

newsquawk

US Market Wrap - 5th February 2025

Stocks and bonds bid after lack of trade war escalation

- **SNAPSHOT:** Equities up, Treasuries up, Crude down, Dollar down
- **REAR VIEW:** ISM services PMI unexpectedly falls; ADP tops expectations; Fed's Jefferson in no rush for further rate cuts, Barkin leans to rate cuts this year; China reportedly weighs probe into AAPL; EU prepares to target US big tech if US pursues tariffs; EIA crude stocks post bigger build than expected; GOOGL revenue disappoints; China Caixin Services PMI fall short; US postal services temporarily suspends inbound parcels from China and Hong Kong; QRA largely as expected, with slight guidance tweak; Nissan board scraps merger talks with Honda.
- **COMING UP:** **Data:** Swedish CPI, EZ Retail Sales, US Jobless Claims. **Events:** BoE, CNB, Banxico Policy Announcement; BoE DMP. **Speakers:** BoJ's Tamura, BoE Governor Bailey, Fed's Waller, Daly, Jefferson, BoC's Macklem. **Supply:** Japan, Spain, France.
- **DAILY US EARNINGS ESTIMATES:** HON, LIN, LLY, PM, BMY, COP, AMZN. [For the full report, please click here.](#)

MARKET WRAP

Stocks were bid throughout the entirety of the US session despite weakness overnight, seeing stocks close with slight gains with outperformance in the RUT. Sectors were predominantly green with outperformance in Tech as NVDA and chip names were buoyed by the strong Google (GOOG) CapEx guidance but the overall downbeat earnings saw Google (GOOGL) slump, weighing on the Communication Sector. The chip outlier was AMD (AMD), after a weak data centre revenue saw the stock tumble. Consumer Discretionary also lagged with losses in TSLA and AMZN weighing. On global trade, although there was no call between China President Xi and US President Trump, there didn't appear to be any further escalation on Wednesday. The focus today was seemingly more company-focused, as opposed to overall trade. China is weighing a probe into Apple (AAPL), while the US and EU are considering a probe into PDD (PDD) and Shein. Meanwhile, the EU is also considering probing US big tech in the event of tariffs. T-notes bull flattened with a focus on QRA, Fed speak and US data. Fed speak saw Jefferson echo Powell that the Fed is in no hurry to further cut rates. Barkin (2027 voter) stressed a wait-and-see approach but still expects further rate cuts this year. Goolsbee continued to sound cautious due to the uncertainty of US fiscal policies. On data, ADP National Employment was hot but wage metrics were cool, while the ISM Services PMI disappointed across the board, but the downside in prices paid was welcome, as was the improvement in employment. The QRA was largely as expected although it made a slight guidance tweak. Oil prices sold off with the soft China Caixin PMI, and bearish inventory data all weighing. There were also reports in Bloomberg that Trump is expected to lay out his peace plan for Russia and Ukraine next week, which further hit the crude complex and also gave a helping hand to stocks too. In FX, the Dollar was lower on lack of trade war escalation, supporting Antipodeans, while the Yen outperformed after the Japan wages data and also by lower UST yields.

US

ISM SERVICES PMI: US ISM Services PMI for January fell to 52.8 from 54.0, shy of the expected 54.3. Within the report, business activity and new orders dipped to 54.5 (prev. 58.0) and 51.3 (prev. 54.4), respectively, while employment lifted to 52.3 from 51.3, its highest value since 2023, suggesting that the labour market remains in good health. The inflationary gauge of prices paid dipped to 60.4 from 64.4. On the headline, Capital Economics note that the fall lends some support to its view that GDP growth will slow in the next couple of quarters, albeit with the caveat that the surveys have proved to be a poor guide to GDP in recent quarters. Within the report, it noted that poor weather conditions were highlighted by many respondents as impacting business levels and production. Like last month, many panellists also mentioned preparations or concerns related to potential U.S government tariff actions; however, there was little mention of current business impacts as a result. Furthermore, the past relationship between the Services PMI and the overall economy indicates that the Services PMI for January (52.8) corresponds to a 1.4ppt rise in real GDP on an annualized basis.

ADP: The ADP's gauge of national employment, while lacking significant predictive power for the official jobs data, topped expectations, printing 183k against an expected 150k (and above the analyst consensus forecast range); ADP's chief economist noted a strong start to 2025 for the labour market, but it masked a dichotomy where consumer-facing industries drove hiring, while job growth was weaker in business services and production. Within the monthly ADP jobs data, the median change in annual pay for job-stayers rose to 4.7% Y/Y (from 4.6% prior), while for job-changers it eased to 6.8% Y/Y from 7.1%.

FED'S JEFFERSON (Governor, Vice chair) says there is no need to hurry further rate cuts and a strong economy makes taking a cautious approach appropriate. Jefferson noted that interest rates are likely to fall over the medium term and disinflation is expected to continue, though progress may be slow. He noted that growth and labour market conditions are expected to remain solid but the Fed faces uncertainty around government policy.

FED'S GOOSLBEE (2025 Voter) said that if inflation rises or progress stalls, the Fed will need to figure out if it's from overheating or tariffs; distinguishing the cause of any inflation will be critical for deciding when or even if the Fed should act. The US has a strong economy and 'plausibly' full employment, while the COVID experience shows supply chain disruptions can have a material impact on inflation. Goolsbee warned ignoring potential consequences of new threats to supply chains, like tariffs, would be a mistake. Tariffs this time may be broader and higher than in 2018; adding the impact could be larger, longer-lasting. Inflation has come down and is approaching Fed's 2% goal, but opinions differ widely on how much tariffs would get passed into prices, noting that suppliers may have to eat the cost.

FED'S BARKIN (2027 Voter) spoke several times on Wednesday. He said it is hard to know what specific tariffs are coming, noting uncertainty goes beyond tariffs to immigration, regulation and other issues. Barkin toed the wait-and-see approach, noting the bias is to see what happens and react appropriately, and when asked about the Fed cutting rates again this year, says he would certainly lean that way. He noted inflation in the last two months has come down and the baseline is pretty favourable for what the Fed wants to do. He does not feel like the economy is overheating, and he still thinks that rates are moderately restrictive, which leaves the Fed well-positioned for whatever happens. When asked about rate hikes, Barkin said that he never takes anything off the table but a hike is not the base case as there is no sign of an economy overheating. Regarding tariffs, Barkin said it is useful to look at 2018/2019 experiences - most of the studies show those delivered 30-40bps of inflation in an era with little inflation but he does worry that de-globalization could be a headwind to US growth. Barkin does not expect tariffs to lead to a large restoration of US manufacturing any time soon but expects 12-month inflation figures will come down significantly in Q1.

FIXED INCOME

T-NOTE (H5) FUTURES SETTLED 17+ TICKS HIGHER AT 109-24

T-notes bull flatten with focus on Tariff retaliation, QRA, Fed speak and US data ahead of NFP on Friday. At settlement, 2s -3.3bps at 4.181%, 3s -5.2bps at 4.196%, 5s -7.6bps at 4.241%, 7s -8.7bps at 4.330%, 10s -9.3bps at 4.420%, 20s -10.6bps at 4.698%, 30s -10.8bps at 4.640%

INFLATION BREAKEVENS: 5yr BEI -2.6bps at 2.605%, 10yr BEI -2.3bps at 2.415%, 30yr BEI -2.4bps at 2.369%

THE DAY: T-notes bull flattened on Wednesday with focus remaining on trade updates, data and Fed speak. On trade, we await any progress between Canada and Mexico before the one-month extension ends while the focus turns to China and the EU. China is considering a probe into Apple (AAPL) in its latest retaliation and Trump is reportedly considering adding Shein and Temu to its forced labour list. Meanwhile, the EU is reportedly preparing to target US big tech if Trump goes ahead with tariffs on the bloc. T-notes had been bid throughout the European session, seeing a slight knock on the hotter-than-expected ADP National Employment report ahead of NFP on Friday, albeit soft wage metrics in the report saw T-notes resume higher ahead of quarterly refunding announcement (QRA). The QRA saw two-way price action, it was largely as expected, maintaining nominal coupon auction sizes although there was a slight alteration of the language, now noting Treasury expects to maintain auction sizes over the next few quarters, vs the old language of does not expect to increase auction sizes - this provides the Treasury with more optionality with uncertainty ahead, but the TBAC stressed the change should not be read to indicate an expected near-term increase in nominal coupon sizes (more below). Nonetheless, attention then turned to the ISM Services PMI, which disappointed on the headline while prices, new orders and business activity eased, but employment rose. This saw T-notes head higher, with upside continuing into settlement. There was plenty of Fed speak to digest too, overnight saw Jefferson echo Powell that the Fed is in no hurry to further cut rates. Barkin (2027 voter) stressed a wait-and-see approach but still expects further rate cuts this year. He noted how it is useful to look at the 2018/19 experience of tariffs, and that most of the studies show those delivered 30-40bps of inflation in an era with little inflation. Goolsbee continued to sound cautious due to the uncertainty of US fiscal policies. Attention turns to NFP on Friday. [To download the full Newsquawk preview, please click here.](#)

QUARTERLY REFUNDING: The US Treasury is offering USD 125bln of securities to refund USD 106.2bln, raising cash of USD 18.8bln (prev. USD 8.6bln Q/Q). Overall, the quarterly refunding was largely as expected, maintaining its nominal coupon and FRN auction sizes, while guidance saw a slight tweak. It expects to maintain nominal coupon and FRN auction sizes for at least the next several quarters, a slight tweak from the prior guidance that "Treasury does not anticipate needing to increase nominal coupon or FRN auction sizes for at least the next several quarters". The removal of the "increase" language, according to the TBAC report, stressed "the Committee felt that any shift in language should not be read to indicate an expected near-term increase in nominal coupon auction sizes". Some members preferred dropping the language altogether to reflect the uncertain outlook, but the majority preferred moderating the language at this meeting, likely to keep optionality open amid uncertainty ahead. It also maintained that the "Treasury plans to address any seasonal or unexpected variations in borrowing needs over the next quarter through changes in regular bill auction sizes and/or CMBs." Looking ahead, analysts will be cognizant of any change in the composition of the Treasury funding with Treasury Secretary Bessent previously expressing a preference for funding through duration as opposed to short-term bills. In TIPS, the Treasury plans to maintain the 30YR TIPS new issue at USD 9bln, increase the 10yr TIPS reopening auction size by USD 1bln to USD 18bln, and increase the 5yr TIPS new issue to USD 25bln. For Bill issuance, the Treasury noted since Jan 21st, the Treasury has been using extraordinary measures to finance the government on a temporary basis, until the debt limit is suspended or increased, debt limit-related constraints will lead to greater than normal variability in benchmark bill issuance and significant usage of CMBs. The buybacks were largely maintained for liquidity support, where it plans weekly ops. of up to USD 4bln per operation in nominal coupon securities, and in longer maturity buckets, to conduct two operations, each up to USD 2bln over the refunding quarter. Overall it expects it will purchase up to USD 30bln in off-the-run securities across buckets for liquidity support (unchanged from Q4), but up to USD 59.5bln in the 1mth to 2yr bucket for cash management purposes (prev. USD 22.5bln).

STIRS/OPERATIONS:

- **Market Implied Fed Rate Cut Pricing: March (prev. 4bps), May (prev. 11bps), June (prev. 21bps), Dec (prev. 45bps).**
- NY Fed RRP op demand at USD 79bln (prev. 86bln) across 28 counterparties (prev. 34)
- SOFR at 4.33% (prev. 4.35%), volumes at USD 2.344tln (prev. 2.413tln).
- EFFR at 4.33% (prev. 4.33%), volumes at USD 104bln (prev. 94bln).
- US sold USD 64bln of 4mth bills at a high rate of 4.205%, B/C 2.99x
- US Treasury to sell USD 90bln in 8wk bills and USD 95bln in 4wk bills on February 6th; all to settle Feb 11th.

CRUDE

WTI (H5) SETTLED USD 1.67 LOWER AT USD 71.03/BBL; BRENT (J5) SETTLED USD 1.59 LOWER AT USD 74.61/BBL

The crude complex was lower on Wednesday after soft China data, bearish inventory data, and geopolitics. Benchmarks were already seeing downside on Wednesday which was then further weighed on overnight by disappointing Chinese Caixin Services PMI data, adding additional glum to the demand side of the equation. Thereafter, there was bearish EIA inventory data, highlighted by crude building a lot more than was expected. A further leg lower was seen on BBG source reports, where US allies expect US President Trump's administration to present a long-awaited plan to end Russia's war on Ukraine at the Munich security conference in Germany next week. Regarding the US-China, Presidents failed to conduct a call yesterday to discuss tariffs. For the record, WTI and Brent hit highs overnight (pre China data) of USD 72.97/bbl and 76.34/bbl, respectively, against later lows of 70.98/bbl and 74.56/bbl.

EQUITIES

CLOSES: SPX +0.39% at 6,061, NDX +0.42% at 21,658, DJIA +0.71% at 44,873, RUT +1.14% at 2,316

SECTORS: Communication Services -2.79%, Consumer Discretionary -1.59%, Materials -0.03%, Industrials +0.09%, Energy +0.11%, Consumer Staples +0.89%, Health +1.02%, Utilities +1.04%, Financials +1.07%, Technology +1.57%, Real Estate +1.59%.

EUROPEAN CLOSES: DAX: +0.22% at 21,552, FTSE 100: +0.61% at 8,623, CAC 40: -0.19% at 7,892, Euro Stoxx 50: +0.12% at 5,271, AEX: 0.00% at 919, IBEX 35: +1.23% at 12,525, FTSE MIB: -0.38% at 36,581, SMI: +0.95% at 12,581, PSI: +0.22% at 6,531

EARNINGS

- **Alphabet (GOOGL):** Q4 revenue and Cloud revenue missed, while it also sees 2025 capex well above expectations, supoprtnng NVDA.
- **AMD (AMD):** Data centre revenue missed.
- **FMC (FMC):** Revenue missed with weak next quarter and FY guidance.

- **Snap (SNAP):** EPS, revenue and DAUs topped, but Q1 EBITDA view light.
- **Mondelez International (MDLZ):** Sees FY profits dropping due to soaring cocoa prices while Q4 revenue. & EPS fell short.
- **Chipotle Mexican Grill (CMG):** Revenue and profits more-or-less in line, warned on tariffs and issued a cautious outlook.
- **Bunge (BG):** EPS and revenue were light with weak FY profit view.
- **Disney (DIS):** Top and bottom line surpassed expectations., as did major subs. metrics.
- **Uber (UBER):** Underwhelming Q1 gross bookings guidance.

STOCK SPECIFICS

- **Apple (AAPL):** China's antitrust regulator considering an investigation into the App Store fees & policies.
- **PDD (PDD):** USPS is to 'continue accepting' China and Hong Kong packages February 5th after temporarily suspending inbound parcels from China & Hong Kong, sparking concerns that commerce shipments from retailers such as Shein or PDD's Temu will be affected.
- **NXP Semiconductors (NXPI):** Upgraded to 'Neutral' from 'Sell' at Citi.
- **SuperMicro (SMCI):** Ramping up full production of **NVIDIA's (NVDA)** Blackwell rack-scale solutions with NVIDIA's HGX B200.
- **Amazon (AMZN)** - Prepared to release long-awaited Alexa AI revamp, according to Reuters sources.

US FX WRAP

The Dollar was softer for a third consecutive day as trade tensions between the US and Canada/Mexico take the backfoot for now, with the market consensus turning to deal with China and the US to prevent worsening relations. That said China followed through with their WTO dispute complaint regarding US tariffs. As optimism continued around trade relations, which remained the market focus, ISM PMIs once again took the backseat, with services unexpectedly decreasing to 52.8 in January (exp. 54.3, prev. 54) as large drops in the prices paid and business activity components weighed. DXY drifted lower over the day below 108 to lows of 107.296, before paring to ~ 107.62. Separately, ADP national employment topped market expectations, with private businesses adding 183k workers to their payrolls in January (exp. 150k). However, historically ADP has been a poor gauge for the NFP report later in the week, which is forecasted at 170k on Friday. The day also saw multiple Fed speakers, with Jefferson voicing patience on further easing (echoes Powell, Bostic, and Collins) and Barkin also expressed a wait and see approach, but certainly leans towards further cuts this year. Going forward, participants will remain attentive to trade relations, NFP on Friday, and continued Fed speak on Thursday from Waller, Daly, and Jefferson.

G10 FX was largely in the green as risk-on sentiment pervaded the space on the back of a growing view the US and China will make a deal to avert escalating trade tensions. As such, Antipodes were among the top performers in the space while the CAD was the laggard with flattish performance, as the tariffs risk premium has largely pared with USD/CAD failing a breakthrough of January lows as likely the delay of tariffs (rather than removal) limits further downside. Elsewhere, Cable climbed modestly to ~ 1.2500, ahead of the BoE meeting on Thursday, where markets are looking for a cut of 25bps in a 8-1 vote. [Click here for a BoE Newsquawk preview.](#) Regarding the Euro, moves were a function of USD selling, rather than currency specifics; EUR/USD heads into overnight trade at around 1.04.

The Yen was the best major currency against the Dollar on Wednesday, helped by lower treasury yields across the curve and hot labour cashing earnings overnight, 4.80% (exp. 3.60%, prev. 3.90%). ING stated that, "If Shunto results are as strong as last year's, we expect the Bank of Japan to hike by 25 basis points as early as May"; currently ~ 5bps of hiking is priced by the May meeting. Meanwhile, a BoJ official Masaki price rises post-pandemic have been driven mostly by cost-push factors, such as rising import costs from a weak Yen.

EMFX: The NBP held its base rate as expected at 5.75%, noting in its statement, that it may intervene in the FX market, with further decisions depending on data, and CPI to remain above target in the coming quarters. Upcoming in CEE, is the CNB whose seen cutting rates by 25bps to 3.75% after holding in December after eight consecutive meetings of easing. Also due in the central bank space, is the Banxico rate decision, where 14/17 analysts surveyed by Reuters look for a 50bps rate cut to 9.5%, with 3/17 expecting 25bps. Arguments for a 50bps cut include the prior statement suggesting "larger downward adjustments could be considered in some meetings, albeit maintaining a restrictive stance". Lastly, in China, Caixin Services PMI fell short of expectations, coming in at 51 (exp. 52.3, prev. 52.2); USD/CNH neared the US close unchanged.

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