

Stocks plummet and bonds rally on opex after soft US data and fresh COVID fears

- **SNAPSHOT:** Equities down, Treasuries up, Crude down, Dollar up
- **REAR VIEW:** Soft US PMIs; Weak UoM revisions; Existing home sales miss; Reports circulate of potentially pandemic strength coronavirus in China; Trump reiterates tariff threats; US asks for Kurdish oil exports to resume; Soft France and EZ Services PMIs, Germany Manufacturing beats; UK retail sales top expectations; Bessent expresses concerns with China; Japan inflation above forecast; Ueda signals readiness to buy bonds if yields rise too much; UNH faces DoJ probe.
- **COMING UP: Data:** German Ifo Expectations, US National Activity Index. **Speakers:** BoE's Lombardelli, Pill, Ramsden, Dhingra; BoC's Gravelle. **Supply:** Australia, EU, US. **Earnings:** Domino's Pizza, Him & Hers, Riot Platforms, Tempus AI, Cleveland Cliffs, Zoom.
- **WEEK AHEAD:** Highlights include RBA, RBNZ, FOMC Minutes, PMIs, Canada, UK and Japan inflation. [To download the full report, please click here.](#)
- **CENTRAL BANK WEEKLY:** Previewing PBoC MLF, BoK, ECB Minutes; Reviewing RBA, RBNZ, PBoC LPR and FOMC Minutes. [To download the full report, please click here.](#)

MARKET WRAP

Stocks tumbled on OpEx Friday while T-notes rallied across the curve. Stocks started to sell from the US morning, with the ongoing deterioration of Ukraine relations with the US and Russia and lingering tariff deadlines weighed in the background, but the drivers today focused on weak US PMI data and reports of a potentially pandemic inducing Coronavirus being found in China. On the data, the composite fell, primarily due to a sharp drop in the Services PMI into contractionary territory, printing a 25 month low, while manufacturing was in line with expectations. The sharp miss in the services number weighed on stocks and saw upside in T-notes with the buck coming off highs. Commentary in the report was also dire (see below). The Final UoM data for February was revised lower, beneath all analyst expectations, while inflation expectations were unchanged on the 1yr but ticked up on the 5yr. Upside in T-notes and downside in stocks extended in later trade with reports circulating of a powerful enough coronavirus to spread through Humans, which has the potential to trigger a pandemic. Elsewhere, crude prices were weighed on reports that Russia could concede USD 300bln sovereign assets frozen by the West be used for Ukraine reconstruction, via Reuters citing Russian sources. Reuters also reported the US has asked Iraq to resume Kurdish oil exports quickly, or face sanctions alongside Iran, noting the US believes Kurdish oil sales can help to lower oil prices and offset a drop in Iranian supplies. COVID fears also hit, seeing benchmarks settle at lows. In FX, the Yen saw notable outperformance while the Dollar was also bid. The lower UST yields supported the Yen, seeing USD/JPY hit lows of 148.93, down from the highs of 150.73 seen after BoJ Governor Ueda signalled a BoJ willingness to increase bond buys if yields rise too much, which followed after hot Japanese inflation data. Note, although there were a lot of driving factors in markets today, option expiries likely increased volume somewhat.

US

US PMI: The Flash S&P Global PMI data for February saw the manufacturing print inline at 51.6, up from 51.2, while the services PMI tumbled to a 25 month low (49.7, prev. 52.9), entering contractionary territory. This saw the composite fall to 50.4 from 52.7. The report noted that "The upbeat mood seen among US businesses at the start of the year has evaporated, replaced with a darkening picture of heightened uncertainty, stalling business activity and rising prices". Meanwhile, looking ahead - optimism slumped from 3yr highs at the turn of the year, to one of the gloomiest since the pandemic. "Companies report widespread concerns about the impact of federal government policies, ranging from spending cuts to tariffs and geopolitical developments. Sales are reportedly being hit by the uncertainty caused by the changing political landscape, and prices are rising amid tariff-related price hikes from suppliers." It added that although inflationary pressures remain muted, this reflected a squeezing of margins in the services sector as companies sought to absorb cost increases in order to offer competitive prices amid weakened demand. S&P Global adds that "A concern is the sharp, tariff-related, jump in manufacturing input prices, which will likely either put further upward pressure on inflation in the coming months or further squeeze profit margins among US companies". In terms of GDP, Pantheon Macroeconomics suggest that "Uncertainty over the severity of federal spending cuts and tariffs has led to a sudden stop in decision-making, likely weighing materially on GDP growth in Q1."

MICHIGAN: The University of Michigan headline sentiment fell to 64.7 from 67.8, and beneath the bottom end of the forecast range, 65.0, with the decrease unanimous across groups by age, income, and wealth. Conditions and Expectations also dropped, printing 65.7 (exp. 68.7) and 64.0 (prev. 67.3), respectively. The report adds that all five index components deteriorated this month, led by a 19% plunge in buying conditions for durables, in large part due to fears that tariff-induced price increases are imminent. In addition, the report adds, expectations for personal finances and the short-run economic outlook both declined almost 10% in Feb., while the long-run economic outlook fell back about 6% to its lowest reading since November 2023. 1yr inflation expectation remained at 4.3%, while the longer-term 5yr lifted to 3.5% from 3.3%, as they rose for Independents and Democrats alike, but fell slightly for Republicans.

EXISTING HOME SALES: Existing Home Sales fell 4.9% in December to 4.08m (rev. 4.29m), beneath the expected 4.08m. Diving deeper, the median existing-home sales price rose 4.8% from January to USD 396,900, while the inventory of unsold existing homes grew 3.5% from the M/M to 1.18 million at the end of January, or the equivalent of 3.5 months' supply (prev. 3.3 months) at the current monthly sales pace. On market dynamics, NAR Chief Economist Yun noted "Mortgage rates have refused to budge for several months despite multiple rounds of short-term interest rate cuts by the Federal Reserve," "When combined with elevated home prices, housing affordability remains a major challenge". Ahead, Pantheon Macroeconomics notes the prospects for home sales further ahead are also far from bright: a lack of supply likely will remain a key issue.

FIXED INCOME

T-NOTE FUTURES (H5) SETTLED 16+ TICKS HIGHER AT 109-22

T-notes rally on BoJ commentary, soft PMI data and reports of new COVID strain in China on OpEx day. At settlement, 2s -7.4bps at 4.192%, 3s -7.9bps at 4.195%, 5s -8.7bps at 4.255%, 7s -8.4bps at 4.338%, 10s -8.5bps at 4.414%, 20s -7.7bps at 4.695%, 30s -7.4bps at 4.664%

INFLATION BREAKEVENS: 5yr BEI -5.5bps at 2.563%, 10yr BEI -4.3bps at 2.427%, 30yr BEI -6.1bps at 2.326%

THE DAY: T-notes saw mild upside overnight which extended in the European morning to a peak of 109-11+ before paring as US Players arrived. The upside overnight was supported by commentary from BoJ Governor Ueda, noting if markets make abnormal moves, the BoJ stands ready to respond nimbly, such as through market operations - sending a signal the BoJ is ready to increase bond buying if yields rise. Meanwhile, highs in the European morning were seen after weak French PMI data, albeit pared on better German numbers, seeing the EU data relatively in line with expectations. Upside resumed after the US data, with a big miss in the S&P Global Services PMI the driver, the manufacturing print was in line but the composite fell due to the big drop in services, which slipped into contractionary territory, printing a 25 month low. Gains were continued to be supported on further soft US data, with UoM Sentiment Final unexpectedly revised lower with Conditions and Expectations seeing downward revisions while the 5yr inflation expectations ticked higher to 3.5% from 3.3%. T-notes extended the bid in later trade, seemingly boosted by reports in the Daily Mail that a new coronavirus with pandemic potential has been discovered in China, according to the Daily Mail, seeing T-notes hit highs of 109-24, settling at highs.

SUPPLY

Coming up

- **US Treasury to sell USD 69bln in 2yr notes on February 24th; to settle February 28th.**
- USD 70bln in 5yr notes on February 25th; to settle February 28th.
- USD 44bln in 7yr notes on February 26th; to settle February 28th.
- USD 28bln of 2yr FRN on February 26th, to settle February 28th.
- USD 68bln of 26wk bills on February 24th; to settle February 27th.
- USD 76bln of 13wk bills on February 24th; to settle February 27th.
- USD 75bln of 6wk bills on February 25th; to settle February 27th.

STIRS/OPERATIONS:

- **Market Implied Fed Rate Cut Pricing: March 1bps (prev. 1bps), May 8bps (prev. 6bps), June 20bps (prev. 15bps), Dec 48bps (prev. 39bps).**
- NY Fed RRP op demand at USD 69bln (prev. 63bln) across 24 counterparties (prev. 23)
- SOFR at 4.35% (prev. 4.37%), volumes at USD 2.394tln (prev. 2.319tln).
- EFFR at 4.33% (prev. 4.33%), volumes at USD 95bln (prev. 89bln).

CRUDE

WTI (J5) SETTLED USD 2.08 LOWER AT USD 70.40/BBL; BRENT (J5) SETTLED USD 2.05 LOWER AT USD 74.43/BBL

Crude prices were sold on Friday with both WTI and Brent settling at lows. WTI futures (J5) traded between USD 72.77 and 70.29/bbl, while Brent (J5) traded between 76.75 and 74.32/bbl. Crude sold off in the morning on account of Dollar strength, while perhaps some follow on reaction from the surprise builds seen in the delayed DoE report on Thursday. Meanwhile, there was some downbeat commentary in the Eurozone PMI data which noted "Economic output in the eurozone is barely moving at all. The somewhat milder recession in the manufacturing sector is only just being overcompensated for by the barely noticeable growth in the services sector". The downside extended in US trade after a dismal services PMI report. Geopolitics was also in focus, with weakness in crude seen on reports Russia could concede USD 300bln sovereign assets frozen by the West be used for Ukraine reconstruction, via Reuters citing Russian sources. However, Russia would insist in talks that part of the frozen assets be used in Russia-controlled Ukraine. Note, relations between the US and Ukraine continue to deteriorate, US President Trump said Ukraine has no cards to play with, and it is not important for them to be at peace talks, adding the US is negotiating with both Russia and Ukraine. Meanwhile, Reuters also reported the US has asked Iraq to resume Kurdish oil exports quickly, or face sanctions alongside Iran, noting the US believes Kurdish oil sales can help to lower oil prices and offset a drop in Iranian supplies. In the US, the latest Baker Hughes Rig Count saw oil rigs +7 at 488, Natgas -2 at 99, seeing the total +4 at 592.

EQUITIES

CLOSES: SPX -1.71% at 6,013, NDX -2.06% at 21,614, DJI -1.69% at 43,428, RUT -2.94% at 2,195

SECTORS: Consumer Discretionary -2.77%, Technology -2.45%, Industrials -2.23%, Energy -1.95%, Materials -1.80%, Communication Services -1.78%, Financials -1.18%, Real Estate -0.80%, Health -0.47%, Utilities -0.02%, Consumer Staples +1.00%.

EUROPEAN CLOSES: DAX: -0.12% at 22,288, FTSE 100: -0.04% at 8,659, CAC 40: +0.39% at 8,155, Euro Stoxx 50: +0.32% at 5,476, AEX: -0.11% at 938, IBEX 35: -0.12% at 12,952, FTSE MIB: +0.45% at 38,421, SMI: +1.00% at 12,937, PSI: +0.38% at 6,711.

EARNINGS

- **Bookings Holdings (BKNG):** Profit, revenue, and quarterly bookings beat.
- **Rivian Automotive (RIVN):** FY25 vehicle deliveries outlook disappointed; Downgraded at Cantor.
- **Akamai Technologies (AKAM):** Next quarter & FY guidance underwhelmed.
- **Five9 (FIVN):** Top and bottom line surpassed expectations.
- **MercadoLibre (MELI):** Net profit surged above expected & revenue also topped.
- **Celsius Holdings (CELH):** Adj. EPS & rev. top; To acquire Alani Nutrition for USD 1.8bln.
- **Block (XYZ):** Profit and revenue fell short.

STOCK SPECIFICS

- **UnitedHealth Group (UNH):** DoJ launched probe into UNH's Medicare billing practices. UnitedHealth responded, saying it's not aware of "launch" of any "new" activity on Medicare advantage as reported.
- **Prologis (PLD):** Raised annualised dividend by 5% to USD 4.04/shr.
- **Meta (META):** Trimmed employee stock awards by ~10% to prioritise AI investment.
- FDA declares Wegovy and Ozempic shortage is over and that **Novo Nordisk (NVO)** is fully meeting or exceeding nationwide demand for all doses.
- OpenAI is beginning to shift its alliances from **Microsoft (MSFT)** to **Softbank (SFTBY)**; it also boosted growth expectations as it raises more cash from investors, according to The Information.
- Alphabet's **Google (GOOG)** is to be hit with EU charges of infringing the DSA, according to Reuters sources.

US FX WRAP

The Dollar clawed back some of Thursday's weakness which was weighed from optimistic commentary from US President Trump on a trade deal with China, softer US data, and lower US yields in the background of Treasury Secretary Bessent's remarks. That said, Bessent on Friday, voiced caution of China's practices, expressing serious concerns in a call with Chinese VP about its "counternarcotics efforts, economic imbalances and unfair practices". Behind Dollar DXY's Friday rebound was likely a return to the US tariff story with both Trump reiterating 25% tariffs on cars (effective April 2nd) and the delays to US tariffs on Mexico and Canada coming closer into view (March 4th). Additionally, optimism behind a peace deal between Ukraine and Russia continues to fade, with Trump telling Fox that it's not important for Ukraine President Zelensky to be at peace meetings. Data in the US was met with initial dollar softness with S&P Global Flash Svs PMI unexpectedly dipping into contractionary territory for the first time in two years, while Mfg rose slightly more into expansionary territory than forecasts. Also coming in soft were the final UoM revisions, whereby sentiment was unexpectedly revised lower, to its lowest level since November 2023, with both conditions and expectations revised lower, and 5yr inflation expectations revised up. Nevertheless, DXY's move lower on the data, was short lived, with the index returning to pre-announcement levels around the 106.60 mark. The highlight for the week ahead, will be the PCE report on Friday, GDP 2nd Est (Q4) and Durable Goods on Thursday, and both trade relations with the US and its counterparts, as well talks between US/Ukraine/Russia.

In Europe, a series of S&P Global Flash PMIs were seen. Regarding services, France (lowest reading since 2023), EZ, and Germany missed, while the UK beat. Concerning manufacturing, beats were visible in Germany and the EZ, while the UK beat and France came in line with expectations. Further on the UK, Retail Sales saw their biggest rise since May 2024, 1.7% (exp. 0.3%, prev. -0.6%), limiting **GBP** downside. Meanwhile, the **Euro** was slightly worse off than Pound to end the week with EUR/GBP setting fresh February lows of 0.8265. The miss in French Svs PMI outweighed the relief caused by Germany's Mfg PMI beat, with the later EZ mixed PMI report accompanied by the statement "Economic output in the eurozone is barely moving at all". Heading into the weekend, focus is on Sunday's German election. [For a Newsquawk Preview of the German election and the possible reactions that may happen, please click here.](#)

The Yen saw a volatile day, residing as a G10 laggard in overnight trade as remarks from BoJ's Ueda after the January CPI report took the spotlight. National CPI Y/Y was 4% in January (exp. 3.9), the highest price since January 2023. At first, USD/JPY saw losses, before later paring. Thereafter, BoJ's Ueda noted they stand ready to respond nimbly such as through market operations, to smooth market moves. Namely, the BoJ will respond to any abnormal upside in long-term rates with purchases of government bonds. USD/JPY hit overnight highs of 150.73. Upon the soft US data, and as such lower US yields across the curve, the narrowing rate differential supported the Yen's move higher, putting USD/JPY at lows of 148.93

Canada retail sales were strong, 2.5% (exp. 1.6%) the sharpest rise since May 2022, with all nine subsectors rising in December. **CAD** saw strength on the report, but aforementioned USD strength after PMIs and UoM was digested took the reins, with softer crude prices in the backdrop weighing. Moreover, BoC Governor Macklem hit the wires, issuing BoC model views on the economy if US tariffs are imposed. Specifically, exports would fall 8.5% in the year after tariffs took effect, output would fall almost 3% over two years, all but wiping out growth forecasts of 2025 and 2026.

EMFX: The EM space was mostly in the red, with Dollar seeing late-staged strength against, MXN and BRL into the weekend. On the former, tariff jitters were perhaps at play, while the latter saw losses on Brazil's Finance Minister Haddad noting the government will issue an executive order with extraordinary credit (amount to BRL 4bln) for agricultural financing plan "Plano Safra". Adding, it will accommodate this expense within the limits of the fiscal framework. On CEE, ING noted "We still believe that given the unclear direction of the Ukrainian negotiations, which will go through multiple phases from now on, we will see more mixed trading. This is likely to lead to some profit taking on the positioning built in the previous weeks, especially in HUF and PLN."

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