newsquawk

US Market Wrap - 4th February 2025

Stocks and bonds bid as market digests tariff deals

- **SNAPSHOT**: Equities up, Treasuries up, Crude mixed, Dollar down.
- **REAR VIEW**: US pushes back Canadian tariffs by 'at least 30 days', but China tariffs go ahead with immediate retaliation; Trump signs presidential memorandum re. "maximum pressure" on Iran; Trump/Xi to not speak today; JOLTS fall beneath exp.; China probes INTC, NVDA, GOOGL
- **COMING UP**: **Data**: Italian Retail Sales, US ADP National Employment, ISM Services, International Trade, ECB Wage Tracker **Events**: NBP Policy Announcement **Speakers**: Fed's Barkin, Goolsbee, Jefferson, Bowman; ECB's Lane **Supply**: UK, US Treasury Quarterly Refunding Announcement **Earnings**: TotalEnergies, Credit Agricole, Novo Nordisk, Equinor, Pandora SSE, GSK, Santander, Uber, Disney, Ford, Arm, Qualcomm.

MARKET WRAP

Stocks ultimately closed in the green on Tuesday with Russell and Nasdaq leading the gains, although sectors were mixed. Defensives lagged with Utilities, Staples and Health Care all red, while Energy, Communications and Tech were bid. Market focus remains on tariff updates with the US having agreed to delay implementation of tariffs on Canada and Mexico by 1 month, although no concessions were made by China in time and they will face the additional 10% tariffs. China responded with retaliatory measures, and even announced a probe on Nvidia (NVDA), Google (GOOGL) and Intel (INTC). Nonetheless, the response is being framed as limited. Trump and Xi were reportedly set to speak on Tuesday, but it was later reported there will be no conversation today, and Trump later said that he would speak to Xi at some point, but he is in no rush to do so. T-Notes chopped to trade updates but ultimately settled in the green with focus on tariffs ahead of QRA, ISM Services and NFP, while the latest JOLTS data was dovish, providing a helping hand to Treasuries. The Dollar underperformed with outperformance in CAD on the last minute agreement, seeing USD/CAD pare from recent peaks. Oil prices were choppy, selling off overnight on the US/Canada deal but rallying on reports that Trump is to sign a memo exerting maximum pressure on Iran. However, crude futures fell from peaks post settlement, as when Trump signed it said it was a tough thing to do, and hopefully they will not have to implement it.

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JOLTS: The December JOLTS data saw job openings fall to 7.6mln from 8.156mln, beneath the expected 8.0mln. Overall, hires and total separations were little changed at 5.5mln and 5.3mln, respectively. Within separations, quits (3.2mln) and layoffs and discharges (1.8mln) changed little. The vacancy rate eased to 4.5% with prior revised up to 4.9% from 4.8%, while the quits rate was unchanged at 2.0%, albeit the prior was revised up from 1.9%. Analysts at Oxford Economics highlights the data "painted a familiar picture of the labor market, with a low pace of layoffs keeping net job growth positive despite a slow pace of hiring". The desk also acknowledges that although job openings fell more than expected, the job openings-to-unemployed ratio has been relatively stable on a trend basis for the last several months.

FACTORY ORDERS: Factory orders fell 0.9% in December, slightly greater than the 0.7% expected fall and the prior, revised lower, -0.8%. Ex-transport rose 0.3% vs. 0.2% in November. Shipments, up for two straight months, rose 0.6% (prev. +0.1% M/M), while unfilled orders fell 0.5%, following five consecutive months of gains. Elsewhere, unfilled orders-to-shipments ratio was 6.93 (prev. 7.06 in Nov.), and inventories rose 0.4%, the same gain as November. The inventories-to-shipments ratio was 1.46, down from 1.47 in November.

GOOLSBEE: The 2025 voter (dove) said that uncertainties likely mean the Fed needs to be a little more careful and prudent on cutting rates. He said there are risks that inflation could tick back up. Goolsbee warned that if fiscal choices affect prices or employment, they have to think it through. He noted the US has seen strong growth and a strong consumer but there are concerns about inflation. The Chicago Fed President said it would be hard to tell the difference if rising prices are a sign of overheating or a one-time effect of tariffs, reiterating the Fed might have to slow the pace of rate cuts amid uncertainty.

DALY (2027 voter) said the economy is in a very good place and the Fed can take its time to look at data and policy changes. There is continued momentum in the economy though there is uncertainty, while business contacts are optimistic. The San Fran President said the Fed has not finished the job on inflation yet and they have to make sure they get inflation down. In addition, the Fed is in a good position to wait and see.

FIXED INCOME

T-NOTE FUTURES (H5) SETTLED 8 TICKS HIGHER AT 109-06+

T-Notes chop to trade updates ahead of QRA . At settlement, 2s -4.9bps at 4.216%, 3s -4.2bps at 4.253%, 5s -3.3bps at 4.322%, 7s -3.2bps at 4.422%, 10s -2.4bps at 4.519%, 20s -1.9bps at 4.811%, 30s -1.7bps at 4.754%

INFLATION BREAKEVENS: 5yr BEI +1.8bps at 2.625%, 10yr BEI +1.4bps at 2.435%, 30yr BEI +0.5bps at 2.390%.

THE DAY: T-Notes sold off after the Monday settlement to hit a low overnight of 108-24 after reports noted that talks between US President Trump and Canadian PM Trudeau went well, while it was later confirmed that the US would delay imposing tariffs on China by 1 month, in a similar move to what was done with Mexico. However, once the new 10% tariffs against China went into effect given the deadline passed without any deal being made, T-Notes rallied to test 109-00 with upside supported by countermeasures from China. China will put 15% tariffs on coal and LNG, 10% on oil and agricultural machines, and some autos from the US from the 10th Feb. It also announced it would probe Google (GOOGL), Nvidia (NVDA) and Intel (INTC). Nonetheless, once European trade got underway T-Notes sold off through to the European morning, bottoming out at 108-20+ ahead of the US cash equity open. T-Notes had started to turn around before the JOLTS data, which ultimately came in dovish and further supported the move higher. Participants were awaiting a potential call between US President Trump and China President Xi, as alluded to by Senior Trade Advisor Navarro, although WSJ later reported the call is no longer expected to happen today - with tension still high between the US and China. Market focus is largely on trade updates but attention still lies on US Services ISM and Quarterly Refunding on Wednesday, ahead of US NFP on Friday.

QRA PREVIEW: The quarterly refunding announcement will take place on Wednesday, February 5th. At the prior refunding, the Treasury maintained its guidance that the "Treasury does not anticipate needing to increase nominal coupon or FRN auction sizes for at least the next several quarters." Whether this guidance is maintained will once again be the focus of the upcoming refunding. We will also get the updated buyback schedule, last quarter it said it expects to purchase up to USD 30bln for liquidity support and USD 22.5bln for cash management purposes for Q4, so we will be looking to see if these sizes are maintained or adjusted. However, one wild card in the quarters ahead will be any spending implications from US President Trump's policies, while we also have a new Treasury Secretary, Scott Bessent. However, Bank of America expects the announcement to be relatively uneventful despite the change in leadership, as they do not expect Bessent to make any significant shifts at his first quarterly refunding meeting. The desk expects the Treasury to hold nominal auction sizes constant at the Feb refunding, and expect nominal coupon auction sizes holding steady through FY25 and the first coupon increase in November 2025. Any shift in language, potentially to the "next couple quarters", or a complete removal of the language entirely, would signal an earlier increase in coupon sizes vs. BofA's November 2025 base case. To download the full Newsquawk preview, please click here .

STIRS/OPERATIONS:

- Market Implied Fed Rate Cut Pricing: March 4bps (prev. 3bps), May 11bps (prev. 10bps), June 21bps (prev. 19bps), Dec 45bps (prev. 42bps).
- NY Fed RRP op demand at USD 86bln (prev. 98bln) across counterparties 34 (prev. 39).
- SOFR at 4.35% (prev. 4.38%), volumes at USD 2.413tln (prev. 2.533tln).
- EFFR at 4.33% (prev. 4.33%), volumes at USD 94bln (prev. 83bln).
- US sold USD 90bln 3mth bills at a high rate of 4.22%, B/C 2.65; sold USD 78bln 6mth bills at a high rate of 4.155%; B/C 3.04x.
- US sells USD 85bln in 42-day CMBs at high rate 4.250%, covered 2.80x
- US Treasury to sell USD 64bln in 17wk bills on Feb 5th, and USD 90bln in 8wk bills and USD 95bln in 4wk bills on February 6th; all to settle Feb 11th.

CRUDE

WTI (H5) SETTLED USD 0.46 LOWER AT 72.70/BBL; BRENT (J5) SETTLED USD 0.24 HIGHER AT 76.20/BBL

The crude complex had a choppy day, dominated by macro sentiment, as they initially saw steep losses on tariff delays but later pared on punchy US geopolitical rhetoric. Overnight and through the European morning WTI and Brent sold off to hit troughs of USD 70.67/bbl and 74.15/bbl, respectively, after updates from the Trump/Trudeau call, which saw a delay off tariffs for at least 30 days, similar to what happened with Mexico. However, after benchmarks hit lows they saw notable strength in wake of a US official stating President Trump is expected to sign an presidential memorandum on Tuesday restoring "maximum pressure" on Iran. Highlighting the paring of weakness, benchmarks in the next hour or so hit highs of 73.35/bbl and 76.66/bbl and hovered around those levels into settlement. In addition, WSJ reported US President Trump and China President Xi are reportedly not speaking today, despite reports there were.

Elsewhere and on the supply side, Equinor's (EQNR NO) Sverdrup (755k/bpd) oil field shut due to power outage and BP (BP/ LN) is to invest up to USD 25bln in Iraq's Kirkuk oil and gas and is to boost capacity to 450k bpd (current 200k bpd) in the next 2-3 years. Note, WTI ended the day marginally in the red but Brent was green. ING highlights that Canadian oil is a heavier crude, which many US refineries are configured to run on, particularly in the Mid-West - so a delay of tariffs means lower feedstock prices for US refiners, for now. Ahead, the weekly private inventory data is after-hours whereby expectations are (bbls): Crude +2.0mln, Distillates -1.5mln, Gasoline +0.5mln.

EQUITIES

CLOSES: SPX +0.72% at 6,038, NDX +1.26% at. 21,567, DJIA +0.30% at 44,556, RUT +1.41% at 2,290

SECTORS: Energy +2.18%, Communication Services +1.48%, Technology +1.47%, Consumer Discretionary +1.43%, Materials +0.28%, Industrials +0.07%, Real Estate +0.01%, Health -0.27%, Financials -0.28%, Consumer Staples -0.51%, Utilities -0.88%.

EUROPEAN CLOSES: DAX: +0.39% at 21,511, FTSE 100: -0.15% at 8,571, CAC 40: +0.66% at 7,906, Euro Stoxx 50: +0.88% at 5,264, AEX: +0.35% at 919, IBEX 35: +1.49% at 12,387, FTSE MIB: +1.38% at 36,719, SMI: -0.52% at 12,471, PSI: +0.78% at 6,517.

EARNINGS:

- **Palantir (PLTR)**: EPS and revenue beat with impressive guidance.
- **NXP Semiconductors (NXPI)**: Topped Q4 metrics, but offered soft guidance for Q1.
- **Spotify (SPOT)**: Revenue and MAUs topped with solid outlook
- **PepsiCo (PEP)**: Top line missed.
- **Regeneron Pharmaceuticals (REGN)**: Top and bottom line beat, raised buyback and initiated a quarterly dividend.
- **Merck (MRK)**: FY view light and paused shipments of HPV vaccine Gardasil to China following low demand in Q4.
- **Estee Lauder (EL)**: Dismal next quarter outlook & notes subdued consumer sentiment in China and Korea
- **Pfizer (PFE)**: Q4 metrics surpassed expectations.
- **Paypal (PYPL)**: TPV, adj. op. margin, and payment transactions missed.

STOCK SPECIFICS:

- Berkshire Hathaway buys **Sirius XM Holdings (SIRI)** shares worth USD 54mln.
- China’s Commerce Ministry added **Illumina (ILMN**) and **PVH (PVH)** to its unreliable entity list.
- **Alphabet (GOOG)**: China’s market regulator launched an investigation into Google for suspected violations of antitrust law.
- **Intel (INTC)**: China is reportedly now looking at a formal probe into **Intel (INTC) and Nvidia (NVDA)**, via FT citing sources; nature of the probe into Intel is unclear.
- **Autoliv (ALV)**: Downgraded to 'Hold' from 'Buy' at HSBC citing sales weakness in China as a key headwind. HSBC said its automotive supplier earnings forecasts reflect cautious market demand expectations for 2025, but adds, "the sector is closer to the trough".
- **Juniper Networks (JNPR)**: Upgraded at Evercore ISI to 'Outperform' from 'In Line', noting "With or without HPE offer we think the stock is likely to work higher."
- **Boeing (BA)** executive said **Spirit AeroSystems (SPR)** quality has significantly improved, has substantial inventory of 737 fuselages ready to ship to Boeing plants; SPR has reportedly increased fuselage production from 21 to 331 a month.
- **Supermicro (SMCI)** schedules conference call and webcast for fiscal Q2 ’25 business update.

US FX WRAP

The Dollar Index was lower on Tuesday, as it saw a high of 109.040 vs. a low of 107.930, amid a month delay to Mexico/Canada tariffs, although the China tariffs were still implemented, with retaliation - albeit limited in response. Late on Monday, we received confirmation that US tariffs on Canada will be delayed by “at least 30 days” after a call between Trump/Trudeau, following a similar path of Mexico. However, the same could not be said for China, and they responded with measures off their own, and as such Trump/Xi were expected to have a call today but WSJ reported they are no longer. Elsewhere, albeit taking a back seat, December JOLTS data saw job openings fall to 7.6mln from 8.156mln, beneath the expected 8.0mln, with desks highlights the data "painted a familiar picture of the labor market, with a low pace of layoffs keeping net job growth positive despite a slow pace of hiring". Goolsbee and Daly hit the wires, but did not garner much reaction, while MS revised their Fed call and now only see 1 cut in 2025 vs. 2 previously.

As has been the case for much of the Trump presidency, **G10 FX** was largely dominated by broader macro sentiment as opposed to anything currency specific. Highlighting this, **CAD** outperformed on the delay of tariffs as USD/CAD fell to a low of 1.4303 against an earlier peak of 1.4503. Re. USD/CAD, HSBC revised its year-end forecast to 1.60 from 1.45 due to the risks posed by US tariffs. **JPY** and **GBP** were the 'relative' underperformers, albeit still eking out gains vs. the Buck, the opposite to what was seen on Monday. JPY was weighed on by its haven appeal while GBP remains less exposed to Trump's tariffs and rhetoric. Nonetheless, BoJ Governor Ueda spoke overnight and said the BoJ is aiming to achieve 2% inflation, as measured by overall CPI, on a sustainable basis and that trend inflation refers to price moves excluding one-off factors. For the Pound watchers, participants await BoE on Thursday (Newsquawk preview available here), whereby the MPC is expected to cut the Base Rate by 25bps to 4.5%, via an 8-1 vote split and focus will be on what/if any hints are made over the Bank's future easing plans. **Antipodeans, CHF, and EUR** all saw similar gains amid broader risk sentiment and known themes, although do note ECB's Rehn and Villeroy hit the wires.

EMFX was broadly firmer against the Greenback, although the **MXN** was one of the sole losers but comes in the context of its distinct gains on Monday after the tariffs were delayed by a month. Despite this, Mexican Finance Ministry implemented measures to guarantee stability of financial markets and stabilisation fund boosted to MXN 100bln. The ministry will continue to improve debt maturity profile and reduce need of short-term liquidity. For the **BRL**, the latest BCB Minutes said the Committee considered that some of the downside risks to inflation were no longer present, while others appeared more strongly in the debate. In addition, scenario unfolded in such a way that the previous indication of a 100bp increase in the Selic rate deemed to be the right decision. Later on, Brazil Treasury sets 2025 public debt target between BRL 8.1-8.5tln in annual financing plans and fixed rate bonds to account for between 19-23% of outstanding public debt in 2025. Lastly, **South Africa** lifted hourly minimum wage by 4.4% to ZAR 28.79.