

Dollar bid, Bonds sold, and Stocks chop as Russia/Ukraine talk intensifies

- **SNAPSHOT:** Equities up, Treasuries down, Crude up, Dollar up.
- **REAR VIEW:** Waller calls for rates to be on hold; Daly wants more inflation progress; Empire Fed Mfg. survey returns to expansionary territory; RBA cuts as expected; Russia reportedly not interested in peace with Ukraine; Ukraine postpones Saudi trip due to US/Russia talks; Hot Canada inflation numbers; BoE's Bailey said UK labour data does not alter BoE outlook.
- **COMING UP:** **Data:** Australian Wage Price Index, UK CPI **Events:** RBNZ Policy Announcement; FOMC Minutes (Jan) **Speakers:** BoJ's Takata; RBNZ's Orr, Fed's Jefferson **Supply:** Australia, UK, Germany, US **Earnings:** Etsy, Garmin, Analog, Carvana, Rio Tinto, Glencore, BAE Systems, Carrefour, ADP, MTU Aero, Phillips.

MARKET WRAP

US indices closed with slight gains as they saw a slight bid into settlement, but were still relatively rangebound in a day which was dominated by US and Russia high-level delegates holding a meeting in Riyadh regarding Ukraine. Following the gathering, Russia delegates gave positive remarks, highlighted by Russian Foreign Minister stating that talks were "not unsuccessful." In wake of the readout, Ukrainian President Zelenskyy said his visit to Saudi Arabia has been postponed until March 10th, with sources adding that it was in order to not give legitimacy to US-Russia meeting. Overall, the Buck was bid to the detriment of G10 FX peers with the Kiwi lagging ahead of RBNZ overnight, while the Aussie pared its initial strength post-RBA. T-Notes were sold across the curve amid plethora of corporate supply ahead of 20yr bond auction, while the crude complex was firmer, with WTI notching up greater gains than Brent on account of no settlement on Monday due to US Presidents' Day holiday. Elsewhere, Fed Governor Waller called for rates to be on hold, while 2027 voter Daly wants more inflation progress. On the data footing, NY Fed manufacturing survey returned to expansionary territory. For the record, sectors were predominantly in the green with Energy and Materials sitting a top of the pile, while Communication Services was the clear laggard and likely weighed on by Meta's (META) (-3%) 20-day win streak coming to an end. Stock specific highlights include Conagra Brands lowering guidance, and Intel soared amid a couple of bullish headlines, namely Broadcom (AVGO) and TSMC (TSM) reportedly considering separate deals that could split Intel (INTC), and also Silver Lake reportedly near a deal for stake in INTC's Altera.

US

Fed Governor Waller (Voter) stated that while disinflation is expected to resume this year, the recent CPI reading was disappointing, though he suggested it may have been influenced by seasonal adjustment issues. He emphasized that seasonal effects could be distorting data, citing January retail sales as an example, which he downplayed due to the impact of cold weather. Waller maintained that rate cuts are still expected in 2025 but that it remains appropriate to keep rates on hold for now, stressing that the Fed cannot let policy uncertainty paralyze action and must remain data-driven (in January Waller refused to rule out a March cut). On inflation, Waller noted that progress has been excruciatingly slow, with the persistence of housing services inflation proving surprising. He reiterated that tariffs are expected to have a modest and non-persistent impact on prices, which the Fed should try to look through when setting policy. He also observed that market-based inflation expectations, such as TIPS, do not indicate a rise in long-term inflation risks. Waller also highlighted growing concerns among market participants over the US deficit, which he said is leading to participants demanding a term premium on 10-year yields. On the labor market, he described conditions as strong with solid growth continuing into the first quarter of 2025 but noted that most of the risks remain skewed toward higher unemployment. Lastly, he acknowledged uncertainty over whether the "last mile" of disinflation is particularly difficult or simply a result of seasonal inflation distortions.

Fed's Daly (2027 voter) stated that the US economy remains in a good place, with solid GDP growth and a resilient labor market. While inflation is gradually coming down, the process has been bumpy and is taking longer than desired. However, she sees no reason to be discouraged about progress. Daly emphasized that policy remains restrictive and should stay that way until there is clear and sustained progress on inflation. She stressed the importance of being careful before making the next adjustment to ensure enough pressure remains on inflation while also avoiding actions that could "shortchange" the labor market. She reiterated that the Fed does not need to rush decisions and wants to gather more information before making any moves to avoid policy missteps. On risks, Daly acknowledged uncertainty regarding the scope, magnitude, and timing of new administration policies. She also noted that the California wildfires could impact insurance markets and potentially have longer-term economic consequences. Despite these uncertainties, she maintained that policy is in a very good place and that the Fed remains well-positioned to act when needed.

NY FED: The February NY Fed Manufacturing Index rose to 5.7 from -12.6, above the -1.0 forecast. Summarising the report, new orders and shipments grew moderately. Delivery times were slightly longer, and supply availability was slightly lower. Inventories continued to expand modestly. Employment levels moved lower. Input prices increased at the fastest pace in nearly two years, and selling price increases also ticked up noticeably. The headline was buoyed by a strong improvement in new orders and shipments, while the price rises were also chunky. Pantheon Macroeconomics also suggest seasonality may be at play with the headline jumping in February of 2023 and 2024 too. On the prices, Pantheon highlights the rise in both prices paid and prices received, "might be a sign that the tariff-linked surge in demand for durable goods since late last year is starting to put some upward pressure on prices, although neither index has yet strayed far from its typical pre-Covid range, and most other leading indicators of core goods prices remain relatively benign". Regarding the outlook, firms expect conditions to improve over the next six months, optimism about the outlook dropped significantly. Within the outlook, prices paid only saw a slight move higher while prices received saw a slight move lower.

FIXED INCOME**T-NOTE FUTURES (H5) SETTLED 15 TICKS LOWER AT 108-27**

T-Notes sold across the curve amid plethora of corporate supply ahead of 20yr bond auction . At settlement, 2s +4.0bps at 4.299%, 3s +5.1bps at 4.322%, 5s +6.8bps at 4.395%, 7s +7.3bps at 4.475%, 10s +7.0bps at 4.546%, 20s +6.6bps at 4.821%, 30s +6.8bps at 4.764%.

INFLATION BREAKEVENS: 5yr BEI +2.4bps at 2.679%, 10yr BEI +2.2bps at 2.465%, 30yr BEI +2.2bps at 2.391%

THE DAY: On the resumption of trade with cash trade closed on Monday for Presidents Day, T-Notes sold off across the curve overnight

before stalling in the European session, but selling off in US trade to settle at lows. The downside comes ahead of supply (20yr bonds and 30yr TIPS), while there was also a plethora of corporate issuance announced too (CCL, JNJ, MA, BHP, ABBV, DTE, ETR, ET). Meanwhile, both the UK and Brazil announced Dollar bond sales; BoE is to issue a 3yr USD bond as part of its annual FX operations in the near future, while Brazil announced issuance of 10yr sovereign USD bonds. Aside from supply, data saw the NY Fed Manufacturing Survey return to expansionary territory, while prices paid and received both surged. The data had little impact on price action at the time but T-Notes went on to print session lows a few hours later. On Fed speak, Governor Waller spoke last night, repeating his views that tariffs will have a modest and non-persistent impact, but noted how disinflation and rate cuts are expected to resume this year. Nonetheless, he stated that it is appropriate to keep rates on hold for now (in January he didn't want to rule a March rate cut out). Fed's Daly (2027 voter) meanwhile said policy remains restrictive, and needs to remain there until they continue to make progress on inflation.

THIS WEEK SUPPLY

Coming up

- US Treasury to sell USD 16bln of 20yr bonds and USD 9bln of 30yr TIPS (as expected) on February 19th and February 20th, respectively; all to settle Feb 28th
- US to sell USD 85bln of 4wk bills and USD 80bln of 8wk bills on 20th Feb; and USD 60bln of 17wk bills on 19th Feb; all to settle 25th Feb.

Today

- US sold USD 74bln (exp. 70bln) in 6mth bills at high rate 4.220%, B/C 2.63x; Sells USD 84bln (exp. 80bln) in 3mth bills at high rate of 4.225%, B/C 2.81x
- US sold USD 51bln (exp. 48bln) in 1yr bills at high rate 4.05%, B/C 3.03x; sold USD 80bln (exp. 80bln) 6wk bills at high rate of 4.270%, B/C 2.49x

STIRS/OPERATIONS:

- Market Implied Fed Rate Cut Pricing: March 1bps (prev. 1bps), May 4bps (prev. 5bps), June 13bps (prev. 15bps), Dec 36bps (prev. 40bps)
- NY Fed RRP op demand at USD 77.8bln (prev. 58.8bln) across 27 counterparties (prev. 22)
- SOFR at 4.33% (prev. 4.33%), volumes at USD 2.319tln (prev. 2.329tln).
- EFFR at 4.33% (prev. 4.33%), volumes at USD 91bln (prev. 94bln).

CRUDE

WTI (H5) SETTLED USD 1.11 HIGHER AT 71.85/BBL (VS FRI. SETTLE); BRENT (J5) SETTLED USD 0.62 HIGHER AT 75.84/BBL (VS MON SETTLE)

The crude complex was firmer, with WTI notching up greater gains than Brent on account of no settlement on Monday due to US Presidents' Day holiday. Nonetheless, newsflow on Tuesday centred around Russia and Ukraine, as high level delegations from the US and Russia met in Riyadh, Saudi Arabia. Following the meeting, Russia Sovereign Wealth Fund Chief stated talks were positive, and re. results of US-Russia talks, it is too early to talk about compromises but the sides started listening to each other. A Russian aide added Russia and US negotiations went well with the Foreign Minister stated he can say today's talks were "not unsuccessful. In wake of the readout, Ukrainian President Zelenskyy said his visit to Saudi Arabia has been postponed until March 10th, with sources adding it was in order to not give legitimacy to US-Russia meeting in Riyadh. NBC sources reported that as US and Russia President Putin negotiate, intel reportedly shows Putin is not interested 'in a real peace deal', and "he is going through the motions, and still thinks he can eventually control all of Ukraine". On the supply side, Russia's Transneft stated reduction of oil pumping volumes from Kazakhstan via CPC are estimated at around 30%, and consequences of the drone strike will take 1.5-2 months to eliminate. WTI and Brent saw lows of USD 70.12/bbl and 74.90/bbl, respectively, against later highs of 72.07 and 76.07. Note, private inventory data is delayed a day to the aforementioned US market holiday.

EQUITIES

CLOSES: SPX +0.24% at 6,129, NDX +0.23% at 22,164, DJI +0.02% at 44,556, RUT +0.50% at 2,291.

SECTORS: Energy +1.37%, Materials +1.23%, Utilities +0.94%, Industrials +0.77%, Financials +0.77%, Technology +0.55%, Real Estate +0.4%, Consumer Staples +0.12%, Health -0.26%, Consumer Discretionary -0.52%, Communication Services -1.26%.

EUROPEAN CLOSES: DAX: +0.29% at 22,863, FTSE 100: -0.01% at 8,767, CAC 40: +0.21% at 8,207, Euro Stoxx 50: +0.26% at 5,534, AEX: -0.16% at 947, IBEX 35: +0.99% at 13,146, FTSE MIB: +0.59% at 38,554, SMI: +0.12% at 12,893, PSI: +0.97% at 6,688.

EARNINGS

- **Conagra Brands (CAG):** Lowered FY profit and operating margin guidance amid supply constraints.
- **Vulcan Materials (VMC):** Lifted quarterly dividend by 7% to USD 0.49/shr.
- **Medtronic (MDT):** Revenue missed
- **Genuine Parts Co (GPC):** Profit and revenue surpassed forecasts while profit guidance fell short.

STOCK SPECIFICS

- **Intel (INTC): Broadcom (AVGO) and TSMC (TSM)** reportedly considering separate deals that could split Intel.
- **Apple (AAPL):** Cos. AI-powered Siri overhaul faces software bugs & engineering issues, potentially delaying some features initially planned for April until May or later.
- **Alibaba (BABA):** Reports of a meeting between Jack Ma & Chinese President Xi Jinping.
- **United Rentals (URI):** Will no longer pursue the acquisition of **H&E Equipment Services (HEES)**.
- **Delta Airlines (DAL):** DAL flight crashes when it lands in Canada at the Pearson Toronto airport, all passengers survived.
- **Southwest Airlines (LUV):** Cutting over 1,750 corporate jobs (~15% of such roles) in its first large-scale layoff to reduce costs.
- **JetBlue (JBLU) and Frontier (ULCC)** rally on LUV takeover speculation.
- **Diamondback Energy (FANG):** Said it would buy certain units of energy producer Double Eagle in a cash-&-stock deal for ~USD 4.08bln.
- **Charles Schwab (SCHW):** Upgraded at TD Cowen to 'Buy' from 'Hold' believing Schwab is entering "a far more harmonious phase" under new leadership that can drive better fundamentals, reduce earnings disappointment risk and drive "disproportionate" EPS growth vs. the market.
- **Lyft (LYFT):** Downgraded to 'Sell' from 'Neutral' at Arete; believes Uber is forcing to "sacrifice" margins in order to maintain growth,

- expecting Lyft to rescind its mid-term gross bookings growth target.
- **Defence names (LMT, RTX)**: Taiwan is considering multi-billion Dollar weapons purchase from US, according to Reuters sources; arms purchase could be between USD 7-10bln.
- **Gilead (GILD)**: Announced that the FDA has accepted its new drug application submissions for lenacapavir.
- **General Mills (GIS)**: CEO said Co. is targeting GLP-1 consumers this year.
- **Walgreens (WBA)**: CNBC's Faber said there are signs of life for a possible WBA deal.
- **Amazon (AMZN)**: shuts down TikTok-like shopping feed, according to The Information.
- **Kraft Heinz (KHC)**: Exec notes expect gross margin to be more pressured in H1 of 2025 before recovery in H2.
- **Ford (F)**: To cut stock bonuses for about 50% of middle managers, according to Reuters citing sources
- **Fiverr (FVRR)**: Unveils AI platform Fiverr Go.
- Silver Lake reportedly near a deal for stake in **Intel's (INTC)** Altera, according to Bloomberg.

13F's:

- Berkshire buys STZ and exits ULTA; Starboard raises stake in KVUE but reduced CRM. [To see the full Quarterly 13 F's, please click here.](#)

US FX WRAP

The Dollar was firmer on Tuesday, with headline newsflow dominated by US and Russia having a high level meeting regarding Ukraine. Waller was the Fed highlight, where he said the recent CPI reading was disappointing but may be the result of seasonal adjustment issues and it is appropriate to keep rates on hold for now. Daly (2027 voter) when asked if there will be more rate cuts this year, said the world is uncertain and policy remains restrictive, noting she wants more confidence inflation is returning to target. Attention this week turns to FOMC Minutes (Wed) and Flash PMIs (Fri). DXY hit a high of 107.120, against an earlier low of 106.710.

G10FX was exclusively lower against the Greenback, albeit to varying degrees, with CAD and AUD only slightly worse than flat. CAD was supported by firmer oil prices and got brief support from Canadian inflation data, which was more-or-less in line but the BoC eyed average ticked up. AUD initially gained in wake of the cautious cut from the RBA overnight, accompanied by Governor Bullock suggesting that further rate cuts implied by markets are not guaranteed. Markets sees a 96% chance of a 25bps cut in July with a total of 41bps of easing seen by year-end. For its Antipodean counterpart the Kiwi, it was the G10 laggard ahead of RBNZ whereby the central bank is widely expected to cut by another 50bps cut. In addition, the latest RBNZ Survey showed 1yr, 2yr, and 5yr household inflation expectations tick higher.

GBP saw losses, but did see initial support in wake of the latest UK employment data. Recapping, more jobs were added than expected, while ex-bonus wages lifting from the prior as expected while the figure incl. bonuses came in marginally hotter than expected at 6%. Although, we later heard from BoE Governor Bailey, who said he is yet to see anything in the data that fundamentally changes the view of the BoE's outlook. Cable hit a high of 1.2625 against an earlier low of 1.2583.

JPY saw slight losses, but USD/JPY briefly managed to reclaim 152.00 from lows of 151.24. Over the weekend, Japanese GDP was much stronger than expected, while BoJ Governor Ueda said that the Bank is aware of views that guidance was not clear enough.

In Europe, attention remains on discussions between European leaders over the Russia-Ukraine conflict with US and Russia having a high level meeting today. Elsewhere, comments from ECB arch-hawk Holzmann have been largely dismissed given that he doesn't represent anything close to the consensus on the Governing Council. From a data perspective, German ZEW report topped Wall St. expectations but failed to garner any reaction.

EMFX was mixed, BRL and COP saw gains vs. the Dollar, while CLP and MXN were flat. BRL was supported after Brazil announced a new 10yr USD-denominated sovereign bond. COP was buoyed by crude prices while CLP was flat despite weak copper prices and Dollar strength. Elsewhere, for the INR overnight, Reuters reported that the RBI is likely selling dollars to limit rupee depreciation, according to traders cited by Reuters.

Scandis were mixed with NOK posting losses against the Euro while SEK saw mild gains. Swedish CPI was broadly in line with expectations but the Y/Y print was slightly soft at 0.9%.

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