US Market Wrap - 6th March 2025

Stocks slump on trade, growth and chip concerns

- **SNAPSHOT**: Equities down, Treasuries down, Crude flat, Dollar down
- **REAR VIEW**: Trump delays USMCA compliant tariffs until April 2nd; ECB cuts, says policy is becoming meaningfully less restrictive; Steel and Aluminium tariffs will not be modified; Waller does not see case for March cut; Jobless Claims fall, Challenger Layoffs surge; US Intl Trade sees wider deficit than forecast; Atlanta Fed GDPNow revised up, but still sees contraction; Bessent says US will shut down Iran oil sectors; US presses Ukraine for quick ceasefire to go with minerals deal; MRVL tumble as investors lofty expectations not met.
- **COMING UP**: **Data**: UK Halifax house prices, German Industrial Orders, French Trade Balance, EZ Employment (Final), US NFP, Canadian Jobs, Chinese Trade Balance **Events**: White House Crypto Summit **Speakers**: Fed's Powell, Bostic, Bowman, Williams, Kugler; ECB's Lagarde **Supply**: Australia.

MARKET WRAP

US indices closed notably lower, albeit slightly off lows, as the Nasdaq 100 lagged as chip names were hit on a disappointing Marvell (MRVL) (-20%) report. Nonethelesss, the narrative of the day surrounded the main two macro themes: tariffs and US growth concerns. There were an abundance of tariff updates (more details below), but in short President Trump signed an amendment to Mexico and Canada tariffs to make USMCA-compliant products exempt from levies until 2nd April. Meanwhile on the data footing, a hefty rise in Challenger layoffs, with a large chunk driven by Government cuts, reignited concerns surrounding US growth. Following the data, the latest Atlanta Fed GDPnow model forecasts Q1 at -2.4% (prev. -2.8%). As such, the Dollar was very choppy amid the aforementioned themes but is lower at pixel time, with haven FX (CHF, JPY) the clear gainers. Treasuries steepened and were choppy, but found some support amid haven appeal as stocks slumped. The crude complex saw two-way action but ultimately settled more-or-less flat as it continues to tackle macro fundamentals, as well as the Ukraine/US situation and US/Iran tensions. On Ukraine, Bloomberg sources said US is pressing Ukraine for quick ceasefire to go with the minerals deal, and Trump demands a tangible path to truce. On Iran, US Treasury Secretary Bessent said they are going to shut down Iran's oil sectors. Meanwhile, there was little move on Fed's Waller but he doesn't see a case for a March rate cut, noting the median of two 2025 rate cuts remains reasonable. He added he is seeing some signs of softer data and the Fed will have to respond to hard data. Ahead, all eyes on the US Jobs report on Friday and also a deluge of Fed speak with Chair Powell the highlight. Regarding NFP, Governor Waller stated anywhere between 80-110k is likely the breakeven point for the jobs market.

GLOBAL

TARIFFS/TRADE: US President Trump signed an amendment to Mexico and Canada tariffs to make USMCA-compliant products exempt from levies until 2nd April. However, Trump highlighted that some Canadian petroleum products are USMCA compliant, and some are not, and those that are not compliant will still be subject to a 10% tariff. The one-month exemptions to 25% tariffs on Mexico and Canada are going to cover all USMCA-covered goods and there is also a carve out for Canadian potash. Trump then stressed that this is temporary, and told automakers this is a short-term deal and not to come back on April 2nd. On metals, Trump noted that steel and aluminium tariffs will not be modified. Trump had also earlier agreed Mexico will not be required to pay tariffs on anything that falls under the USMCA agreement until 2nd April, while Mexican President Sheinbaum noted that with Mexico not charging tariffs to US imports, Trump's reciprocal tariffs should not apply from 2nd April. On the reciprocal tariffs set to come into effect 2nd April, Commerce Secretary Lutnick stated that his expectation is that the April 2nd reciprocal tariff rates start high and then start coming down. Meanwhile, US Treasury Secretary Bessent said Trump is open to negotiating on tariffs but not "if you want to be a numbskull like Justin Trudeau."

ECB: As expected, the ECB pulled the trigger on a 25bps reduction to the Deposit Rate, taking it to the upper limit of the estimated neutral range. Greater attention fell upon the Governing Council's decision to tweak its policy statement so that it reads "monetary policy is becoming meaningfully less restrictive" (prev. "monetary policy remains restrictive"). Elsewhere, the Bank opted to reiterate its data-dependent and meeting-by-meeting approach, whilst stating that it will not pre-commit to a specific policy path. For the accompanying macro projections, the headline 2025 inflation forecast was raised to 2.3% from 2.1%, 2026 held at 1.9% and 2027 trimmed to 2.0% from 2.1%. On the growth front, policymakers cut their 2025 and 2026 growth views whilst holding 2027 at 1.3%. At the follow-up press conference, President Lagarde remarked that the statement language tweak was not an innocuous change and word changes have meaning. She added that the ECB is now moving towards a more 'evolutionary approach'. With regards to the policy decision, all policymakers, with the exception of Austria's Holzmann (who abstained) backed the announcement. In terms of where the ECB goes from here, Lagarde suggested that the GC could cut again or pause its cutting cycle depending on the data. The fact that Lagarde classified the policy discussion as "lively" and "intense" suggests upcoming decisions will become more contentious. Overall, the ECB's policy path is an incredibly uncertain one with Lagarde suggesting that the Bank needs time to assess recent fiscal announcements from the EU and Germany, whilst also awaiting clarity on the Trump tariff regime. As such, policymakers appear to be buying for time before committing to their next move.

ECB SOURCES: In wake of the meeting, ECB sources hit, with Bloomberg reporting that officials see an April showdown on whether to cut rates again, similar to what Reuters reported. The Reuters sources affirmed there was a wide range of discussions at the ECB due to uncertainty ahead. It stated the chance of a cut in April (the next meeting) is growing and that the current rate of 2.5% is unlikely to be the bottom of the cycle. It also noted that there is a growing chance for a pause before rates continue lower. The key variables included trade policy, and whether the US imposed tariffs on EU, that would raise the chance of more cuts, but an EU retaliation would blur the picture, raising the risk of stagflation. The sources also acknowledged that if Germany were to push through with its proposed military and infrastructure plans, that would raise growth and inflation, making a cut in April less likely. Meanwhile, the sources also noted how the final wording of the ECB's new guidance that rates were "meaningfully less restrictive", was a compromise in the lead-up to the meeting, where some had wanted to maintain prior reference to policy, but others argued for removing that word. Looking ahead, a 25bps cut in April is priced at around 44% with a total of 43bps of loosening seen by year-end vs. circa 45bps pre-ECB.

FED

FED GOVERNOR WALLER (VOTER) said that monetary policy remains restrictive and that the Fed can cut rates for both positive and negative reasons. While he does not see a case for a rate cut in March, he acknowledged that cuts could come after the March FOMC meeting, with the median projection of two cuts in 2025 remaining reasonable. He emphasized that his policy views are data-driven rather than influenced by politics and that the Fed still needs more data to fully assess the economic outlook. On the labour markets, Waller noted that conditions now closely resemble pre-pandemic times, estimating that job growth in the range of 80-100k per month is likely the breakeven point for a stable labor market. He also observed some signs of softer economic data but stressed that the Fed must respond to hard data and is waiting to see if recent weakness in soft indicators translates into broader statistics. Regarding inflation and tariffs, Waller stated that not all tariffs are passed through to consumers, pointing to past Trump-era tariffs as relatively modest with minimal inflationary impact. However, he acknowledged that a 25% tariff would be very difficult for businesses to absorb. He remains particularly focused on market pricing of inflation expectations and noted that markets are not currently pricing in any serious long-term inflation.

FED'S HARKER (2026 VOTER) stated that while the economy generally looks okay, there are growing threats to its stability. He pointed to waning business and consumer confidence as a negative signal. Additionally, he expressed increasing concerns about factors that could threaten the dollar’s reserve status and warned that the decline in inflation pressures may be at risk. Harker also highlighted rising worries about the state of government deficits, adding to his broader concerns about economic stability.

POWELL PRIMER: Fed Chair Powell is expected to give remarks at 12:30EST/17:30GMT on Friday at The University of Chicago Booth School of Business 2025 US Monetary Policy Forum in New York. Given the Fed blackout period begins on Saturday, participants will be on the lookout to see if the Chair gives any final views or additional thoughts ahead of the Federal Reserve meeting on March 19th, which will also see an updated Summary of Economic Projections (SEPs), which will include the latest Fed dot plots. Since Powell last spoke (12th Feb), there has been a series of soft economic data which has notably raised growth concerns in the US, while there is continued uncertainty surrounding tariffs, which has also started to impact recent US data. The soft data has come via numerous forms (Consumer Confidence, ISM Mfg., Advanced goods trade balance, inflation expectations), which has seen the Atlanta Fed GDPnow Model forecast Q1 GDP at -2.8%. Note, Goldman analysts say their Q1 GDP tracker is still positive at +1.6% (as of March 4th) partly attributing huge downward revision in Atlanta Fed's GDPNow in recent days to gold imports, which BEA excludes from GDP calculations. Continuing to highlight the growth concerns, Refinitiv money market pricing now sees 71bps of Fed cuts by year-end, vs. 60bps seen last Thursday (26th Feb), although it has peaked at 81bps this week. To download the full report, please click here.

US DATA

US INTERNATIONAL TRADE: US international trade deficit in January rose 34% to USD 131.4bln from USD 98.1bln, and deeper than the expected USD 127.4bln. Exports lifted 1.2% to USD 269.8bln, while imports jumped 10% to USD 401.2bln as people continue to look to front-run tariffs and the uncertainty surrounding them. Capital Economics highlight the main contributor to the USD 36.2bln rise in goods imports was a USD 20.5bln jump in incoming shipments of finished metal shapes, as manufacturing firms rushed to beat new steel and aluminium tariffs. Inbound shipments of consumer goods (+USD 6.0bln) and capital goods (+USD 4.6bln) also rose strongly ahead of other country- and product-specific tariffs. Ahead, Capital Economics note with further tariff announcements due next month, including on reciprocal tariffs, that trend is unlikely to reverse much any time soon, suggesting the trade deficit will remain wide this quarter. Following the release of the data (and data earlier in the week), Atlanta Fed GDPNow Q1 model forecasts it at -2.4% vs. the previous estimate of -2.8%.

CHALLENGER LAYOFFS: Challenger layoffs soared to 172.017k in February, from 49.795k in January, in what was the biggest jump since July 2020. Looking at the breakdown, Government & DOGE accounted for 62.2k, a notable chunk of the headline, amid the widely known trimming down of positions from the Trump administration. Retail accounted for 39k, Tech 14.5k, Services and Consumer Products 13.8k, and Media and news cuts 1.5k. Companies hiring plans surged in February to 34,580. Entertainment/Leisure plans to hire 28,000 new workers, while Automotive announced 4,831 new workers this year. Within the report, Senior VP for Challenger, Gray & Christmas said "Private companies announced plans to shed thousands of jobs last month, particularly in Retail and Technology. With the impact of the DOGE actions, as well as cancelled Government contracts, fear of trade wars, and bankruptcies, job cuts soared in February."

JOBLESS CLAIMS: Initial jobless claims (w/e 1st March) fell to 221k from 242k, beneath the expected 235k and lowest analysts estimate of 225k. The seasonal factors had expected an increase of 25,158 (+11.4%) W/W. Claims filed by Federal government employees, that is those to be affected by recent DOGE layoffs, rose by 1,020 to 1,634. Note, claims filed by former federal workers are not included in the advanced initial claims count, unless they also used to hold a second job in the private sector. Data for claims made by former federal workers are reported separately and with a one-week lag. Continued claims (w/e 22nd Feb) rose more than expected to 1.897mln (exp. 1.88mln) from the prior downward revision of 1.855mln, with the 4wk claims average increasing to 224.25k from 224k. Pantheon Macroeconomics notes a big shift in the unemployment rate in February looks unlikely given the reference week is in February.

US UNIT LABOUR COST REVISIONS (Q4 24): Unit labor costs in the nonfarm business sector increased 2.2% in Q4 2024, down from the prelim 3.0% print, despite expectations for this to be left unchanged. This reflected a 3.8% increase in hourly compensation (prev. 4.2%), and a 1.5% increase in productivity. Nonfarm business sector labor productivity increased 1.5% in Q4

'24, which was revised up from 1.2% despite expectations for this to be unchanged. Output rose 2.4% (revised upwards from 2.3%) and hours worked increased 0.8% (revised down from 1.0%). The revision lower to Unit labour costs will be welcomed by the Fed, as hourly compensation was revised down while productivity was revised up.

NFP PREVIEW: US nonfarm payrolls are expected to show a moderate increase in February, with the unemployment rate holding steady. Wage growth is anticipated to slow, and average workweek hours may rise slightly. Labour market proxies have been mixed in February, with weekly initial and continuing claims data relatively unchanged between the January and February survey window, while the ADP's gauge of national employment disappointed expectations, printing below the analyst forecast range. The ISM surveys were mixed, with manufacturing employment falling into contractionary territory, though the services gauge saw employment remain in expansion for a fifth straight month. Meanwhile, the Conference Board's gauge of consumer confidence showed increased pessimism about job availability. In terms of Fed policy, the Fed remains cautious about signalling any fresh policy tilt, particularly as incoming US economic data weakens; market expectations are now tilting towards three Fed rate cuts in 2025, having discounted two just last week. To download the report, please click here.

FIXED INCOME

T-NOTE (M5) FUTURES SETTLE 2+ TICKS LOWER AT 110-25+

T-Notes chop to mixed labour market data, tariff updates and a sour risk sentiment ahead of NFP. At settlement, 2s -1.7bps at 3.969%, 3s -0.9bps at 3.981%, 5s +0.8bps at 4.066%, 7s +1.8bps at 4.184%, 10s +2.5bps at 4.292%, 20s +3.3bps at 4.631%, 30s +3.0bps at 4.589%.

INFLATION BREAKEVENS: 5yr BEI -2.0bps at 2.473%, 10yr BEI -0.1bps at 2.343%, 30yr BEI +1.5bps at 2.257%.

THE DAY: T-Notes chopped on Thursday to hit a peak of 110-30 in wake of a notable rise in Challenger layoff data, which showed 170k layoffs in February, the largest since July 2020. T-Notes started to reverse after the ECB and Jobless Claims data, which came in beneath expectations. The ECB cut rates by 25bps, as expected, but adjusted language to note that policy is becoming meaningfully less restrictive (prev. restrictive), with pressure from EGBs weighing on USTS to see a low of 110-12+. T-Notes then started to gradually move higher into settlement, supported by commentary from Commerce Secretary Lutnick that the delay on Canada/Mexico fentanyl tariffs will be more broad-based, and not just on autos - something that was later signed off on by US President Trump, although some Canada energy products do not comply with USCMA rules, therefore will still face a 10% tariff on some goods. Nonetheless, the 25% tariffs are still set to come into play on 2nd April, unless Trump is happy with progress on the border and fentanyl, while reciprocal tariffs will still be going ahead. The risk tone was sour on Thursday, with stocks continuing to slide, which gave a helping hand to USTs on its haven status. Meanwhile, Bessent and Lutnick continued to call for lower UST yields, with the latter alluding to a 2.5% rate. All eyes on the US Jobs report on Friday, where Fed Governor Waller stated anywhere between 80-110k is likely the breakeven point for the jobs market; he also noted the median of two 2025 rate cuts remains reasonable and he does not see a case for a March cut.

SUPPLY

- U.S. sold USD 75bln 4-week bills at high rate 4.230%, covered 3.00x; sold USD 75bln 8-week bills at high rate 4.220%, covered 3.02x

Coming up

- US Treasury to sell USD 58bln of 3yr notes on March 12th; to settle March 17th.
- USD 39bln of 10yr notes on March 10th; to settle March 17th.
- USD 22bln of 30yr bonds on March 13th (as expected); to settle March 17th.
- USD 70bln of 6-week bills on March 11th, to settle on March 13th.
- USD 76bln 13-week bills on March 10th, to settle on March 13th.
- USD 68bln 26-week bills on March 10th, to settle on March 13th.

STIRS/OPERATIONS:

- Market Implied Fed Rate Cut Pricing: March 3bps (2bps), May 14bps (prev. 11bps), June 32bps (prev. 26bps), Dec 74bps (prev. 70bps).
- NY Fed RRP op demand at USD 129bln (prev. 139bln) across 35 counterparties (prev. 31)
- SOFR at 4.34% (prev. 4.33%), volumes at USD 2.525tln (prev. 2.562tln).
- EFFR at 4.33% (prev. 4.33%), volumes at USD 112bln (prev. 104bln).

CRUDE

WTI (J5) SETTLES USD 0.05 HIGHER AT 66.36/BBL; BRENT (K5) SETTLES USD 0.16 HIGHER AT 69.46/BBL

The crude complex was choppy on Thursday and settled more-or-less flat as it continues to tackle tariff uncertainty, US growth concerns, economic data and geopolitics. As mentioned, WTI and Brent were choppy through the European morning, but saw notable downside from session peaks to session troughs of USD 65.59/bbl and 68.74/bbl, respectively as US Commerce Secretary Lutnick spoke on tariffs. He noted tariff reprieve [for Mexico/Canada] is not likely just about auto makers, it is likely to include all USMCA-covered products and the reprieve is for one month. Lutnick further added hopefully by April 2nd Mexico and Canada will have done enough on fentanyl that this part of the conversation is over, and it will just be about reciprocal tariffs. Nonetheless, benchmarks' pared off lows as US Treasury Secretary Bessent spoke about Iran, as he noted If he were an Iranian, he would get all of his money out of the Rial now and they are going to shut down Iran's oil sectors and drone manufacturing capabilities. On Ukraine, Bloomberg sources said US is pressing Ukraine for quick ceasefire to go with the minerals deal, and US President Trump demands a tangible path to truce. Ahead, participants await US jobs report on Friday and any update to Canadian tariffs after Trump confirmed that Mexico will not be required to pay Tariffs on anything that falls under the USMCA Agreement, noting this agreement is until April 2nd, when the reciprocal tariffs are enforced. Mexican President Sheinbaum however noted that with Mexico not charging tariffs to US imports, Trump's reciprocal tariffs shouldn't apply from April 2nd.

EQUITIES

- **CLOSES**: SPX -1.78% at 5,738, NDX -2.79% at 20,052, DJI -0.99% at 42,578, RUT -1.64% at 2,066
- **SECTORS**: Energy +0.50%, Consumer Staples -0.11%, Health -0.28%, Materials -0.53%, Industrials -0.92%, Financials -1.67%, Utilities -2.05%, Communication Services -2.17%, Technology -2.65%, Real Estate -2.78%, Consumer Discretionary -2.93%
- **EUROPEAN CLOSES**: DAX: +1.59% at 23,448, FTSE 100: -0.83% at 8,683, CAC 40: +0.29% at 8,198, Euro Stoxx 50: +0.18% at 5,507, AEX: +0.13% at 911, IBEX 35: +0.26% at 13,248, FTSE MIB: +0.68% at 38,780, SMI: -0.78% at 13,010, PSI: -0.64% at 6,690

STOCK SPECIFICS:

- **Macy's (M)**: Issued weak Q1 guidance and a revenue miss for the current quarter.
- **TSMC (TSM)**: Slightly adjusted its CoWoS capacity target for 2025 downward
- **Alphabet (GOOG)**: Launched a YouTube Premium Lite pilot in the US
- **Kroger (KR)**: Adj. net earnings per diluted share guidance disappointed. Current quarter metrics all beat (top/bottom lines & SSS). Started USD 5bln accelerated share repurchase programme
- **Big Tech**: President Trump is set to meet with CEOs from HPE, QCOM, INTC, & IBM next Monday
- **Nvidia (NVDA)**: Execs said despite strong Q4 Blackwell revenue, ongoing supply chain & product variant challenges (e.g. GB200), may influence future rollouts.
- **Marvell Technology (MRVL)**: Earnings report didn't live up to lofty investor expectations
- **MongoDB (MDB)**: Weak FY guidance.
- **Zscaler (ZS)**: EPS & revenue topped; Raised FY25 outlook
- **On Semiconductor (ON)** disclosed it made a USD 6.9bln for **Allegro MicroSystems (ALGM),** offering USD 35.10/shr; ALGM responded, calling the bid "inadequate"
- **Alibaba (BABA)**: Launched AI model.
- **Walmart (WMT)**: Walton Family Holdings Trust sold 2.82mln WMT shares worth USD 307.5mln, though retains a significant stake
- **Freeport-McMoRan (FCX)**: Upgraded to a 'Buy' from 'Hold' at Deutsche Bank on three main points: Material cash flow upside from potential US copper tariffs, large gold exposure and an attractive valuation.
- **Automakers**: US President Trump says there is no USMCA exemption for auto tariffs next month. Told automakers this is a short-term deal and told automakers not to come back on April 2nd.

US FX WRAP

The Dollar remained pressured on Thursday with major peer strength continuing to weigh. Dollar-specifics were mixed. On the tariff footing, the Dollar saw short-lived losses on updates from the US Commerce Secretary. "Hopefully by April 2nd Mexico and Canada will have done enough on fentanyl that this part of the conversation is over and it will just be about reciprocal tariff". Lutnick believes the reciprocal tariffs will start high and then start coming down. Later, US President Trump announced he reached an agreement to delay USMCA compliant tariffs on Canada and Mexico until April 2nd. Dollar saw a muted reaction. Regarding data, US employers announced 172k jobs cuts in Feb (prev. ~50k), its highest value since July 2020, with government jobs cut attributed ~62k to the print. For claims, they fell below expectations despite a rise in filings from federal government employees due to DOGE-related layoffs. Atlanta Fed GDPNow tracker estimates a 2.4% contraction (vs a 2.8% contraction on 3rd March) after incorporating the trade balance, ISM Services, auto sales, and wholesale trade. Attention will remain on the job market ahead, given the concerns over the job market and the miss in ADP earlier in the week. NFP on Friday is expected to unveil 160k jobs added to the US economy in February vs 143k in January.

G10FX again had a strong performance against the Dollar, albeit the recent SEK and EUR dominance took the backfoot. Havens (JPY, CHF) led gains as risk off-trade across the equities space helped. Further adding room for upside in Yen was Rengo, Japan's largest labour union, now seeking a wage hike of 6.09% for 2025 (prev. 5.85% in 2024). Money markets maintain their more aggressive pricing for upcoming BoJ hikes, with 35bps of hikes seen by year-end and the first fully priced in September (prev. Oct at week start); USD/JPY heads into US cash close ~ 147.75. For the Aussie and Pound, choppy trade was seen, with the former gaining marginally, while Cable was flat on the day as macro drivers remain light.

The Euro pared the majority of gains on the March ECB meeting, where policymakers agreed to a 25bps cut to the deposit rate to 2.5%. A tweak was seen in the statement, "monetary policy is becoming meaningfully less restrictive" (prev. monetary policy remains restrictive), with 2025 and 26 GDP forecasts being lowered. On the language tweak in the statement, President Lagarde said it's not an innocuous change and has meaning and on incoming data, remarked a flexible approach. Thereafter, ECB sources noted that the current 2.5% is unlikely to be the bottom of the cycle (upper end of the neutral rate forecasts) and if the US imposed tariffs on the EU, chances of more cuts are raised, potentially starting in April. EUR/USD heads into overnight trade at ~1.08 after earlier YTD highs of 1.0853.

EMFX was mixed. Yuan was flat, while ZAR, RUB, and COP firmed, BRL and HUF weakened. EMs were largely playing second fiddle to broader Dollar moves and global sentiment, rather than currency specific headlines. Despite saying this, Hungarian industrial output disappointed, and the CBRT cut by 250bps to 42.5%, as expected, and going forwards, said increased coordination of fiscal policy will also contribute to the process of price stability.