

Stocks slump while T-Notes catch bid in risk-off trade ahead of Fed

- **SNAPSHOT:** Equities down, Treasuries up, Crude down, Dollar down.
- **REAR VIEW:** Hot Import/Export prices; Strong Housing data; IP data beats; Atlanta Fed revised up to -1.8%; Trump & Putin agree to 30-day Ukraine ceasefire on energy infrastructure; Houthi threaten continued action; Trump team explores simplified plan for reciprocal tariffs; NVDA announces Blackwell Ultra Chip, Vera Rubin Chip and next-gen Feynman chip.
- **COMING UP:** Data: EZ Labour Costs, Wages, NZ GDP Events: FOMC, BoJ and BCB Policy Announcements Speakers: BoJ's Ueda; Fed Chair Powell; ECB's de Guindos, Elderson, NVIDIA CEO Huang Supply: Australia, Germany Earnings: General Mills, Talanx, Vonovia

MARKET WRAP

Stocks resumed to the downside on Tuesday, with major indices closing well in the red. Sectors were also predominantly lower, aside from Energy and Health Care, but the heavyweight indices saw the most downside with Communication, Consumer Discretionary and Tech underperforming. T-Notes were ultimately firmer across the curve due to the risk off trade, with upside supported ahead of settlement following the strong 20-year bond auction. Nonetheless, T-Notes did hit lows in the wake of the US data, which saw hotter than expected import and export prices, strong housing data and encouraging IP/Manufacturing data - albeit the data is yet to incorporate the impact of Trump tariff policies. As such, the Atlanta Fed GDPNow estimate was revised up to -1.8% from -2.1%. Aside from data, focus was largely on the callout between US President Trump and Russian President Putin, who did not agree to a full ceasefire in Ukraine, but did agree to a 30-day ceasefire on energy and infrastructure assets. Elsewhere on geopolitics, the Houthis announced they are at war with the US and warned that their attacks would continue, despite appeals from Iran. On trade, WSJ reported that Trump's team explored a simplified plan for reciprocal tariffs in which they recently debated sorting trading partners into one of three tiers instead of equalising tariff rates with every nation. Meanwhile, US Treasury Secretary Bessent noted that tariffs could be stacked on top of steel and aluminium tariffs, noting reciprocal tariffs won't be an automatic 25% plus 25%. In commodities, crude prices settled lower but chopped to geopolitics ahead of inventory data after hours while gold prices extended to fresh record highs amid risk-off sentiment. Nvidia (NVDA) shares closed red despite a slew of announcements at the GTC. Attention turns to BoJ overnight and FOMC tomorrow.

GLOBAL

US IMPORT/EXPORT PRICES: US Import Prices rose by 0.4% M/M in February, hotter than the -0.1% forecast and matching the prior upwardly revised pace. The report highlights that higher fuel and non-fuel prices in February contributed to the overall increase. Fuel imports rose 1.7% in Feb (prev. 3.5%), while all imports ex-fuel rose 0.3% (prev. 0.1%). Export prices rose 0.1%, above the -0.2% forecast but down from the prior 1.3% pace. Higher prices for non-agricultural and agricultural exports each contributed to the increase in February. Agricultural exports rose 0.8% (prev. 0.2%), while all exports ex-agriculture rose 0.1% (prev. 1.5%). The hotter-than-expected import prices may add to upside risk to the PCE report due on 28th March, with Core PCE currently expected at 0.34%, with the headline at 0.31%.

US HOUSING STARTS/BUILDING PERMITS: US housing starts rose 11.2% to 1.501mln in February, above the expected 1.38mln and the prior 1.350mln. Building permits fell 1.2% to 1.456mln from 1.473mln, but still above Wall St. consensus of 1.453mln. On starts, Pantheon notes the normalization of the weather, after unseasonably cold temperatures and heavy snowfall in January, was the main driver of the recovery. In addition, single-family permits, which are insensitive to the weather, edged lower to 992k from 994k, which Pantheon says suggests most of February's 11.4% jump in single-family starts will reverse in March. Meanwhile, multi-family activity was little changed M/M, with starts edging higher to 393k, from 373k, but permits fell to 464k, from 479k. PM adds that during the election campaign, President Trump pledged to open up land owned by the federal government for development, slash regulations and slacken permit requirements. But in the near term, the new administration's agenda will weigh on demand for new homes. Overall, the consultancy notes that the threats of tariffs and spending cuts are weighing heavily on consumers' confidence, fully countering any support to demand for new homes from the recent small fall in mortgage rates. Ahead, Pantheon Macroeconomics expect total starts to fall back to the low 1.35mln levels seen in the first half of 2024 over the coming months.

US INDUSTRIAL PRODUCTION/MANUFACTURING: Industrial Production rose 0.7% in February (exp. 0.2%), from the downwardly revised 0.3% January increase. Manufacturing output, which accounts for 78% of total industrial production rose 0.9% above the expected 0.3% (prev. -0.1%, rev. 0.1%), supported by an 8.5% jump in the index for motor vehicles and parts. On the 8.5% jump, Capital Economics notes "This was unsurprising given the weakness in motor vehicle production in recent months, and leaves output still down from its 2024 average in level terms". Meanwhile, manufacturing of ex-motor vehicles and parts rose by 0.4%. Mining output grew 2.8% (prev. -3.2%) and utility output fell by 2.5%, weighed on by output for electric and natural utilities falling by 1.2% and 11.1% respectively. Separately, Capacity Utilisation was 78.2% (exp. 77.8%, rev. 77.7%). Ahead, Capeco, believes there is a downside to come for the industry over the coming months, given that the drag from tariffs is still yet to properly take effect.

PUTIN/TRUMP CALL: The phone call between US President Trump and Russian President Putin did not agree to a full ceasefire, but it did agree to a 30-day ceasefire on energy and infrastructure assets. The White House noted that "the leaders agreed that the

movement to peace will begin with an energy and infrastructure ceasefire, as well as technical negotiations on the implementation of a maritime ceasefire in the Black Sea, full ceasefire and permanent peace. These negotiations will begin immediately in the Middle East." The Kremlin Readout however did note that sticking points remain, and the two sides will set up expert groups on Ukrainian settlement, but Putin does support the idea of not hitting energy facilities for 30 days. The two also agreed to start talks and work something out about the safety of shipping in the Black Sea. Ukraine President Zelensky responded, in which he said Ukraine would support a proposal to stop strikes on energy and infrastructure, noting Ukraine will support any proposals that lead to stable and just peace. He suggested Kyiv's partners would not agree to stop military aid, and hopes it will continue. He noted that an unconditional or partially unconditional ceasefire would be a positive result as they are steps towards peace. However, Zelensky warned that Russia is preparing new offensives on Zaporizhzhia, Sumy and Kharkiv fronts in the coming months in order to exert maximum pressure on Ukraine. Zelensky also suggested that freeing all Ukrainian PoW would be a good way for Russia to really demonstrate goodwill at negotiations.

FED PREVIEW: The FOMC is widely expected to leave rates on hold at its March 19th meeting. This has been the expectation since January, when Fed Chair Powell stressed a no-rush approach to future changes in policy, given the uncertainties ahead. Expectations ahead are more uncertain, however. The current dot plot signals two more rate cuts in 2025; Governor Waller has suggested that this is still his base case. Market focus has heavily been on policies from US President Trump, particularly on trade and tariffs, as well as government cost-cutting efforts. The recent turmoil in markets has been underpinned by uncertainty, with Trump chopping and changing tariff policy frequently, and when combined with cost-cutting, has been raising fears around US economic growth, with recession fears rising. The Atlanta Fed's GDPNow estimate was Q1 growth of -2.4%, however, when adjusted for gold imports, it rose from -0.4% to 0.4% after the February labour market report. [To download the report, please click here.](#)

FIXED INCOME

T-NOTE FUTURES (M5) SETTLE 6 TICKS HIGHER AT 110-25+

T-Notes catch a bid in risk-off trade and are also supported by a strong 20-year auction . At settlement, 2s -1.3bps at 4.040%, 3s -1.9bps at 4.013%, 5s -2.4bps at 4.072%, 7s -2.8bps at 4.180%, 10s -2.5bps at 4.281%, 20s -1.7bps at 4.618%, 30s -1.9bps at 4.580%.

INFLATION BREAKEVENS: 5yr BEI -0.1bps at 2.404%, 10yr BEI +0.1bps at 2.300%, 30yr BEI +0.0bps at 2.232%

THE DAY: T-Notes chopped on Tuesday ahead of the FOMC on Wednesday, but a sour risk appetite ultimately supported Treasuries across the curve. T-Notes saw a gradual bid overnight before selling off in the European morning, tracking Bunds lower ahead of the expected vote on Germany's fiscal reform, which was ultimately passed, paving the way for the EUR 500bn infrastructure fund to bolster defence spending and revive growth. T-Notes hit lows of 110-14 in the wake of the US data, which saw hotter than expected import/export prices, which may have upward risks to the PCE report due March 28th. Elsewhere, housing data was better than expected while industrial production data was also strong. Nonetheless, T-Notes started to reverse course afterwards with the downbeat risk tone supporting the move higher as stocks slumped. T-Notes went on to hit a peak of 110-29 ahead of the settlement, also supported by a strong 20-year bond auction with attention now turning to the FOMC on Wednesday. Rates are widely expected to be left on hold with a focus on the accompanying SEPs. Elsewhere, market focus was largely on the call between Russian President Putin and US President Trump, with a partial ceasefire agreed on energy and infrastructure sites, but there are still sticking points and more work to be done for a full ceasefire.

SUPPLY

- **20YR:** Overall, a strong 20yr bond auction. The US Treasury sold USD 13bln of 20yr bonds at a high yield of 4.632%, stopping through the when issued by 1.4bps. The Bid-to-Cover was also well above the prior and averages at 2.78x. The breakdown was also strong, Indirect demand rose above average to 68.8% while direct demand also rose above average to 22.4%, this left dealers with just 8.8% of the auction, well beneath the 17.5% prior and 16.9% average - all strong signs of demand.
- US sold USD 48bln of 1yr bills at high rate of 3.945%, B/C 3.13x

Coming up

- USD 18bln of 10yr TIPS on March 20th
- USD 60bln 17wk bills on March 19th,
- USD 75bln 4wk bills on March 20th
- USD 75bln 8wk bills on March 20th

STIRS/OPERATIONS:

- Market Implied Fed Rate Cut Pricing: March 0bps (prev. 0bps), May 5bps (prev. 6bps), June 19bps (prev. 20bps), Dec 58bps (prev. 60bps).
- NY Fed RRP op demand at USD 89bln (prev. 126bln) across 25 counterparties (prev. 29)
- SOFR at 4.30% (prev. 4.30%), volumes at USD 2.441tln (prev. 2.462tln).
- EFR at 4.33% (prev. 4.33%), volumes at USD 104bln (prev. 105bln).
- Treasury Buyback (Liquidity support, 7-10yr nominal coupons): Accepts USD 985mln (maximum purchase amount was USD 4bln) of USD 4.899bln offers; accepts 4/10 eligible issues in buyback

CRUDE

WTI (K5) SETTLE USD 0.62 LOWER AT 66.75/BBL; BRENT (K5) SETTLES USD 0.51 LOWER AT 70.56/BBL

The crude complex was choppy but settled lower as benchmarks sold off through the duration of the US session as risk sentiment waned and geopolitics remained in focus. Aside from broader risk sentiment, the main story in the energy space was the call between Russian President Putin and US President Trump. The Kremlin said the two leaders agreed to stay in contact and Putin supports the idea not to hit energy facilities. Re. the ceasefire, Putin said there must be a stop to Ukrainian mobilisation and arming of Ukraine and there are still some sticking points on a ceasefire in Ukraine, but Putin agreed to halt strikes on energy infrastructure for 30 days. From the White House, leaders agreed that the movement to peace would begin with an energy and infrastructure ceasefire, as well as technical negotiations on the implementation of a maritime ceasefire in the Black Sea, full ceasefire and permanent peace. These negotiations will begin immediately in the Middle East. On the Middle East, Houthi Minister Amer said Houthis are at war with the US now and will retaliate against strikes, and will not be "dialling down" Red Sea action in response to US pressure or appeals from allies such as Iran. WTI and Brent saw lows of USD 66.57/bbl and 70.35/bbl, respectively, against highs of 68.50 and 72.19. Ahead, private inventory data is after-hours (expectations below) with the FOMC the main event on Wednesday. Expectations (bbls): Crude +0.9mln, Distillate -0.3mln, Gasoline -2.4mln.

EQUITIES

- **CLOSES:** SPX -1.07% at 5,614, NDX -1.66% at 19,483, DJI -0.62% at 41,581, RUT -0.89% at 2,050
- **SECTORS:** Communication Services -2.14%, Consumer Discretionary -1.90%, Technology -1.65%, Consumer Staples -1.30%, Industrials -0.77%, Utilities -0.66%, Real Estate -0.64%, Financials -0.13%, Materials -0.09%, Health +0.12%, Energy +0.22%
- **EUROPEAN CLOSES:** Euro Stoxx 50 +0.64% at 5,481, DAX +1.03% at 23,393, CAC 40 +0.50% at 8,115, AEX +0.00% at 914, IBEX 35 +1.58% at 13,355, SMI -0.01% at 13,057, PSI +1.07% at 6,926, FTSE 100 +0.29% at 8,705, FTSE MIB +1.31% at 39,534.

STOCK SPECIFICS:

- **NVIDIA (NVDA) GTC:** CEO Huang said the top four hyperscalers bought 1.3mln hopper chips in 2024, he also said that "comparing the peak year of Hopper...and the first week of Blackwell...you can kind of see that, in fact, AI is going through an inflection point". Huang confirmed the Blackwell Ultra Chip will be released in H2 '25, and the Blackwell Ultra AI factory platform paves the way for an age of AI reasoning. Huang said the Vera Rubin Chip will be announced in H2 '26, and will release Vera Rubin Ultra in H2 '27. Also announced co-packaged optics networking chip, and the next-generation of Nvidia chip will be named Feynman, arriving in 2028. Also announced a family of open reasoning AI models for developers and enterprises to build agentic AI platforms, and announced Isaac Groot N1 - the world's first humanoid robot foundation model. On Blackwell, said it is in full production and the ramp is incredible.
- **Alphabet (GOOG):** Confirmed its plan to acquire cybersecurity startup Wiz for ~USD 30bln.
- **Nio (NIO):** CATL agreed to invest up to RMB 2.5bln in expanding a battery-swapping network in China.
- **Tesla (TSLA):** Toronto has excluded Tesla from its EV incentive programme. for taxis & ride-shares due to US-Canada trade tensions
- **Steel Dynamics (STLD):** Q1 profitability from Cos. steel operations is expected to be stronger than sequential Q4. Although, Q1 earnings from its steel fabrication operations are expected to be lower than sequential Q
- **Sarepta Therapeutics (SRPT):** Disclosed the death of an ELEVIDYS patient, who suffered an acute liver failure.
- **Ralph Lauren (RL):** Upgraded at Goldman Sachs; believes improving execution and momentum within the company's brand elevation strategy will drive additional market share capture opportunities and margin expansion.
- **PepsiCo (PEP):** Downgraded to 'Equal Weight' from 'Overweight' at Barclays, noting there are a few more quarters still to go before trends stabilize, particularly in light of what feels like a more precarious macro backdrop.
- **Xiaomi (XIACY):** Raised '25 delivery target for EVs after posting fastest revenue growth since '21, reflecting inroads into the Chinese EV market.
- **KKR (KKR)** said to consider the acquisition of New Mexico Utility Owner, TXNM Energy (TXNM), via Bloomberg.

US FX WRAP

The Dollar was weaker, hitting a low of 103.190 as the focus was on data, Putin/Trump talks, and ahead of FOMC on Wednesday ([Newsquawk preview here](#)). Recapping, housing metrics were better than anticipated, as was industrial production, while import and export prices both were above expectations. As such, the latest revision in Atlanta Fed GDPNow forecast for Q1 printed -1.8% from -2.1%. In the US morning, in a Fox News interview, US Treasury Secretary Bessent said reciprocal tariffs won't be an automatic 25% plus 25%, and on April 2nd, each country will get a tariff number, and tariffs could be stacked on top of steel and aluminium. Thereafter, the focus was on the Trump/Putin call and the respective readouts thereafter, which the White House said it was very good and productive.

G10 FX was mixed. AUD lagged, potentially on the souring risk sentiment, which likely supported the safe-haven CHF to see it outperform. EUR and GBP saw marginal gains, CAD saw ever-so-slight losses, and JPY and NZD were flat. Once again, headline-specific newsflow was fairly light for the named currencies, although the highlight was probably out of Europe, and more specifically the German fiscal reform vote in the Bundestag - it passed as expected and thus saw minimal EUR reaction. Elsewhere, German ZEW data showed a greater-than-expected improvement in economic sentiment amid fiscal hopes. For the Loonie, Canadian CPI was hotter than expected across the board, but focus continues to reside around Trump tariffs.

For the Pound watchers, attention this week is on Thursday with the latest jobs data and BoE rate decision due. On the former, focus will be on the resilience of wage growth and the rate of loosening in the labour market, but it is unlikely to have much follow-through into the BoE's decision later in the session. Markets are very expectant of an unchanged rate decision with consensus suggesting a 7-2 vote split. Also on the central bank footing, participants await Wednesday's BoJ policy announcement whereby they are also expected to leave rates unchanged.

As mentioned, AUD lagged with AUD/USD hitting a low of 0.6345 as risk sentiment continued to dwindle through the US session. For the record, RBA Assistant Governor Hunter spoke overnight noting the February statement reflected the RBA board being more cautious than the market about prospects for further easing.

EMFX was mixed. CLP, BRL gained, COP, XAR, TRY were sold, while MXN and Yuan were flat. Out of CEE, NBP's Janczyk stated economic uncertainty means they can not propose a rate cut at this time, while CNB's Seidler would prefer to hold interest rates steady at next week's policy meeting. In LatAm, Chilean GDP impressed Y/Y, but disappointed Q/Q, while Brazilian IGP-10 Inflation Index (Mar) fell way short of expectations, while there was a deluge of rhetoric from Brazilian officials. Brazil announced some of its tax proposals, including a 10% withholding tax on profits and dividends sent abroad, and a minimum tax on those earning above BRL 600k/year. The minimum tax on high earners would increase gradually, capping at 10% for gross income above BRL 1.2mln per year. These measures were expected to raise c. BRL 36bln.

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