

### Stocks and yields rally while Dollar plummets on trade, data and German debt brake reform

- **SNAPSHOT:** Equities up, Treasuries down, Crude down, Dollar down
- **REAR VIEW:** US postpones auto tariffs on Canada and Mexico by 30 days; Trump not happy with Canada's progress on fentanyl; April 2nd reciprocal tariffs still going ahead; Trump open to more tariff exemptions; Strong ISM Services PMI; Weak ADP report; Zelensky to come back to negotiating table; Fed Beige Book shows overall economic activity rises slightly but consumer spending weakens; Larger-than-expected EIA crude stock build; China maintains growth target; Swiss CPI in line with SNB's Q1 forecast; ANF shares plummet on weak earnings.
- **COMING UP:** **Data:** Swedish CPI, EZ Retail Sales, US Initial Jobless Claims, Atlanta Fed GDPnow, Canadian Exports/Imports. **Events:** ECB & CBRT Policy Announcement; Special European Council regarding Ukraine and EU Defence, BoE DMP. **Speakers:** ECB President Lagarde, Fed's Waller, Bostic, Harker. **Supply:** Japan, Spain, France, US. **Earnings:** Deutsche Post, Merck, Lufthansa, Zalando, Reckitt, Admiral, Rentokil, Entain, Melrose, JD.com, Kroger, Broadcom, Costco, Gap.

### MARKET WRAP

Wednesday was a choppy session, but ultimately stocks ended up in the green with T-notes sold across the curve while the Dollar plummeted as the Euro rallied. The focus of the session was on US trade updates, the German Debt brake reform, and US data. On trade, following reports the US could dial back some tariffs on US and Canada if Trump was satisfied with progress on borders and fentanyl, the US decided to delay auto tariffs on Canada and Mexico by 30 days, although Trump told Canada's Trudeau that they have not done enough on fentanyl imports into the US, albeit progress on borders has been reasonable. The White House also noted that Trump is open to hearing about additional tariff exemptions, which helped lift stocks higher into the close. Elsewhere, US data saw a woeful ADP print ahead of the NFP report on Friday, while the ISM Services PMI beat expectations. The Fed Beige Book, compiled with info on or before Feb 24th, saw overall economic activity rise slightly since mid-January, but consumer spending was lower on balance (more below). In Europe, the reform of the debt brake drove price action with the DAX surging over 3.5% while the Euro rallied from a low of 1.0603 to 1.0791 with German bund yields rising the most in one day since the 1990s, [for a full Newsquawk analysis, please click here](#). In FX, the Euro saw notable outperformance on the debt brake reform, weighing on the Dollar, while Antipodes also outperformed on the Dollar weakness and ultimate upside in equities supporting the cyclical currencies. Crude prices tumbled regarding ongoing US consumer concerns hitting the demand side of the economy, with downside extending after OPEC+ earlier in the week agreed to proceed with the planned April output hike.

### GLOBAL

**US ISM SERVICES:** ISM Services surpassed expectations in February, as it printed 53.5 (exp. 52.6, prev. 52.8). Within the release, new orders and employment rose to 52.2 (prev. 51.3) and 53.9 (prev. 52.3), while business activity was more or less unchanged at 54.4 (prev. 54.5). The inflationary gauge of prices paid lifted to 62.6 from 60.4. Backlog of orders and inventories lifted back into expansionary territory, while new export orders printed 52.1 (prev. 50.0) and imports 49.6 (prev. 49.8). On the report, February was the third month in a row with all four sub-indices that directly factor into the Services PMI (Business Activity, New Orders, Employment and Supplier Deliveries) were in expansion territory, with the report noting the first time it has happened since May 2022. Nonetheless, anxiety continues over the potential impact of tariffs, as many of the respondents highlighted this, shown by one by the following: 1) "There is great uncertainty about future business activity due to the risk of tariffs and other potential government actions." 2) "Implementation of tariffs will have a significant cost impact to our projects." 3) "Tariffs are going to have a ripple down effect that could severely harm our business." Separately, some respondents also indicated that federal spending cuts are having negative impacts on their business forecasts. Do note, heading into the release ING noted, "in theory this services index should be less affected by tariff noise".

**US ADP:** The ADP's gauge of national employment, while lacking significant predictive power for the official jobs data, disappointed expectations, printing 77k against an expected 140k. The report noted that hiring slowed to the smallest level of gains since July, with trade and transportation, health care and education, and information technology showing job losses, and small business employment also fell. "Policy uncertainty and a slowdown in consumer spending might have led to layoffs or a slowdown in hiring last month," ADP said, "our data, combined with other recent indicators, suggests a hiring hesitancy among employers as they assess the economic climate ahead."

**ECB PREVIEW:** ECB policymakers are widely-expected to deliver another 25bps rate reduction. Greater emphasis by the market will be placed on whether the Governing Council still views policy as restrictive and what, if any, hints are given about plans for a potential pause in the rate-cutting cycle. Elsewhere, the accompanying macro projections will be scrutinised to see how inflation is expected to align with the ECB's 2% target. [To download the full report, please click here.](#)

### FIXED INCOME

T-NOTE (M5) FUTURED SETTLED 12 TICKS LOWER AT 110-28

T-notes chop to trade updates and US data but ultimately settle lower after ISM Services PMI beats while US delays auto tariffs on Canada and Mexico by 1 month. At settlement, 2s +3.3bps at 3.988%, 3s +4.8bps at 3.993%, 5s +5.9bps at 4.061%, 7s +6.4bps at 4.168%, 10s +5.9bps at 4.269%, 20s +5.0bps at 4.602%, 30s +4.7bps at 4.563%

**INFLATION BREAKEVENS:** 5yr BEI -0.3bps at 2.505%, 10yr BEI -1.3bps at 2.349%, 30yr BEI -0.8bps at 2.243%.

**THE DAY:** T-notes were choppy on Wednesday with lows seen overnight of 110-27 with a continuation of Tuesday trade seen in response to the German Debt brake reform and implementation of tariffs and retaliatory tariffs from China and Canada. Nonetheless, Commerce Secretary Lutnick had said that US President Trump may roll back Canada and Mexico tariffs, while sources suggested there will be a 30-day exemption to tariffs on autos, which was later confirmed by the White House. T-notes were choppy overnight and in the morning, peaking at 11-14+ after soft ADP data ahead of the ISM services print. The strong services PMI saw the upside completely pare with T-notes selling off across the curve but remaining steeper with the 10-year futures falling back to sub 111-00. T-notes pushed to fresh lows of 110-24 in wake of the Fed's Beige Book (compiled Feb 24th), which noted overall economic activity rose slightly since mid-January but consumer spending was lower on balance. Ahead of NFP, the Beige Book noted employment nudged slightly higher on balance with wages growing at a modest-to-moderate pace. Attention remains highly on trade updates but also key US data with NFP due on Friday, ahead of a speech by Fed Chair Powell before the FOMC blackout period before the March 19th meeting which will also see updated economic projections and dot plots.

## SUPPLY

- US Treasury sold USD 60bln (exp. 60bln) of 17wk bills at a high rate of 4.180%, B/C 3.42x.

## Coming up

- To sell USD 75bln of 8-wk bills on March 6th; to settle March 11th

## STIRS/OPERATIONS:

- **Market Implied Fed Rate Cut Pricing: March 2bps (prev. 2bps), May 11bps (prev. 12bps), June 26bps (prev. 29bps), Dec 70bps (prev. 73bps).**
- NY Fed RRP op demand at USD 139bln (prev. 135bln) across 31 counterparties (prev. 36)
- US Treasury Buyback (Liquidity support, Nominal coupons 10-20yr): Treasury bought USD 2bln (max USD 2bln) of USD 18bln offered; accepted 1 issue of 29 eligible.
- SOFR at 4.33% (prev. 4.33%), volumes at USD 2.562tln (prev. 2.636tln).
- EFRF at 4.33% (prev. 4.33%), volumes at USD 104bln (prev. 110bln).

## CRUDE

**WTI (J5) SETTLED USD 1.95 LOWER AT USD 66.31/BBL; BRENT (K5) SETTLED USD 1.74 LOWER AT USD 69.30/BBL**

The crude complex was lower amid choppy sentiment and tariff uncertainty, as a plunging Dollar, and China pledging to boost spending failed to lift prices. Benchmarks trundled lower throughout the day, and hit initial intra-day lows as Commerce Secretary Lutnick commented on potential tariff relief and President Trump being open minded if they (Mexico, Canada) can stop the flow ofentanyl. Despite crude specific newsflow light and tariff updates the major state of play, WTI and Brent fell to session troughs of USD 65.22/bbl and 68.33/bbl, respectively, after the weekly EIA data. In this, crude saw a larger build than expected, against the surprise draw in private inventory figures on Tuesday night, which weighed on the complex. Although, gasoline and distillates both saw a larger draw than expected, with weekly crude production rising 6k W/W. Although, as risk sentiment improved through the US afternoon, benchmarks came off lows but still settled notably in the red. Ahead, participants continue to follow the updates of tariffs with paramount importance, as well as any changes in US/Ukraine/Russia relations.

## EQUITIES

**CLOSES:** SPX +1.11% at 5,843, NDX +1.36% at 20,628, DJI +1.14% at 43,007, RUT +1.02% at 2,101

**SECTORS:** Energy -1.51%, Utilities -0.68%, Consumer Staples +0.43%, Financials +0.62%, Health +1.00%, Real Estate +1.01%, Technology +1.39%, Communication Services +1.50%, Industrials +1.59%, Consumer Discretionary +1.75%, Materials +2.63%.

**EUROPEAN CLOSES:** DAX: +3.55% at 23,120, FTSE 100: -0.04% at 8,756, CAC 40: +1.56% at 8,174, Euro Stoxx 50: +1.85% at 5,497, AEX: -0.50% at 910, IBEX 35: +1.47% at 13,223, FTSE MIB: +2.08% at 38,519, SMI: +0.66% at 13,091, PSI: +0.49% at 6,733

## STOCK SPECIFICS:

- **Alphabet (GOOG):** Lobbying the DoJ to reconsider its push to break up the company.
- **Disney (DIS):** Cutting nearly 6% of staff at ABC News & Disney Entertainment Networks.
- **CrowdStrike (CRWD):** Light guidance due to weak cybersecurity spending.
- **Goldman Sachs (GS):** Set to begin its annual job cuts, aiming to reduce 3-5% of its staff.
- **Abercrombie & Fitch (ANF):** Dismal Q1 EPS guide.
- **Chip Names:** President Trump wants to end chip subsidies.
- **Dollar Tree (DLTR):** Stewart Glendinning to become CFO, effective March 30th; Jeff Davis to step down.
- **Adidas ADR (ADDYY):** FY op. profit guidance light, but did highlight that it has been gaining market share vs Nike.
- **AeroVironment (AVAV):** EPS & rev. missed; Cuts FY25 outlook.
- **Chimerix, Inc. (CMRX):** To be acquired by JAZZ for USD 8.55/shr; CMRX closed Tues. at USD 4.96/shr.
- **Kenvue (KVUE):** Settles proxy fight with activist Starboard, according to CNBC sources.

- **Campbell's (CPB):** Rev. light & weak FY guidance.
- **Big 3 Detroit automakers:** Commerce Secretary Lutnick speaking on tariffs, said they will be 25% although some could be left out, including autos and believes the big 3 (**GM, F, STLAM IM**) are compliant.
- **General Dynamics (GD):** Raised quarterly dividend to USD 1.50/shr (prev. 1.42)
- House GOP eyes Medicaid expansion moves, via Axios. Of note, for UNH and CNC.
- **Nvidia (NVDA):** Said despite strong Q4 Blackwell revenue, management said ongoing supply chain and product variant challenges (eg, GB 200), may influence future rollouts, via MS TMT conference.

## US FX WRAP

**The Dollar Index** slumped for a third consecutive day to levels last seen in November 2024 as recent soft dollar themes continued. Namely, EUR strength persisted on Germany's CDU leader Merz investment announcement on Tuesday, while US data again disappointed to the downside with the latest ADP report falling short of expectations (140k), as private businesses added just 77k jobs. On the contrary, ISM Services unexpectedly rose further into expansionary territory, hitting 53.5 (exp. 52.6, prev. 52.8) as growth in three subindexes outweighed a slight downturn in business activity. Some respondents indicated that federal spending cuts are heading negative impacts on their business forecasts. Short-lived Dollar upside was seen on the report. On trade, developments were mixed, on one hand, the US will give a one-month exemption on any autos coming through the USMCA, with US President Trump open to hearing about additional tariff exemptions. While Trump's reaction to his phone call with Canadian PM Trudeau wasn't as optimistic as many would have wanted, noting Trudeau's claimed progress on stopping fentanyl flow is not good enough. Money markets continue to price more than 70bps of Fed rate cuts by year-end. Into overnight trade, DXY sits just off session lows of 104.27, below its 200 DMA of 105.00. Much focus will be on the updated Atlanta Fed GDPnow (Q1) on Thursday, as it will take into account ISM services and international trade data. Currently, it forecasts a contraction of 2.8% after seeing GDP growth of 3.9% in early February.

**G10 FX** was largely in the green as the space was boosted by a tumbling USD. CHF was the exception, experiencing modest losses as the latest inflation metrics were in line with the SNB's projection of 0.3%. Note, EUR/CHF saw losses initially as inflation print was hotter than analysts forecasts. Top performers included the EUR, Antipodeans, and the SEK, with the latter being the hot play at the moment in terms of navigating the increase in EU investments and defence spending as well as positive updates regarding the Ukraine-Russia peace deal. Regarding geopolitics, Trump in his Congress address said he received a letter from Ukrainian President Zelensky saying he is ready to come to the table and Ukraine is ready to sign a minerals deal. Zelensky later echoed the remark of coming to the table.

**JPY** joined its peers in the green, though gains incurred were to a lesser extent as risk-on trade limits demand; USD/JPY sits ~148.80 into APAC trade. CAD gained for the second straight day of gains, supported by the delay of US tariffs on Canada and Mexico autos.

**The Euro's** recent surge showed no signs of stopping on Wednesday, as momentum persisted from Tuesday's updates out of Germany. Recapping measures announced by Merz, included a special EUR 500bln 10yr fund for infrastructure investments, changes to the debt brake to exempt defence spending of more than 1% of GDP, and a loosening of the regional balanced budget requirement and a new instrument to provide EUR 150bln of loans. Accompanying Euro strength, Germany's 10-year yields saw their biggest intraday rise since 1990s, putting the EUR:USD rate differential (US 10yr - DE 10yr) at 146.7bps its lowest level since September 2024.

**EM's** were almost entirely in the green vs the greenback, with the BRL and TRY the laggards. CEE FX had high demand, highlighted by strong gains in CZK, PLN, and HUF. Ahead, the focus is on MXN ahead of Mexican President Sheinbaum's call with Trump, which is expected to happen on Thursday morning.

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