

### Stocks see slight relief on soft US CPI while bonds sold on latest tariff announcements

- **SNAPSHOT:** Equities up, Treasuries down, Crude up, Dollar up.
- **REAR VIEW:** US tariffs on steel/aluminium take effect with no exemptions, EUR & Canada announced incoming retaliatory tariffs; Soft US CPI; US Federal Budget widens more than expected; BoC cuts by 25bps, as expected; Putin likely to eventually agree to truce albeit with own terms; EIA crude stocks build less than anticipated; FTC moves ahead with MSFT antitrust probe.
- **COMING UP:** **Data:** EU Industrial Production, US Initial Jobless Claims, US PPI. **Events:** IEA OMR. **Speakers:** ECB's Lagarde, de Guindos. **Supply:** Italy, US. **Earnings:** Dollar General, DocuSign, Ulta Beauty, K+S, Hannover Re, Deutsche Bank, Halm.

### MARKET WRAP

US indices saw gains in a choppy day of trade, and it was ultimately boosted by a soft US CPI report quelling some recent US economic fears, although US growth concerns and tariff uncertainty continue to loom heavily in the background. Highlighting the slight reversal in risk sentiment today, was the mega-cap sectors, Technology, Communication Services, and Consumer Discretionary, with NVDA (+6.4%) and TSLA (+7.6%) seeing heavy gains. Back to data, US CPI was cooler than expected across the board, although the headline was largely weighed on by a 4% plunge in airline fares, but it won't feed through to the PCE. In reaction, markets saw a broad-based dovish reaction (Tsys upside, Dollar downside), but both Treasuries and the Dollar pared initial moves as focus swiftly went back to global trade, rather than CPI metrics as it was released a day after blanket tariffs imposed by the US. In FX, CAD outperformed in wake of BoC, whereby the bank lowered rates by 25bps, as widely expected, with Governor Macklem noting the BoC will be "proceeding carefully" when it comes to the policy path. Yen lagged amid yield differentials. In the energy space, crude saw gains as it was buoyed by a turnaround in recent risk sentiment as cooler-than-expected US CPI supported as well as bullish inventory data, although the aforementioned macro woes remain ever-present.

### NORTH AMERICA

**US CPI:** US CPI for February was cooler than expected across the board. Headline CPI M/M rose 0.2% or 0.216% unrounded (exp. 0.3%, prev. 0.5%), while Y/Y printed 2.8% (exp. 2.9%, prev. 3.0%). Core M/M came in at 0.2% or 0.227% unrounded, vs. the expected 0.3% and prior 0.4%. Core Y/Y printed 3.1% (exp. 3.2%, prev. 3.3%). The headline was largely weighed on by a 4.0% plunge in airline fares, which Pantheon Macroeconomics note subtracted 0.05pp, but also noted it will not feed through to the PCE report. On airline fares, PM notes they recently decoupled from underlying costs amid strong demand late last year, which unwound in February and PM doubts fares will rebound in March. The recent fall in consumers' confidence points to more cautious spending as well as a lot of airlines (JBU, AAL, LUV, UAL, DAL) cut guidance this week. Overall, PM still believes that core CPI inflation will be broadly unchanged from February's 3.1% rate at the end of this year, as the boost from tariffs will be broadly offset by a further decline in services inflation. As such, should enable the Fed to focus on supporting the ailing economy, easing by about 75bps over 2025. Ahead of PCE, Pantheon Macroeconomics provisionally forecasts that the core PCE deflator rose by 0.32% in February. Note, PPI which has a slew of inputs into PCE is due on Thursday. Overall, the US CPI report provided a brief bit of solace for traders amid the glum macro picture at the moment, but the focus quickly switched back to more important issues, such as US growth concerns and tariff uncertainty.

**BOC:** The BoC cut rates by 25bps in line with expectations, taking the target for the overnight rate to 2.75%, while Governor Macklem stated they will proceed carefully with any further changes to their policy rate, given the need to assess both upward pressures of inflation from higher costs and the downward pressures from weaker demand. The statement largely focused on tariffs. It said that heightened trade tensions and tariffs imposed by the US will likely slow the pace of economic activity and increase inflationary pressures in Canada, noting short-term inflation expectations have risen. It also noted how monetary policy cannot offset the impact of a trade war, but it must ensure that higher prices do not lead to ongoing inflation. It acknowledged that recent surveys suggest a sharp drop in consumer confidence and a slowdown in business spending as companies postpone or cancel investments. However, it also noted the negative impact of slowing domestic demand has been partially offset by a surge in exports in advance of tariffs being imposed. The BoC warned Q1 '25 growth will slow and there are warning signs that heightened trade tensions could disrupt the recovery in the labour market. It noted how wage growth has shown signs of moderation and they are closely watching inflation expectations. Overall, the BoC is in wait-and-see mode to see how the trade war plays out and how it will affect the Canadian economy with both upside and downside risks to inflation as a result of tariffs. In the Q&A, Governor Macklem also acknowledged the estimate of the neutral rate is largely centered around 2.75%, implying the BoC is now at the neutral level. Looking ahead, the next rate cut is not fully priced until June (was at July pre-BoC), with 43bps of easing priced throughout year-end, which fully prices one further rate cut, with a 72% probability of another (vs being fully priced pre-BoC).

### FIXED INCOME

**T-NOTE FUTURES (M5) SETTLED 6+ TICKS LOWER AT 110-20+**

**T-Notes fail to hold post soft CPI bid with focus on global trade.** At settlement, 2s +5.6bps at 3.997%, 3s +4.5bps at 3.991%, 5s +3.5bps at 4.077%, 7s +2.8bps at 4.198%, 10s +2.4bps at 4.312%, 20s +2.0bps at 4.660%, 30s +2.4bps at 4.627%.

**INFLATION BREAKEVENS:** 5yr BEI +2.7bps at 2.472%, 10yr BEI +2.1bps at 2.339%, 30yr BEI +2.0bps at 2.262%.

**THE DAY:** T-Notes saw a gradual bid overnight before selling off in the European morning and continuing to push lower ahead of US CPI, with an initial improvement in risk sentiment supporting the move. The softer-than-expected US CPI print saw T-Notes rally to fresh session highs, completely paring the morning weakness, hitting a peak of 111-07 but the move was short-lived and ultimately pared to 110-15+ with the focus on trade wars. With the steel and aluminium tariffs coming into effect today, both the EU and Canada announced retaliatory measures, with Trump vowing a response to the EU counter-tariffs. However, Commerce Secretary Lutnick was noting how they are looking to lower the temperature in talks with Canadian officials on Thursday. Elsewhere in Canada, the BoC cut rates by 25bps, as expected, while Macklem signalled a careful process ahead whilst they assess the impact of tariffs. T-Notes had pared from the lows into settlement with participants looking to the 10yr auction, which ultimately came in strong. Focus on Thursday lies on US PPI to help shape expectations for PCE, while the UoM inflation expectations will be eyed on Friday.

## SUPPLY

**10YR:** The US Treasury sold USD 39bln of 10yr notes at a high yield of 4.310%, stopping through the when issued by 0.5bps, an improvement vs the prior tail of 0.2bps and six auction average of a 0.1bps tail. The bid-to-cover ratio was also better than prior and averages at 2.59x. The breakdown saw a rise in indirect demand to 67.4%, albeit beneath the 68.8% average, while direct demand fell to 19.5% but remained above average. This left dealers with 13.1% of the auction, an improvement from the prior 15.6% and slightly better than the 13.8% average. US sold USD 60bln in 17wk bills at high rate of 4.175%, B/C 3.29x

## Coming up

- US Treasury to sell USD 22bln of 30yr bonds on March 13th; to settle March 17th.

## STIRS/OPERATIONS:

- **Market Implied Fed Rate Cut Pricing: March 0bps (prev. 1bps), May 8bps (prev. 11bps), June 24bps (prev. 29bps), Dec 69bps (prev. 76bps).**
- NY Fed RRP op demand at USD 131bln (prev. 137bln) across 35 counterparties (prev. 32)
- SOFR at 4.33% (prev. 4.34%), volumes at USD 2.502tln (prev. 2.505tln).
- EFR at 4.33% (prev. 4.33%), volumes at USD 97bln (prev. 105bln).

## CRUDE

**WTI (J5) SETTLED USD 1.43 HIGHER AT USD 67.88/BBL; BRENT (K5) SETTLED USD 1.39 HIGHER AT USD 70.95/BBL**

The crude complex saw gains as it was buoyed by a turnaround in recent risk sentiment as cooler-than-expected US CPI supported as well as bullish inventory data, although tariff and growth concerns loom. Once again, energy-specific catalysts were light and benchmarks were choppy through the EU morning amid tariff uncertainty and scepticism around Ukraine/Russia and the known macro themes. WTI and Brent hit a low of USD 66.15/bbl and 69.48/bbl, respectively. Thereafter, benchmarks bounced off the troughs and ground higher through the US session as the aforementioned soft US CPI supported sentiment, and offered a slight reprieve to recent concerns out of the US. Following that, benchmarks saw a further boost in wake of the weekly EIA data - crude saw a smaller build than expected, against Tuesday's larger-than-forecasted build, while both gasoline and distillates saw larger draws than Wall St. consensus. As such, the report could suggest stronger demand and support oil prices. Back to Ukraine/Russia, Zelensky repeated that the Jeddah meetings between US and Ukrainian officials are constructive and that Ukraine is ready to sign a framework minerals deal with the US. However, BBG later reported that "Putin says is likely to eventually agree to truce with own terms", echoing earlier comments from a Russian lawmaker that any potential ceasefire agreement will be under Moscow's terms and not those set by Washington. From the US, Trump later noted it is up to Russia now and have people going to Russia right now, and hopefully can get a ceasefire deal. Meanwhile, the OPEC MOMR was a non-event, with global oil demand growth forecasts for 2025 and 2026 remaining unchanged at 1.4mln BPD each. OPEC also maintained the language that "This robust oil demand growth is expected to continue in 2026". Ahead, the IEA OMR is due on Thursday.

## EQUITIES

**CLOSES:** SPX +0.49% at 5,599, NDX +1.13% at 19,596, DJI -0.20% at 41,351, RUT +0.14% at 2,026

**SECTORS:** Consumer Staples -2.02%, Health -1.02%, Materials -0.45%, Real Estate -0.38%, Utilities -0.37%, Industrials unch, Financials +0.20%, Energy +0.44%, Consumer Discretionary +1.02%, Communication Services +1.43%, Technology +1.56%.

**EUROPEAN CLOSES:** DAX: +1.52% at 22,668, FTSE 100: +0.53% at 8,541, CAC 40: +0.59% at 7,989, Euro Stoxx 50: +0.97% at 5,361, AEX: +1.07% at 899, IBEX 35: -0.73% at 12,784, FTSE MIB: +1.61% at 38,307, SMI: +1.57% at 12,874, PSI: +0.36% at 6,763.

## STOCK SPECIFICS:

- Goldman Sachs reduced its 2025 year-end S&P 500 target to 6,200 (prev. 6,500) citing a lower fair-value forward P/E multiple (20.6x vs. 21.5x).
- **TSMC (TSM):** Approached US chipmakers, **Nvidia (NVDA)**, **AMD (AMD)**, and **Broadcom (AVGO)** about investing in a JV to operate **Intel (INTC)** factories.
- **Verizon (VZ):** US DoT criticised Co. for slow progress on its USD 2.4bln FAA contract.
- **Casey's (CASY):** EPS & revenue beat.
- **Merck (MRK):** A federal judge ruled in favour of Merck in a safety lawsuit involving its Gardasil vaccine.
- **Inditex (IDEXY):** Reported a slower start to Q1 '25.
- **Walmart (WMT):** China summoned Walmart execs to express concerns re. tariff response.
- **Tesla (TSLA):** President Trump positive mentions.

- **HubSpot (HUBS):** Upgraded to 'Overweight' from 'Equal Weight' at Barclays, citing Cos. near-term benefit from a price increase, new core customer ramp, and easier compares.
- **PepsiCo (PEP):** Downgraded to 'Hold' from 'Buy' at Jefferies, noting Frito Lay continue to struggle, which will weigh on PEP's multiple.
- Trump's FTC moves ahead with broad **Microsoft (MSFT)** antitrust probe, according to Bloomberg.
- **Tesla's (TSLA):** New Model Y order backlog in China is less than half of what was reported, via Electrek.
- **Merck (MRK):** Announced positive data from P3 trials that show the investigational, once-daily, oral, two-drug regimen of Doravirine/Islatravir (DOR/ISL) was maintained HIV-1 viral suppression at week 48.
- US FTC asked to delay trial against **Amazon (AMZN)** over Prime because of 'severe resource shortfalls in terms of both money and personnel' - court hearing.

## FX

**The Dollar** was mixed against peers, with the DXY extending strength post-CPI but paring mostly into the US close. DXY initially dropped but perhaps offsetting the soft CPI print (headline and core, M/M & Y/Y, eased more than expected) was the US tariffs on all steel and aluminium coming into effect with no exemptions. That said, data suggests the US produces ~75% of its steel needs domestically and needs to import the remaining 25%. As such, many of those affected (UK, Brazil, Australia) have refrained, for now, from retaliating, likely because steel/aluminium exports represent a small pct of total exports. That said, Europe took a firm response, announcing EUR 26bln worth of retaliatory tariffs against the US, with Canada also joining with 25% retaliatory tariffs on US goods worth CAD 29.8bln from 13th March. Canadian Finance Minister said they will raise the issue of tariffs with European allies to coordinate a response. Back to inflation, the report will be welcomed by many but is unlikely to change the Fed narrative going forward since it's only one data point and other macro concerns remain (US growth concerns and tariff uncertainty). Fed pricing reinforced this, with the first 25bps rate cut likely to occur in June. The US calendar for Thursday includes PPI, which alongside CPI will serve as a gauge for February's PCE figure.

**G10 FX** performance was mixed with DXY heavyweights, EUR, and JPY losing ground, while CAD led gains, followed by Antipodeans and GBP. For the CAD, the highlight was the BoC, who cut rates by 25bps as expected, with Governor Macklem noting the GC will proceed carefully with any further changes to the policy rate given the need to assess both the upward pressures on inflation from higher costs and the downward pressures from weaker demand. USD/CAD was choppy to both US CPI and the rate decision, eventually trundling lower to ~1.4370 into overnight trade. The next 25bps rate cut from the BoC is seen in July.

**EUR/USD** trimmed earlier strength in the week, falling below 1.09 as markets continue to await Russia's responses to the 30-day truce Ukraine has agreed to. Additionally, USD strength weighed amid the escalating trade war between the US and the EU, with the soft US CPI report taking the backfoot. Meanwhile, Trump responded to the EU's countermeasures, saying he would respond, although he didn't elaborate. Ahead, the conversation will be over the debate on Thursday in the German Bundestag over the proposed reform package.

For the **Yen**, which lagged amid yield differentials, the day saw BoJ Governor Ueda reiterate that the Bank is ready to conduct bond-buying operations nimbly in exceptional cases when long-term rates make irregular moves. Meanwhile, Bloomberg sources noted that BoJ officials see several reasons against intervening in the bond market even after benchmark yields hit the highest level since 2008.

**EMFX:** NBP was the main event, holding the base rate at 5.75%, noting this year CPI will remain clearly above target, wage growth is staying at a high level, and it may intervene in the FX market. Elsewhere, the USD/ZAR chopped to reports and later confirmation that the Democratic Alliance would not support the budget in its current form with the MK party too rejecting the budget. For the BRL, the IPCA inflation index was marginally above expectations for M/M and Y/Y in Feb, and also Estadao sources reported that Brazil's Government proposes a BRL 7.7bln cut to the Bolsa Familia programme. Ultimately, USD strength prevailed.

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