

Markets whipsaw to tariffs & US growth fears as attention turns to Trump address

- **SNAPSHOT:** Equities down, Treasuries steepen, Crude down, Dollar down
- **REAR VIEW:** US tariffs on Canada/Mexico/China go into effect; Canada/China retaliate with tariffs, Mexico to follow; Germany's Merz plans reform of debt brake & economy must be brought back on growth path, with credit financed special fund worth EUR 500bn; EU's von der Leyen says rearm Europe could mobilise close to EUR 800bn; German Bundesbank proposing increased govt borrowing capacity; Fed's Williams doesn't see the need to change the policy rate right now & watching UoM inflation expectations; TGT guidance disappoints.
- **COMING UP:** **Data:** Caixin Services PMI, Swiss CPI, US ADP National Employment, US Factory Orders, ISM Services. **Events:** President Trump State of Union Address, China Two-Sessions, Fed's Beige Book, BoE Treasury Select Hearing. **Speakers:** BoJ Governor Ueda, BoJ's Uchida, Bailey, Pill, Taylor and Greene. **Supply:** Australia, UK. **Earnings:** Telecom Italia, Bayer, Adidas, Sandoz, Abercrombie & Fitch, Foot Locker, Marvell.

MARKET WRAP

US indices closed largely in the red as they saw a notable sell-off into the close amid a chunky market imbalance, in what was a very choppy day of trade. Initially, on Tuesday, there was a significant risk-off sentiment which saw US equity futures and the crude complex heavily sold, with Treasuries bid, amid US growth concerns which was further exacerbated by a poor RCM/TIPP economic optimism print, and also the implementation of Trump tariffs on China/Mexico/Canada. Meanwhile, in the FX space, the Dollar was seeing losses and trading off of the US growth woes, which saw safe-haven FX (CHF, JPY) outperform. However, CAD, MXN, and CNH were sold as Trump tariffs took effect before China, Canadian PM Trudeau and Mexican President Sheinbaum all responded. Nonetheless, it was a very choppy day, Treasuries pared early US strength, as did CAD and MXN weakness, as risk sentiment reversed through the US afternoon, albeit not on a clear headline driver. On top of this, US equity futures also turned green, buoyed by the turn in sentiment, before the quick aforementioned sell-off into the close. In the FX space, EUR ended up as the G10 FX outperformer against the Buck and was buoyed following CDU leader Merz saying Germany plans reform of debt brake, and the economy must be brought back on a growth path, with credit financed special fund worth EUR 500bn. Continuing to highlight the reverse in sentiment, JPY closed the day flat after initial outperformance amid haven appeal amid the said growth concerns. Sectors closed exclusively in the red with Financials lagging, amid heavy selling in mega-cap names as potential known themes weighed in the space. Elsewhere, Fed's Williams doesn't see the need to change the rate policy right now and it's really hard to know what Fed will do with rates this year. On data, added worth watching UoM inflation expectations and NY Fed data thus far has shown more stable inflation expectations. Re. tariffs, stated will see some impact on inflation from them, and Fed Minutes on the balance sheet did not change ultimate goals. Overnight, all attention will be on President Trump's Congress address at 21:00EST, whereby Reuters sources said Trump has told advisers he wants to announce the Ukraine minerals deal during Tuesday's speech to Congress, cautioning that the deal had yet to be signed and the situation could change.

US

Fed's Williams (Vice Chair) doesn't see the need to change the rate policy rate right now, and added monetary policy is still restrictive and has the right balance right now. Albeit said it's really hard to know what the Fed will do with rates this year. On data, Williams said it's worth watching UoM inflation expectations data and on the US economy said it is in good place and the labour market has stabilised. Regarding inflation, the Vice Chair said it has been gradually easing and will see some impact on inflation from tariffs. Williams said talk of tariffs impacting how people thinking about near-term inflation. Moving onto the balance sheet, he noted the strategy has not changed and Fed Minutes on balance sheet did not change ultimate goals.

FIXED INCOME

T-NOTE (M5) SETTLED 5 TICKS LOWER AT 111-08

Treasuries steepen as trade wars with the US intensify. At settlement, 2s -3.3bps at 3.947%, 3s -1.9bps at 3.938%, 5s +0.4bps at 3.993%, 7s +1.6bps at 4.098%, 10s +2.4bps at 4.204%, 20s +4.7bps at 4.546%, 30s +5.0bps at 4.514%.

INFLATION BREAKEVENS: 5yr BEI +0.2bps at 2.535%, 10yr BEI -0.1bps at 2.365%, 30yr BEI +0.2bps at 2.252% .

THE DAY: Treasuries saw losses in EU trade as a massive 78k 10yr block at 111-19 (was 111-23 at the time) weighed, taking USTs to a then low of 111-13. However, buying picked up into the European session with T-Notes hitting highs of 112-01 as the US cash opened, seeing equities sold as fears over a deteriorating US economy increased following the US tariffs coming into effect on Canada/Mexico/China. The latest poor US data was RCM/TIPP's Optimism index which hit its lowest reading in five months. The short end's outperformance in the green highlighted the market's unease about the trade war between the US and its neighbours/China, with money market pricing at one point pricing 79bps (prev. 70bps yday) by year-end. Regarding Canada and China, they kept to their word on retaliatory tariffs against the US while sentiment around a US-Mexico deal has worsened, with President Sheinbaum noting they are responding with tariff and non-tariff measures, and will be announced on Sunday. As the US morning progressed, the risk-off trade hit a wall, with a risk-on mood seen across the market space for the remainder of the day with NDX and RUT turning green and T-Notes trundling to fresh session lows of 111-06+. Long-duration lagged in the red.

Separately, remarks from Germany's CDU leader Merz weighed. Merz announced a credit-financed special fund worth EUR 500bn, which led Bunds lower, which saw a readacross to USTs. On the Fed, Williams (Vice Chair) doesn't see the need to change the policy right now, noting of difficulty in the direction of monetary policy this year, adding the UoM's inflation expectations data is worth a watch. Highlights coming up include Trump's Congress address tonight as well as possible strengthening/cooperation with those tariffed (Canada/Mexico) given earlier remarks from Canadian PM Trudeau, "Will find new ways to cooperate with Mexico to deal with the tariffs".

SUPPLY

Sold USD 40bn of 12day CMBs at 4.260%, covered 3.84x; sold USD 70bn of 6-wk bills at 4.240%, covered 2.92x

Coming up

To sell USD 60bn of 17-wk bills on March 5th and to sell USD 75bn of 4-wk bills and USD 75bn of 8-wk bills on March 6th; all to settle March 11th

STIRS/OPERATIONS:

- **Market Implied Fed Rate Cut Pricing: March 2bps (prev. 2bps), May 12bps (prev. 11bps), June 29bps (prev. 27bps), Dec 73bps (prev. 70bps).**
- NY Fed RRP op demand at USD 135bn (prev. 120bn) across 36 counterparties (prev. 32)
- SOFR at 4.33% (prev. 4.39%), volumes at USD 2.636tn (prev. 2.684tn).
- EFFR at 4.33% (prev. 4.33%), volumes at USD 110bn (prev. 95bn).

CRUDE

WTI (J5) SETTLED USD 0.11 LOWER AT 68.26/BBL; BRENT (K5) SETTLED USD 0.58 LOWER AT 71.04/BBL

The crude complex was lower, albeit settling way off lows, as it continued to be weighed on by Monday's OPEC+ decision to go ahead with April's output hike and initial risk off sentiment. WTI and Brent were in the red throughout the EU/US session as in addition to OPEC report, the risk-averse sentiment weighed - focus remains around tariff developments and US growth woes, once again highlighted by a poor RCM/TIPP economic optimism index. On the former, US went ahead with implementation of tariffs on China, Mexico, and Canada with some response from the nations. Meanwhile, US and Ukraine relations continue to tread a fine line, although Reuters sources reports that US and Ukraine plan to sign minerals deal, and Trump has told advisers he wants to announce it during Tuesday's speech to Congress, which is scheduled for 21:00EST. However, as risk sentiment saw a turnaround in the US afternoon, shown by US equity futures turning green, benchmarks pared some losses to settle at highs, with WTI and Brent well off their earlier troughs of USD 66.77/bbl and 69.75/bbl, respectively. Ahead, Trump's aforementioned State of the Union is the highlight but before then do get the weekly private inventory data, whereby current expectations are (bbls): Crude +0.3mln, Distillate +0.2mln, Gasoline -0.4mln.

EQUITIES

CLOSES: SPX -1.22% at 5,778, NDX -0.36% at 20,353, DJI -1.55% at 42,521, RUT -1.08% at 2,080

SECTORS: Financials -3.54%, Industrials -1.96%, Consumer Staples -1.78%, Utilities -1.71%, Consumer Discretionary -1.67%, Materials -1.38%, Real Estate -1.21%, Health -0.93%, Energy -0.86%, Communication Services -0.4%, Technology +0.01%.

EUROPEAN CLOSES: DAX: -3.53% at 22,329, FTSE 100: -1.27% at 8,759, CAC 40: -1.85% at 8,048, Euro Stoxx 50: -2.58% at 5,397, AEX: -1.76% at 914, IBEX 35: -2.60% at 13,026, FTSE MIB: -3.41% at 37,736, SMI: -1.24% at 13,021, PSI: -1.64% at 6,700.

STOCK SPECIFICS:

- **Illumina (ILMN):** China has banned the import of ILMN's gene-sequencing machines in retaliation for US doubling tariffs on Chinese goods
- **Tesla (TSLA):** China-made EVs fell 28.7% in the first two months of 2025 Y/Y, with weak Feb. sales.
- **Target (TGT):** EPS and SSS beat; But revenue was light as was FY outlook with downbeat commentary.
- **Walgreens Boots Alliance (WBA):** Nearing a USD 10bn deal with Sycamore Partners to go private.
- **On Holding (ONON):** Top and bottom line beat.
- **Amazon (AMZN):** Reportedly working on a new 'reasoning' AI model that competes with OpenAI and Anthropic
- **AutoZone (AZO):** EPS, revenue, and comp. sales missed
- **Best Buy (BBY):** EPS, revenue and comp. sales all topped; raised quarterly dividend 1%. Notes current guidance excludes uncertainty and China tariffs might reduce comp sales about 100bps.
- **Honeywell International (HON):** Confirmed it's to acquire Sundyne for USD 2.16bn
- **Okta (OKTA):** EPS and revenue beat with strong next quarter and FY guidance
- **American Express (AXP):** Raised quarterly dividend by 17%.
- **UnitedHealth (UNH):** Won favourable finding in Medicare fraud case, according to Bloomberg; special master recommended rejecting DoJ case seeking billions and Federal judge must make ruling on whether case moves forward.
- **Goldman Sachs (GS):** To cut about 3-5% of workforce and is to target VP's in next round of cuts, according to WSJ.
- **Citi (C):** CFO said good Q1 momentum in FICC and rates businesses; Q1 revenue up mid-single digits Y/Y in markets; Q1 investment-banking fees looking flat Y/Y. Buybacks speak to confidence in Citi earnings power. M&A pipeline 'looks pretty good.

The Dollar was weighed on by continued US growth concerns amid a series of soft US data, and this has been translated into money market pricing, with now 73bps of cuts priced in by year-end. The overnight implementation of US tariffs on China, Mexico, and Canada provided short-lived gains for the Greenback as participants remained focused on growth concerns. Continuing to highlight this was the RCM/TIPP economic optimism (Mar) which fell to 49.8 from 52.0, and way shy of the expected 53.1. Responses from Canada and China were generally as expected, with tariff countermeasures from both countries seen. On Canada's retaliatory measures, Trump notes the US's reciprocal tariff will immediately increase by a like amount. The influential Fed's Williams spoke, noting he doesn't see the need to change the rate policy right now and it's really hard to know what Fed will do with rates this year. On data, added worth watching UoM inflation expectations and NY Fed data thus far has shown more stable inflation expectations. Re. tariffs, stated will see some impact on inflation from them, and Fed Minutes on the balance sheet did not change ultimate goals. Overnight, all attention will be on President Trump's Congress address at 21:00EST. DXY hit a YTD trough of 105.74.

CAD and **MXN** were flat on Tuesday, whipsawing as they pared significant losses as the widely anticipated US tariffs which were implemented at midnight (US time) on Tuesday. Highlighting the reversal, CAD was the initial, and notable, G10 laggard but closed with marginal gains as the Dollar was hit hard. In response, Canadian PM Trudeau said Canada will be imposing 25% tariffs on US imports worth CAD 30bln with immediate effect and on a further CAD 125bln of US imports in 21 days' time. Meanwhile, Mexican President Sheinbaum said will be responding with tariff and non-tariff measures, and they will announce countermeasures against the US on Sunday. USD/CAD hit a peak of 1.4543, a level not seen since early Feb, while USD/MXN topped out at 21.00. Developments between Canada and Mexico will be watched, given Trudeau's earlier rhetoric, "Will find new ways to cooperate with Mexico to deal with the tariffs".

EUR gained for the second straight session amid potential prospects of increased European defence spending overshadowing concerns over the global trade war in which Europe is a clear target of the Trump administration. Through the day, European yields experienced another boost in early European trade after EU Commission President von der Leyen proposed a new instrument that will provide EUR 150bln of loans for defence spending. After EU players left the day, the move was further exacerbated, as CDU leader Merz said Germany plans reform of debt brake, and that the economy must be brought back on growth path, with credit financed special fund worth EUR 500bln. As such, EUR gained to see EUR/USD print a fresh YTD peak of 1.0623. Ahead, traders await ECB on Thursday which is expected to see the GC deliver another 25bps rate cut. Greater attention lies on whether policymakers will still view policy as restrictive.

GBP, **NZD**, and **AUD** all saw gains and were largely a function of broader risk as opposed to anything currency specific driver. Highlighting this, Antipodeans initially lagged on the cautious sentiment, and then performance improved through the US afternoon following the progress in risk tone, as shown by AUD/USD, NZD/USD, and Cable all residing at session highs of 0.6250, 0.5647, and 1.2793, respectively. Note, prior to the turnaround in US afternoon the Pound was already firmer against the Buck due to its lack of exposure to current tariff implementations, while Antipodeans were hit on China. For the record, RBA Minutes overnight stated the Board judged case to cut rates was, on balance, the stronger one although it agreed decision did not commit them to further cuts and members expressed caution about the prospect of further easing. Note, little reaction seen in wake of the Minutes.

Safe-haven FX, CHF and JPY, were initially G10 outperforms amid the aforementioned risk-aversion, but as it improved through the US session the Yen pared gains to settle flat vs. the Greenback and sit around 149.20 at pixel time.

EMFX was mixed, and largely underpinned by broader market moves absent of any currency-specific newsflow, aside from the tariff developments mentioned repeatedly above. However, NBH's new Governor is said to see no rate cut room due to a resurgence of inflation.

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