

newsquawk

US Market Wrap - 6th February 2025

Stocks and bonds chop ahead of NFP

- **SNAPSHOT:** Equities mixed, Treasuries down, Crude down, Dollar flat
- **REAR VIEW:** US Unit Labour Costs ease, Claims rise above forecast, US Layoffs rise in Jan.; Trump looks set to meet Putin, says they are making good progress on Ukraine war; US announces fresh Iran oil sanctions; Bessent maintains low interest rates agenda; BoE cuts 25bps, Mann flips to dove; Hawkish BoJ commentary from Tamura; UK PM to reportedly axe Chancellor Reeves; HON to split into three companies; Strong Maersk earnings, Stellar LLY earnings.
- **COMING UP:** **Data:** ECB Staff Revision of Natural Interest Rate, German Industrial Output, US NFP, Payrolls Benchmark Revision, Canadian Jobs, UoM Survey. **Speakers:** ECB's de Guindos, Fed's Bowman, Kugler

MARKET WRAP

Stocks and bonds chopped on Thursday with attention turning to NFP on Friday. Indices were mixed with outperformance in the Nasdaq and S&P, while Rut and DJIA closed red; equal weight S&P was flat. Sectors were predominantly green, with outperformance in Financials, Staples and Tech, while Energy and Health Care lagged (Utilities were flat). Stocks saw downside in the US afternoon to print fresh lows, albeit markets had pared this by the close with little explanation for the downside. Crude prices were extremely choppy, weighed on by remarks from US President Trump that he is going to drive down the price of oil, later adding they are making good progress to stop the Russia-Ukraine war, while reports were circulating of details of a Russia/Ukraine peace plan which saw oil hit lows. This was sharply, but briefly, pared as the Treasury announced fresh energy and oil sanctions on Iran, but the upside failed to hold with crude settling lower. T-Notes were also choppy to global impetus, soft US data (Unit Labour Costs and Jobless Claims) and reports surrounding Trump tax policies and commentary from Treasury Secretary Bessent (See Fixed Income below). FX saw the Buck flat but Yen outperform after hawkish commentary from BoJ's Tamura, while GBP underperformed post BoE, which saw a dovish vote split as Mann switched from uber-Hawk to uber-dove, although guidance tweaks and forecasts had hawkish elements.

CENTRAL BANKS

BOE: As expected, the BoE delivered a 25bps cut. The main source of surprise came via uber-hawk Mann, who not only joined the consensus in voting for a cut but out-did a majority of the board by voting for a 50bps reduction (alongside known dove Dhingra). The majority who voted for 25bps had a range of views, with one being that the disinflation process remained on track if you look through the expected near-term pickup alongside signs of weakening activity and a looser labour market. In terms of the dissenters, one of the two believes a more activist approach at this meeting would provide a clear signal of financial conditions appropriate for the UK "even as monetary policy would need to remain restrictive for some time to anchor inflation expectations". In the accompanying policy statement, the MPC reiterated that policy will be "restrictive for sufficiently long" whilst noting that it will take a "gradual and careful" approach to rate cuts (prev. stated "gradual" approach). Within the MPR, the 1-3yr inflation forecasts were hiked with UK inflation now expected to peak at 3.7% in Q3 2025 (prev. saw a peak of 2.8% in Q3), seen returning to target in Q4 2027. On the growth front, the bank cut its 2025 GDP forecast in half to 0.75%. At the follow-up press conference, Governor Bailey refrained from providing any explicit policy signals whilst stating that the Bank is taking a meeting-by-meeting approach and is not on a pre-set path. Elsewhere, the Governor stated that the coming rise in inflation is almost entirely due to factors not directly linked to the pressures in the UK economy - these factors are expected to be temporary. As the dust settles on the decision, pricing for the next 25bps rate cut has been brought forward to May (vs. June pre-release), whilst markets see a total of 64bps of loosening by year-end vs. circa 59bps pre-release.

FED'S JEFFERSON: Fed's Vice Chair Jefferson said the Fed needs to look at the totality of the net effect of the Trump administration's influence on policy goals but he is happy to keep policy at the current level of restrictiveness until there is a better sense of the totality of impacts. Jefferson also noted that even after the 100bps of easing so far, the Fed's rate is still restrictive - this allows the Fed to be patient and wait to see the net effect of policy changes.

BANXICO: Banxico cut rates by 50bps, in fitting with analyst expectations and prior guidance. Guidance was adjusted to signal further rate cuts of a similar magnitude in meetings ahead, albeit maintaining a restrictive stance. The 50bps rate cut was not unanimous however, with Heath opting for a 25bps rate cut instead. Inflation expectations were broadly left unchanged throughout the forecast horizon, with a slight revision lower for Q1 25 on the headline, but a revision higher for core - Banxico still expects inflation to return to the 3% target in Q3 26. It also maintained that the balance of risks to growth of economic activity is biased to the downside, while balance of risks for trajectory of inflation remain biased to the upside. With guidance for further 50bps rate cuts, Banxico are clearly in a dovish stance but it is likely the pace of cuts will largely dictate the impact of potential tariffs on Mexico and how it affects the data ahead (if implemented).

US DATA

LABOUR COSTS: Unit labor costs rose by 3.0% in Q4, below the 3.4% forecast, while the prior figure was revised down to 0.5% from 0.8%. The increase was driven by a 4.2% rise in hourly compensation, offset by a 1.2% gain in productivity. Productivity growth also fell short of expectations at 1.2% (exp. 1.4%), though the previous quarter was revised higher to 2.3% from 2.2%. The data shows output increased by 2.3%, while hours worked rose by 1.0%. The easing in labor costs and improved productivity align with the Fed's view that the labor market is not a source of inflationary pressure. While Q4 data is somewhat lagging, it remains a closely watched indicator for policymakers. There was little impact on money market pricing with the Fed largely in wait and see mode as they digest Trump policies with tremendous uncertainty in the economy, particularly around the potential impact on inflation.

CLAIMS: Initial jobless claims (w/e 1st Feb) rose to 219k above the expected 213k (prev. 208k). The initial claims 4-week average increased to 216.75k from 212.75k. On an unadjusted basis, the total increased 11,370 W/W, while seasonal factors had expected a decrease of 208. Driving the move higher was a 4,092 increase in claims in New York and 3,999 jump in California. Continued claims for the prior week rose to 1.886mln above the anticipated 1.874mln (prev. 1.850mln). Pantheon Economics note the trend in claims is still low for now with leading indicators painting a mixed picture.

LAYOFFS: US employers announced 49.8k job cuts in January, up from the 38.8k announced in the prior month, but down 40% Y/Y from

the 82.3k cuts in Jan 2024. The report does caveat, however, that although January was relatively quiet in terms of job cuts, "we've already seen major announcements in the early days of February, so it seems this quiet is unlikely to last". Of the 49.8k job cuts, tech led the layoffs, rising 128% to 7.5k M/M, but tech has been the leading industry for job cuts since 2022. Looking ahead, Challenger notes that tech is being disrupted by AI and many bellwether tech companies are discussing efficiency and productivity initiatives, so more cuts may be coming. Retail accounted for 6.4k job cuts after the holiday season. The Services industry saw 4.9k layoffs, while automotives saw 4.5k, but attention lies on the impact of trade wars. The report notes that closures drove the highest number of layoffs, followed by restructuring and market and economic conditions. For hiring plans, US employers announced plans to hire 6.1k workers in January, -24% M/M but +13% Y/Y - highest announcements were in the Tech and Automotive sectors.

NFP PREVIEW: After some choppy readings in recent months, the pace of payroll additions is expected to ease towards its recent averages, with the consensus pencilling in 170k in January. While delayed hurricane-related improvements are expected, the California wildfires, colder weather conditions, as well as industrial action could subtract from the headline. Labour market proxies have generally been encouraging, with initial jobless claims that coincide with the BLS survey window little changed, continuing claims eased, the ADP's gauge of private payrolls surprised to the upside (though had more mixed showings for their corresponding wage metrics). Surveys were mixed, the ISM manufacturing employment gauge rose back into expansion after seven months in contraction, the services ISM rose and remained in expansionary territory for a fourth straight month, while the Conference Board's gauge of consumer confidence became more pessimistic of the labour market. Meanwhile, JOLTS data (for December), one of the Fed's preferred labour market gauges, eased in the month, and the sub-indices point towards a slowing of hiring ahead, helping to decelerate wage growth. There is additional uncertainty in January, with the BLS set to publish annual benchmark revisions (these were released in a very delayed fashion in August, and the BLS has apparently reviewed its procedures to ensure this does not happen again). [To download the full report, please click here.](#)

FIXED INCOME

T-Notes chop to global impetus, soft US data and Trump admin policies ahead of NFP. At settlement, 2s +1.8bps at 4.203%, 3s +2.3bps at 4.222%, 5s +2.4bps at 4.267%, 7s +2.4bps at 4.354%, 10s +1.4bps at 4.434%, 20s -0.4bps at 4.695%, 30s +0.0bps at 4.642%

INFLATION BREAKEVENS: 5yr BEI -1.6bps at 2.596%, 10yr BEI -0.9bps at 2.410%, 30yr BEI -1.6bps at 2.356%.

THE DAY: T-Notes trended lower overnight and in the European morning before hitting an interim low of 109-16 after the upside on Wednesday. Supporting the move lower was hawkish commentary from BoJ's Tamura who said they must raise rates to 1% in the latter half of the year, weighing on JGBS and also T-Notes. There was a turnaround after the low was hit as European trade progressed with US's tracking Gilts higher after a woeful UK PMI miss while a strong French auction also helped with upside in global fixed income. The move was also later supported by the BoE rate cut, which cut by 25bps as expected, although prior arch-hawk Mann swapped teams, joining uber-Dove Dhingra in voting for a 50bps rate cut. T-Notes went on to hit a peak of 109-24 in the US morning, just shy of the 109-25 peak seen overnight, supported by softer than expected Unit Labour Costs, while Jobless Claims rose above analyst consensus.

Thereafter it was choppy trade, with T-Notes pushing to fresh lows of 109-14 on reports of Trump's peace plan being leaked for Russia and Ukraine, albeit T-Notes pared into settlement. US Treasury Secretary Bessent may have given a helping hand as he continued to push a lower rates message, particularly for the 10yr. Bessent said that he thinks the 10yr rate is naturally going to come down with Trump's policies, and that he is happy to see the trajectory of borrowing is dropping but he does not see any changes in issuance in the foreseeable future. T-Notes rose back to 109-21+ before then selling off slightly into settlement, perhaps driven by the Axios report that outlined Trump's tax priorities, which ends taxes on tips and social security benefits, while also pushing to renew his 2017 tax cut bill while cutting taxes for goods made in the US (lower tax revenue might mean that more borrowing is needed after all), although he will be closing the carried interest tax loophole.

On Fed speak, Goolsbee echoed recent remarks around uncertainty and the impact of tariffs being difficult to distinguish, while Jefferson stressed the need to look at the totality of the net effect of the Trump policies, noting he is happy to keep the policy at the current level of restrictiveness, until there is a better sense of totality of imports.

STIRTS/OPERATIONS:

- Market Implied Fed Rate Cut Pricing: March 4bps (prev. 4bps), May 11bps (prev. 11bps), June 21bps (prev. 21bps), Dec 46bps (prev. 45bps).
- Treasury Buyback (Liquidity support, 10-20yr nominal coupons): Accepts 4/28 eligible issues, accepts USD 2bln (max USD 2bln) of USD 20.363bln
- NY Fed RRP op demand at USD 80bln (prev. 79bln) across counterparties 38 (prev. 28)
- SOFR at 4.33% (prev. 4.33%), volumes at USD 2.343tln (prev. 2.344tln).
- EFFR at 4.33% (prev. 4.33%), volumes at USD 104bln (prev. 94bln).
- US sold USD 90bln 8wk bills at high rate of 4.240%, B/C 2.77x; Sells USD 95bln 4wk bills at high rate of 4.250%, B/C 2.62x
- US to sell USD 72bln of 26-wk bills and USD 84bln of 13-wk bills on February 10th; to sell USD 85bln in 42day CMBs on February 11th; all to settle Feb 13th

CRUDE

WTI (H5) SETTLES USD 0.42 LOWER AT 70.61/BBL; BRENT (J5) SETTLES USD 0.32 LOWER AT 74.29/BBL

The crude complex was choppy on Thursday in a headline driven day for oil. Through the European morning benchmarks were largely sideways and rangebound amid a lack of macro newsflow, but this soon changed with a trifecta of bearish headlines. WTI and Brent began to sell off from intra-day highs after US President Trump stated they will drive the price of oil down and everything else will follow, and then further extended lower as he said they are making good progress to stop the Russia-Ukraine war. Not stopping there, WTI and Brent fell to interim session lows of c. USD 70.66/bbl and 74.24/bbl, respectively, in response to Daily Mail citing a report that Trump will try to force Ukrainian President Zelensky to agree to a ceasefire with Russia by Easter under a peace plan, although Zelensky's office has denied legitimacy of the peace plans. After printing these troughs, the US Treasury issued fresh Iranian-related sanction, targeting shipping, oil and energy companies which saw WTI and Brent rise to fresh session peaks of USD 71.85/bbl and 75.40/bbl. Nonetheless, downside quickly resumed, with WTI and Brent selling off to settle around fresh lows. Separately, and one to be aware of, a senior Russian lawmaker said preparations for a meeting between Trump and Putin are at an advanced level. Looking ahead, US payrolls report on Friday is the key macro highlight with attention as always on any remarks from Trump.

EQUITIES

- **CLOSES:** SPX +0.36% at 6,084, NDX +0.54% at 21,774, DJI -0.28% at 44,748, RUT -0.39% at 2,307.
- **SECTORS:** Consumer Staples +0.88%, Financials +0.84%, Technology +0.66%, Communication Services +0.51%, Consumer

Discretionary +0.45%, Industrials +0.42%, Materials +0.34%, Real Estate +0.30%, Utilities -0.06%, Health -0.94%, Energy -1.64%.

- **EUROPEAN CLOSES:** DAX: +1.52% at 21,913, FTSE 100: +1.21% at 8,727, CAC 40: +1.47% at 8,008, Euro Stoxx 50: +1.60% at 5,356, AEX: +0.62% at 925, IBEX 35: +1.61% at 12,739, FTSE MIB: +1.48% at 37,122, SMI: +0.48% at 12,620, PSI: +0.05% at 6,534

STOCK SPECIFICS:

- **Qualcomm (QCOM):** Solid report, but traders cited concerns over slowing smartphone demand & analysts have questioned industry growth. CEO said that Arm Holdings has withdrawn a threat to terminate Qualcomm's license agreement.
- **Skyworks Solutions (SWKS):** Sees revenue decline in mobile segment and lower-than-expected operating income, as slower EV adoption has led to excess chip inventory
- **Arm Holdings (ARM):** EPS and revenue beat with next quarter guidance in line but investors anticipated stronger projections, given Cos. AI-driven growth narrative and recent semi-sector momentum.
- **Coherent Corp (COHR):** EPS and revenue topped with strong next quarter outlook.
- **Ford (F):** EPS and revenue beat but issued cautious FY25 guidance, citing market headwinds and potential pricing pressure.
- **McKesson (MCK):** Revenue light and mainly due to lower-than-expected sales in US pharmaceutical segment.
- **Align Technology (ALGN):** Q4 metrics underwhelmed as did next quarter outlook.
- **Honeywell International (HON):** EPS and revenue topped but guidance underwhelmed; to split into 3 Cos.
- **Eli Lilly (LLY):** Profit topped, as did FY guidance with strong drug breakdown
- **Tapestry (TPR):** EPS and revenue beat; Raised FY25 revenue, operating margin, EPS and FCF outlook
- **Under Armour (UAA):** Q4 metrics surpassed expectations. as did FY guidance
- **Philip Morris (PM):** EPS and revenue topped with solid FY outlook.
- **Bristol-Myers Squibb (BMY):** Weak FY profit view
- **Ralph Lauren (RL):** Adj. EPS and revenue beat.
- **Kellanova (K):** Profit and revenue surpassed expectations.
- **Roblox (RBLX):** Bookings and DAUs fell short of forecasts.
- Of note for **healthcare names**, White House reportedly preparing order to cut thousands of Federal health workers, according to WSJ; executive order could come as soon as next week, if the Trump administration goes ahead with plans.

US FX WRAP

The Dollar was more-or-less flat on Thursday in a "quieter" days of newsflow as participants await US payrolls on Friday. Nonetheless, initial jobless claims rose slightly more than anticipated, while Unit Labor Costs overall were soft. Fed's Goolsbee added little new, while Treasury Secretary Bessent said they want the Dollar to be strong, and added strong dollar policy is completely intact under President Trump. Speaking on the Fed, Bessent noted they are not focused on whether the Fed is going to cut or not.

JPY was the clear outperformer, and supported by hawkish remarks from BoJ Board Member Tamura. He said the BoJ needs to raise rates in a gradual and timely manner, and that a 0.75% rate would still be negative in real terms and must raise rates to at least around 1% in the latter half of fiscal 2025. USD/JPY hit a low of 151.25 vs an earlier high of 152.89.

GBP was the G10 laggard in wake of a surprisingly dovish BoE vote, and as such Cable fell to a trough of 1.2362 from an earlier peak of 1.2509. As expected, the BoE delivered a 25bps cut alongside lifting its inflation forecasts and significantly cutting its 2025 growth view. Surprisingly, the decision to ease policy was unanimous though the magnitude was subject to dissent from dove-Dhingra (unsurprisingly) and surprisingly from arch-hawk Mann, with both members voting for a 50bps cut. In brief, the statement points to a stagflationary environment in the UK, though perhaps only for the near-term given that the 2026 growth forecast was raised. However, the BoE looks for CPI to peak at 3.7% in Q3-2025 (prev. peak 2.8%) which points to a need to perhaps keep policy restrictive for longer. It also adjusted guidance that it would be "careful and gradual" in its approach to rate cuts, vs prior "gradual" language. Prior to BoE, the UK saw an exceedingly soft S&P global PMI print, as it came in shy of the forecast range and surprisingly fell into contractionary territory.

Antipodeans, CAD, and EUR all saw slight losses but to varying degrees. Currency specific catalysts were light but for the Euro we saw a continued drip-feed of ECB rhetoric with Cipollone noting that US tariffs on China could force the dumping of goods in Europe, weighing on growth and inflation. Participants await Friday's ECB flash estimate of the neutral rate, which could be used as an indication of how much more loosening the Bank needs to undertake to get itself back to a non-restrictive setting.

Scandis saw slight strength, with the SEK supported after hotter-than-expected inflation metrics.

EMFX was almost exclusively firmer vs. the Buck as the BRL continued on its strength seen in recent weeks. Elsewhere, Banxico cut rates by 50bps to 9.5%, as expected, albeit in a split decision (4-1 vote) with Heath the dissenter and voting for a 25bps cut. In the statement, "The Board estimates that looking forward it could continue calibrating the monetary policy stance and consider adjusting it in similar magnitudes". Also on the central bank footing, CNB lowered rates by 25bps to 3.75%, as expected. Ahead, RBI is overnight whereby the central bank is expected to cut the Repurchase Rate by 25bps to 6.25%. For the record, this meeting is the first under the stewardship of new RBI Governor Malhotra and recent RBI actions such as bond purchases through OMOs support calls for a cut.

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