prices, but also one where it could impact expectations and thus warrant a Fed response.

FINANCING ESTIMATES: The US Treasury announced it expects to borrow USD 815bln in privately-held net marketable debt in Q1 25, below the USD 823bln that was guided for Q1 25 in Q4 24. This is primarily due to a higher beginning-of-quarter cash balance but partially offset by lower net cash flows. The borrowing forecast assumes an end-of-March cash balance of USD 850bln, in fitting with prior guidance. For Q2 25 (April-June), US Treasury expects to borrow USD 123bln in privately-held net marketable debt, assuming end of June cash balance of USD 850bln - the drop in borrowing expectations in Q2 is familiar for the period due to the influx of cash receipts from the April tax date. Meanwhile, looking back to Q4 24, the US Treasury announced it borrowed USD 620bln, USD 74bln above its USD 546bln guidance, largely because of lower net cash flows and a higher ending cash balance. It ended Q4 24 with a cash balance of USD 722bln, above the guidance of USD 700bln.

STIRS/OPERATIONS:

- **Market Implied Fed Rate Cut Pricing: March 3bps (prev. 4bps), May 10bps (prev. 12bps), June 19bps (prev. 23bps), Dec 42bps (prev. 45bps).**
- NY Fed RRP op demand at USD 98bln (prev. 188bln) across 39 counterparties (prev. 57).
- SOFR at 4.38% (prev. 4.36%), volumes at USD 2.533tln (prev. 2.369tln).
- EFFR at 4.33% (prev. 4.33%), volumes at USD 83bln (prev. 103bln).
- US sold USD 90bln 3mth bills at high rate of 4.22%, B/C 2.65; sold USD 78bln 6mth bills at high rate of 4.155%; B/C 3.04x.

CRUDE

WTI (H5) SETTLED USD 0.63 HIGHER AT 73.16/BBL; BRENT (J5) SETTLED USD 0.29 HIGHER AT USD 75.96/BBL

The crude complex was a puppet to Trump tariffs and broader macro moves. WTI and Brent gapped higher at the open to peaks of USD 75.18/bbl and 77.34/bbl, respectively, after Trump announced tariffs on Canada, Mexico, and China over the weekend, with a warning also issued to the EU. As part of the tariffs on Canada, US announced Canadian energy will face a 10% tariff, as opposed to a 25% tariff. However, WTI and Brent pared off peaks amid significant Dollar strength and broader risk aversion, but then took a notable leg lower in wake of positive commentary from Mexican President Sheinbaum. Benchmarks were already edging lower, but as Sheinbaum stated she had a good conversation with US President Trump, and announced the US delayed tariffs on Mexico by one month, seeing WTI and Brent fell to session lows of USD 72.05/bbl and 75.04, respectively. Ahead, Trump and Trudeau are to have another conversation imminently (20:00GMT/15:00EST) so participants will be on high alert to the readout. Elsewhere, OPEC+ JMMC meeting was a non-event and went as expected. Although, Russian Deputy PM Novak, following the OPEC+ JMMC meeting, said the current situation in the global oil market is stable, sees oil demand rising, and expects demand to lift by 1.4mln this year, adding that they will increase oil production from April (as scheduled), and on Trump's comments about production increase, said this was touched upon. Meanwhile, WSJ sources reported that US President Trump's advisers concede that US frackers won’t pump much more oil, noting Trump's best level to bring down oil prices would might be to persuade OPEC to add more barrels, but Saudi has told former US officials that it is unwilling to augment global oil supplies.

EQUITIES

CLOSES: SPX -0.76% at 5,995, NDX -0.84% at 21,298, DJIA -0.28% at 44,422, RUT -1.28% at 2,258

SECTORS: Technology -1.80%, Consumer Discretionary -1.35%, Industrials -1.03%, Financials -0.43%, Real Estate -0.21%, Communication Services -0.06%, Materials +0.05%, Health +0.40%, Energy +0.42%, Utilities +0.46%, Consumer Staples +0.68%.

EUROPEAN CLOSES: DAX: -1.50% at 21,405, FTSE 100: -1.04% at 8,584, CAC 40: -1.20% at 7,855, Euro Stoxx 50: -1.26% at 5,220, AEX: -0.62% at 916, IBEX 35: -1.30% at 12,208, FTSE MIB: -0.69% at 36,219, SMI: -0.40% at 12,554, PSI: -0.89% at 6,467.

T**ARIFF EXPOSED NAMES**:

- **Automakers**: Ford (F), General Motors (GM), Tesla (TSLA).
- **Clothing**: Nike (NKE), Lululemon (LULU), PDD Holdings (PDD).
- **Steel**: Nucor (NUE), Steel Dynamics (STLD).
- **Railroads**: Canadian Pacific Kansas City (CP), Canadian National Railway Company (CNI).
- **Transportation** producers: FedEx (FDX).
- **Nuclear**: GE Vernova (GEV), Constellation Energy (CEG).
- **Solar**: Invesco Solar ETF (TAN).

STOCK SPECIFICS:

- **Softbank (SFTBY), OpenAI:** Will establish a JV in Japan to provide AI services to corporate clients.
- **Apple (AAPL):** Cancelled project to develop AR glasses that would connect to Macs.
- **United Airlines (UAL):** Denied rumours of merger or acquisition talks with another carrier.
- **Triumph Group (TGI):** To be acquired by affiliates of Warburg Pincus and Berkshire Partners in an all-cash deal valued at ~ USD 3bln.
- **Archer-Daniels-Midland (ADM):** Soon to begin laying off employees as part of efforts to reduce costs, impacted by low crop prices.
- **IDEXX Laboratories (IDXX):** EPS and revenue beat.

- **Tyson Foods (TSN):** Top and bottom line surpassed expectations.
- **Baxter International (BAX):** Announced CEO retirement.
- **Cleveland-Cliffs (CLF):** Weak Q4 prelim numbers.
- **Northrop Grumman (NOC):** Upgraded to 'Peer Perform' from 'Underperform' at Wolfe Research following its Q4 report which was "pretty clean" with its free cash flow outlook intact and downside risk abating.
- **Comcast (CMCSA):** Downgraded at Scotiabank to 'Sector Perform' from 'Outperform' as broadband customer losses continue.
- **Tesla (TSLA):** Will deliver large storage batteries to one of Japan's largest power storage plants planned by Orix, via Nikkei.

US FX WRAP

The Dollar was broadly firmer against major peers ahead of the implementation of 25% US tariffs on Canada (only 10% on Canadian energy products) and 10% additional China tariffs on February 4th. DXY climbed to highs of 109.880, before trimming gains throughout the session, driven by Mexican President Sheinbaum saying US tariffs are delayed by one month as she will immediately supply troops to the border to avoid trafficking of drugs to the US. Thereafter, DXY was met with lows of 108.57, but remained well in the green as markets await the outcome of US President Trump's meeting with Canadian PM Trudeau. Given the focus towards trade tensions between America and others, ISM Mfg. PMI was a non-event, despite the headline extending into expansion territory, after 26 months of contraction. For the remainder of the day, remarks continued from Trump concerning tariffs, noting he likes the idea of "reciprocal tariffs on more countries" and that China tariffs will go up if they cannot make a deal on the Panama Canal. Separately, Fed's Collins echoed Powell's recent remarks on approaching further cates with patience and Bostic is prepared to wait for a while to cut again. On Tuesday, the integration of US tariffs on Canada will be the highlight of the day. Also, US Factory Orders, Fed's Bostic, and Fed's Daly are due.

G10FX was hit by US President Trump's announcement of US tariffs, with the EUR hurt by Trump noting tariffs will definitely happen with the EU. Later the FT reported that the EU rejected US President Trump's decision to hit Canada, Mexico and China with tariffs and it would respond firmly if the US imposed tariffs on Europe. Afterwards, some relief was spread through the space upon the US and Mexico deal to delay US tariffs by one month, albeit most G10 (ex-GBP) remained in the red but EUR came under further short-lived pressure on Telegraph reports unveiled that Trump is considering plans to impose a 10% tariff on the EU. Ultimately, EUR/USD finished well in the red, heading into overnight trade at ~ 1.0290, albeit well of 1.0212 lows. G10 laggards included EUR, Antipodes, and the NOK, while CAD reduced the majority of losses, after hitting its lowest value since 2003 as positive remarks from Trump on his call with Trudeau ("had a good talk") offered support for the currency ahead of the leaders' second discourse in the US Monday afternoon.

JPY and **GBP** were the best-performing major peers against the Dollar, with the Yen helped by the risk-averse sentiment and lower US yields on the mid-to-longer end. Regarding GBP, strength was also seen vs the Euro, with EUR/GBP January lows of 0.82668 coming into view. Behind the Pound's strength, was likely the UK having a relatively smaller trade deficit than its peers and the UK seemingly not being on Trump's immediate tariff radar. Trump stated the UK is also out of line but then suggested he is getting on well with PM Starmer. By the end of the US session, USD/JPY was ~ 154.70 and Cable sat at ~ 1.24.

EMFX: MXN had an extremely volatile day, initially weakening to fresh yearly lows, on the announcement of US tariffs on Mexico, but later rallying on Mexican President Sheinbaum announcing she had agreed on a deal with Trump to delay US tariffs by one month by sending 10k national guard to the border to prevent trafficking of drugs to the US. Ahead of Banxico's rate decision on Thursday (exp. to cut by 50bps to 9.5%) Sheinbaum nominated Jose Gabriel Cuadra Garcia (currently director of the economic studies department at Banxico) to the central bank's board. Analysts said the nomination will be well received by markets; His appointment requires Senate approval. Elsewhere, Turkish inflation came in hotter than expected, but Capital Economics notes that it was largely driven by one-off factors, and "so long as the February CPI figures come in much softer (as we expect), we still think it’s most likely that the central bank opts for another 250bp rate cut (to 42.50%) at its meeting in March."