

### Bonds sold, while Stocks and Dollar chop to hot CPI amid later Trump geopolitical updates

- **SNAPSHOT:** Equities mixed, Treasuries down, Crude down, Dollar flat.
- **REAR VIEW:** Hot US CPI report; Trump had separate calls with Putin and Zelenskiy and teams to start negotiations immediately; Fed Chair Powell says inflation report shows they're still not there; Fed's Goolsbee says inflation data is concerning and Bostic notes it shows careful monitoring is needed; US Federal Budget widens more than expected in Jan.; Larger-than-expected EIA crude build; Trump to sign reciprocal tariffs today or tomorrow.
- **COMING UP:** **Data:** NZ Inflation Forecasts, German CPI, UK GDP Estimate, Services, Swiss CPI, US Jobless Claims, PPI. **Events:** IEA OMR. **Supply:** Italy, US. **Speakers:** ECB's Cipollone.
- **DAILY US EARNINGS ESTIMATES:** DE, AMAT, PANW. [For the full list, please click here.](#)

### MARKET WRAP

US indices closed the day mixed, but that only tells half the story, as a broad-based hawkish reaction was seen on the hot US CPI report, before paring. As such, after all major metrics in the release topped expectations, US equity futures and Treasuries saw notable downside, while Dollar soared to session highs and money market pricing shifting the first Fed 25bps rate cut to December, vs. Sept pre-data. However, as the session progressed US indices pared the majority of their weakness, with the NDX even closing green, and DXY flat at the time of writing but Treasuries held on to their weakness which saw the Yen reside as the G10 FX laggard against the Buck. EUR outperformed. Potentially behind some of the reversal was the more positive Russia/Ukraine rhetoric, whereby Trump said he has spoken to both Putin and Zelenskiy (separately) about ending the war. At the time of writing, we await President Trump's latest signing of executive orders, but White House Press Sec said she believes the reciprocal tariff announcement will come before the Indian PM's visit tomorrow, and will let the President discuss details. Fed wise, Powell, Goolsbee, and Bostic all spoke post-CPI (details below), whereby the Chair offered a note of caution on today's CPI reading and target PCE inflation which is a better measure; will know what PCE readings are late tomorrow, after PPI data. Sectors are predominantly in the red, with only Consumer Staples in the green, while Energy is the underperformer and weighed on by weakness in the crude complex amid the aforementioned newsflow on Trump calls with Putin and Zelenskiy about ending the war. In addition, the US 10yr auction was soft.

### US

**US CPI:** Headline CPI rose by 0.467% in January, above the 0.3% consensus and accelerating from the prior 0.393%. The Y/Y print rose 3.0%, despite expectations for it to maintain a 2.9% pace. Within the headline figure, the index for shelter rose 0.4% in January, accounting for nearly 30% of the monthly all items increase. Energy rose 1.1% with gasoline +1.8%. Prices for food increased 0.4%, with food at home +0.5% and food away from home +0.2%. The sharp increase in food at home was largely due to the recent surge in egg prices (sharpest increase since June 2015). The Core metric rose 0.446%, above the 0.3% forecast, up from the prior 0.225%. The Y/Y print rose by 3.3% from 3.2%, despite expectations from a dip to 3.1%. It is worth noting that prior to the release, JPM noted if core CPI is +0.4% M/M or greater is it likely to be driven by a spike in Shelter as well as seeing some parts of Core Goods flipping from deflationary to inflationary. The hot data saw a marked shift in money market pricing with the next 25bps rate cut no longer priced until December from September before the data. The date reinforces the Fed's "no rush" approach to policy, with the data suggesting the fed will need to hold rates for longer in order for inflation to return to target. Regarding the January data, it is just one hot report and the Fed will likely not want to make decisions based on one release, especially with plenty of data still due between now and the March 19th FOMC. Pantheon highlights that seasonals are still failing to offset new year price rises but the February data will reassure the FOMC.

### FED

**POWELL:** In his second day of testifying, this time in front of the House, the Fed Chair said the Fed makes its decision based on what's happening in the economy and is reserving judgment on likely effects of tariffs until it sees the policies. Powell added he wants reserves to be ample and all evidence suggests reserves are abundant, and expects will return to the issue of lowering SLR. On inflation, said they are close but not there, and the January inflation print says that as well, and wants to keep policy restrictive for now. The Chair added they want to see more progress on inflation and did not see much progress on core inflation last year, and have the luxury of being able to wait for that, given the strong economy. Following today's CPI, he offered a note of caution and said target PCE inflation is a better measure, and they will know what PCE readings are late tomorrow, after PPI data. Powell said long rates went up but it wasn't about inflation and Fed holding rates, awaiting evidence of lower inflation.

**BOSTIC** (2027 voter) said the labour market is performing incredibly well, and the latest inflation numbers show careful monitoring is still needed. Ahead, Bostic added it is difficult to have confidence in any forecast given policy uncertainty across so many dimensions. The Atlanta Fed President added the central bank is sitting tight until there is more clarity, and the Fed will not move until it has enough information to do so. Said if the economy evolves as expected, could get to 2% inflation in early 2026 and at that point would want to be close to neutral, and said neutral is likely around 3-3.5%. Furthermore, Bostic noted perhaps could get further towards neutral this year but is less confident when the next step will come, and patience suggests the next cut will happen later in order to have time to get more information. Would not be comfortable moving again on rates until there is more clarity on direction of the economy.

**GOOLSBEE** (2025 voter) said if they got multiple months like this on CPI inflation, then the job is clearly not done and stated the latest inflation read is "sobering" and further added inflation data today is concerning, but just one month. Ahead, the Chicago Fed President still sees rates settling 'fair bit below' today.

### FIXED INCOME

**T-NOTE (H5) FUTURES SETTLED 22 TICKS LOWER AT 108-08+**

**T-Notes sold on hot CPI, 10yr auction still soft.** At settlement, 2s +7.5bps at 4.365%, 3s +9.1bps at 4.396%, 5s +11.0bps at 4.480%, 7s +10.8bps at 4.563%, 10s +9.8bps at 4.635%, 20s +9.7bps at 4.899%, 30s +8.8bps at 4.837%.

**INFLATION BREAKEVENS:** 5yr BEI +0.9bps at 2.696%, 10yr BEI +1.1bps at 2.481%, 30yr BEI +0.1bps at 2.400%.

**THE DAY:** T-Notes sold off across the curve on Wednesday after a hot US inflation report saw traders pare fed rate cut bets. T-Notes meandered ahead of US CPI, with T-Notes printing a peak of 109-05 in the immediate release of the data before immediately tumbling to fresh session lows of 108-07. The report enforces the Fed's language that they are in no rush to act on rates while a robust labour market allows the Fed to be patient with inflation still above target, and this data only enforces a hold for longer message. Nonetheless, analysts at Pantheon suggest it is a one off and the February data will be more reassuring for the Fed. Elsewhere, T-Notes saw little reaction to geopolitics (Trump and Putin speaking, agreeing to negotiations on Ukraine) with T-Notes later hitting lows of 108-04 before gradually paring ahead of the 10yr auction with the CPI reaction providing notable concession ahead of the supply, albeit not enough to stoke strong demand with a chunky tail seen (more below). Attention now turns to US PPI on Thursday and the 30yr bond auction, while as always Trump tariff/policy announcements will be key - negotiations on reciprocal tariffs started earlier today.

**10YR:** US Treasury sold USD 42bln of 10yr notes at a high yield of 4.632%, tailing the when issued by 0.9bps. The tail was larger than the prior 0.2bps tail and average 0.1bp tail, while bid to cover was also soft - both signs of soft demand. Nonetheless, there was a notable pick up in indirect demand to 71.6% from 61.4%, above the 68.8% average, although direct demand tumbled to 13.6% from 23%, below the 17.4% average, seeing Dealers left with 14.8% of the auction - slightly beneath the prior 15.6% but above the average 13.4%.

#### STIRS/OPERATIONS:

##### T-NOTE (H5) FUTURES SETTLED 22 TICKS LOWER AT 108-08+

- **Market Implied Fed Rate Cut Pricing: March 1bps (prev. 1bps), May 3bps (prev. 6bps), June 9bps (prev. 15bps), Dec 27bps (prev. 35bps).**
- NY Fed RRP op demand at USD 68bln (prev. 76bln) across 27 counterparties (prev. 36).
- SOFR at 4.34% (prev. 4.35%), volumes at USD 2.321tn (prev. 2.316tn).
- EFFR at 4.33% (prev. 4.33%), volumes at USD 92bln (prev. 96bln). US sold USD 62bln 17wk bills at high rate 4.230%; B/C 3.38x

## CRUDE

##### WTI (H5) SETTLED USD 1.95 LOWER AT 71.37/BBL; BRENT (J5) SETTLED USD 1.82 LOWER AT 75.18/BBL

**The crude complex was lower on Wednesday, and settled at lows as Trump had calls with Putin and Zelenskiy about ending the war.** WTI and Brent were already trundling lower through the European morning, before being dragged lower in wake of the hot US CPI report, and thereafter bearish weekly EIA data - crude saw a larger build than expected, albeit not as great as the private inventory numbers. Following this, there was a deluge of geopolitical rhetoric as benchmarks saw downside after President Trump posted on Truth that he had a lengthy and highly productive phone call with Russian President Putin, and respective teams agreed to start negotiations immediately, and we will begin by calling President Zelenskiy. As such, newswire reported Trump had a call with both leaders, of course separately, discussing a potential peace plan. As markets were digesting the news, which saw WTI and Brent edge lower to settle at session troughs, they did see a brief bout of upside in wake of Reuters reporting that Trump's Hostage envoy Boehler said Iran has Americans. Elsewhere, and for the record, the February OPEC MOMR says global oil demand growth forecast for 2025 remains unchanged at 1.4mln BPD, and maintains language that "This robust oil demand growth is expected to continue in 2026". For reference, EIA STEO saw 2025 world oil demand unchanged at 104.1mln BPD, while 2026 demand was seen at 105.2mln BPD, up from the 105.1mln BPP in the January forecast.

## EQUITIES

**CLOSES:** SPX -0.27% at 6,052, NDX +0.12% at 21,719, DJIA -0.50% at 44,369, RUT -0.87% at 2,256

**SECTORS:** Energy -2.69%, Real Estate -0.91%, Materials -0.68%, Industrials -0.58%, Financials -0.41%, Consumer Discretionary -0.30%, Utilities -0.14%, Health -0.11%, Technology -0.05%, Communication Services +0.04%, Consumer Staples +0.23%

**EUROPEAN CLOSES:** DAX: +0.48% at 22,143, FTSE 100: +0.34% at 8,807, CAC 40: +0.17% at 8,042, Euro Stoxx 50: +0.29% at 5,406, AEX: +0.39% at 943, IBEX 35: +1.04% at 12,908, FTSE MIB: -0.14% at 37,531, SMI: +0.01% at 12,705, PSI: -0.53% at 6,528

#### EARNINGS

- **Lyft (LYFT):** Profit and gross bookings missed; FY gross bookings guidance light.
- **Super Micro Computer (SMCI):** Expects to meet regulatory deadline & PT raised at JPM amid increased conviction from the mgmt. team to meet it. Although, reported weak prelim numbers and guidance.
- **DoorDash (DASH):** Revenue and order estimates as holiday demand boosted sales; Announced USD 5bln buyback.
- **Upstart Holdings (UPST):** Surprise profit per shr. and revenue beat with strong FY outlook.
- **Gilead Sciences (GILD):** EPS and revenue topped, driven by a 16% rise in HIV drug sales & lower costs; FY EPS view above expectations.
- **CVS Health (CVS):** EPS, revenue, and SSS beat.
- **Kraft Heinz (KHC):** Revenue light, FY profit view disappointed with underwhelming communications.

#### STOCK SPECIFICS

- **Apple (AAPL):** Suppliers considering iPhone production in Indonesia as Apple negotiates to lift a government sales ban on its iPhone 16 series.
- **Baidu (BIDU):** Plans to release Ernie 5.0, its next-generation AI model, in late 2025 with enhanced multimodal capabilities.
- **Alibaba (BABA):** AAPL is working with Alibaba to develop AI features for the iPhone in China.
- **Meta Platforms (META):** Currently lower after posting a 17-day win streak, the longest consecutive day of gains a Nasdaq-100 constituent has seen since the year of inception for the Nasdaq 100.
- **Apple (AAPL):** Set to unveil Apple TV+ Android (GOOGL) app as soon as Wednesday, according to Bloomberg.
- **NXP Semiconductors (NXPI):** Upgraded at Morgan Stanley; believes that the worst of the stock's downside is "behind us," and that an analysis of microcontroller shipments suggests that shipments didn't further deteriorate from November to December.
- **Tempus AI (TEM):** Downgraded at William Blair, arguing that the shares are not trading at or near the firm's fair value estimate.

## US FX WRAP

**The Dollar** was mixed against peers following the US CPI report. Upon the release, in which the core and headline metrics came in above expectations, particularly headline M/M which rose 0.5% (exp. 0.3%), a broad based hawkish reaction was seen with Dollar upside. That said, the broad-based gains were largely pared with CAD, CHF, and GDP turning flat. A large function of DXY trimming gains was the Euro reversing US-CPI-induced downside, likely being a Euro story rather than USD specifics (see below). Geopolitical updates were positive regarding Ukraine and Russia, with US President Trump having a call with Russia's President Putin, and Ukrainian President Zelensky separately. Whereas US-Iran relations remain unsettled, with US Hostage Envoy Boehler noting Iran has Americans (follows hostage swap with the US and Russia) On the former, Trump noted they have agreed to have their respective teams start negotiating immediately. Separately, Fed's Chair Powell's testimony before the House offered little new by way of monetary policy/the economy, though did touch on January's CPI report, saying there are still not there on inflation. Other Fed members hit the wires, with Bostic noting the latest inflation numbers show careful monitoring is still needed while Goolsbee said the data is concerning. Going forward, Trump is expected to announce his reciprocal tariffs before Indian PM Modi's visit on Thursday. Also due are weekly claims and PPI, with the latter feeding into PCE, a measure which Powell said at today's testimony is a better measure than CPI.

Performance across **G10 FX** was mixed, with the Euro outperforming with decent gains while the Yen slumped. For the Euro, no clear driver was obvious behind the move, though the rally aligned with continued demand for European equities as major EU indices extended on gains. Behind the recent European equity strength, analysts have been citing EZ macro data slightly surprising to the upside, and US equities having much higher multiples than Europe. Also supporting the case for a relief in the Euro, was the aforementioned positive developments regarding the Ukraine/Russia war. Whereby, talks between US President Trump and Putin are to continue, affirmed by both respective parties. EUR/USD now sits above its 21 DMA of 1.0381 into APAC trade.

**Yen's** downside was weighed on by the increasing rate differential between USTs and JGBs, with USD/JPY immediately gaining on the hot CPI report, climbing above the 154 handle. Key levels to watch to the upside are the 21 DMA of 154.56 and the 50 DMA of 155.25. Japanese newsflow was on the light side, with BoJ's Ueda noting he's aware that rising inflation, including fresh foods, having a negative impact on households.

BoC Minutes was a non-event for the **CAD**, in which members argued January's 25bps rate cut would help support growth and better balance inflation risks. Elsewhere, **Cable** ended the day unchanged with BoE's Green remarks having little sway over price action. Ahead, the Pound's next scheduled event is the UK's GDP Prelim (Q4).

**EMFX:** CLP saw strong gains as copper prices rose ~2% on the day, while COP was notably hit. India's CPI Inflation Y/Y came in beneath expectations, leaving INR modestly weaker on the day, while Czech Final January inflation figures were unchanged from the prior. Ahead of Czech's CPI, ING noted they turned their bearish view on the CZK to neutral, "which seems like a good decision from today's perspective. Higher-than-expected inflation will not allow the CNB to cut rates faster, while the whole CEE is gaining under the positive sentiment from the beginning of the Ukraine deal discussions. EUR/CZK is thus likely to stay in the 25.000-250 range for longer". Concerning HUF, NBH Minutes unveiled the decision to hold rates was unanimous, citing inflation risks have increased with tight monetary conditions needed.

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newsquawk.com · +44 20 3582 2778 · info@newsquawk.com