US Market Wrap - 24th March 2025

Stocks and yields rally on trade optimism and strong services PMI

- **SNAPSHOT**: Equities up, Treasuries down, Crude up, Dollar mixed
- **REAR VIEW**: WH reportedly narrows April 2nd tariffs, although Trump says tariffs on autos, chips and lumber will come in a few days; He says a lot of countries will get tariff breaks; Trump announces 25% secondary tariffs on countries who buy oil/gas from Venezuela; S&P Global Services PMI beats, manufacturing misses, composite rises; Bostic pencilled in one rate cut for 2025 (prev. two); Rare earth deal with Ukraine to be signed soon; OPEC+ set to boost production in May; Indian refiners set to issue fewer tenders for crude oil purchases.
- **COMING UP**: **Data:** German Ifo Expectations, US Richmond Fed Index, Consumer Confidence, Japanese Services PPI. **Events:** PBoC MLF Announcement. **Speakers:** Fed's Williams, Kugler. **Supply:** Netherlands, UK, Germany, US. **Earnings:** JD Sports, Kingfisher, Bellway, Smiths, Pennon, Gamestop.
- **WEEK AHEAD:** Highlights include US PCE, UK CPI and Spring Statement, Australian & Tokyo CPI, BoJ SoO [To download the report, please click here.]
- **CENTRAL BANK WEEKLY:** Previewing PBoC MLF, Norges Bank, BoC Minutes, Banxico; Reviewing FOMC, BoJ, BoE, SNB, PBoC. [To download the report, please click here.]

MARKET WRAP

Stocks rallied on Monday on reports that US President Trump's April 2nd tariffs may be more targeted, excluding sector-specific tariffs, while a strong S&P Global Services PMI also supported the risk tone. However, Trump did later state he will be announcing tariffs on autos, lumber and chips over the next few days, but he did add he may give a lot of countries breaks on tariffs, which helped add to the equity bid. Stocks closed around highs with all sectors in the green, with notable outperformance in Consumer Discretionary thanks to near 11% gains in Tesla (TSLA) and 3.6% gains in Amazon (AMZN). Communication Services also outperformed, while the defensive sectors underperformed, but mostly ended higher (utilities finished flat). T-notes were sold across the curve on the Trump-targeted tariff reports with encouraging risk sentiment also weighing. Reports in WaPo suggesting tax revenue this year will be 10% lower Y/Y also added to the pressure. There was also a slew of corporate issuance ahead of 2, 5 and 7yr supply this week, but T-note selling accelerated after the strong PMI data, which saw the composite rise thanks to a strong services print, although manufacturing PMI fell into contractionary territory. The DXY saw gains thanks to higher yields but also the strong PMI data while the Yen was the clear laggard on yield differentials. AUD and CAD outperformed due to their cyclical nature with stocks rallying, with AUD/USD turning green on Trump's possible country tariff break remark. Crude prices were bid due to the risk tone despite several bearish reports. Reports included Egypt putting forward a proposal to try to put the ceasefire between Israel and Hamas back on track; Indian refiners are set to issue fewer tenders for crude oil purchases on the spot market in the coming months due to increased Russian supply, via Reuters. It was also reported by Reuters that OPEC+ is set to proceed with plans for the next monthly oil output hike in May, according to sources. Nonetheless, oil prices were pushed higher, supported by Trump announcing secondary tariffs on Venezuela, where any country that purchases oil and gas from Venezuela will be forced to pay a tariff of 25% to the US on any trade they do. This is of concern for China, Spain, India, and Italy (via Reuters), where if there are no changes in trade policy, China could face tariffs of up to 45% (25% secondary tariffs on top of the 20% existing tariffs).

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FLASH PMIS: US S&P Global Flash PMIs for March were mixed. Services topped expectations at 54.3 (exp. 50.8, prev. 51.0), while Manufacturing unexpectedly fell back beneath 50 to 49.8 (exp. 51.7, prev. 52.7). The surge in Services more than offset the manufacturing slump, allowing the Composite to rise to 53.5 from 51.6. Commenting on the data, Chris Williamson, Chief Business Economist at S&P Global Market Intelligence said a welcome upturn in service sector activity has helped propel stronger economic growth at the end of the first quarter. However, the survey data are indicative of the economy growing at an annualized 1.9% rate in March and just 1.5% over the quarter as a whole, pointing to a slowing of GDP growth compared to the end of 2024. In addition, he added that near-term risks also seem tilted to the downside, and business confidence in the outlook has also darkened, souring further from the buoyant mood seen at the start of the year. Williamson adds that a pivotal concern over tariffs is the impact on inflation, with the March survey indicating a further sharp rise in costs as suppliers pass tariff-related price hikes on to US companies.

BOSTIC (2027 Voter): In an interview with Bloomberg, maintained his hawk stance, announcing he was one of the dots who pencilled in just one rate cut for 2025, down from his prior estimate of two rate cuts. For reference, the Fed median FFR dot plot sees two cuts this year while money markets currently price 68bps of easing. On uncertainty, Bostic said there is a lot on the economy, and as such, "forecasting is more challenging than in the past". The 2027 voter expects inflation to be very bumpy and he doesn't see it returning to target until some time in 2027 (in line with the Fed median view). Bostic is comfortable keeping policy restrictive to get inflation to target and noted he focuses on the medium and long-term inflation expectations, as opposed to more volatile short-term expectations. Bostic stated he is hearing more concern about the path of the economy, but data has not shown that yet. Additionally, businesses think price pressures are moving higher, are bullish on sales, and wage pressures are not outsized. On the labour market, he said it's still tight, but "not as tight as two years ago". Regarding the QT pace slowdown on Treasury securities, he prefers to stay at this rate until they stop. Bostic said he would consider selling MBS but the Fed has not had any conversations about it.

FIXED INCOME

T-NOTE FUTURES (M5) SETTLED 17+ TICKS LOWER AT 110-17+

T-Notes sold across the curve on tax revenue and tariff reports with a strong services PMI accelerating the selling ahead of supply. At settlement, 2s +8.7bps at 4.035%, 3s +8.5bps at 4.013%, 5s +8.3bps at 4.091%, 7s +8.1bps at 4.212%, 10s +7.7bps at 4.329%, 20s +6.5bps at 4.682%, 30s +5.5bps at 4.652%

INFLATION BREAKEVENS: 5yr BEI +2.9bps at 2.490%, 10yr BEI +2.6bps at 2.351%, 30yr BEI +2.0bps at 2.265%.

THE DAY: T-notes were sold across the curve in response to reports suggesting that US President Trump's April 2nd tariffs are set to take a more targeted approach and will likely exclude sector-based tariffs. This saw an immediate improvement in the risk environment with havens sold as stocks surged. The more targeted approach to tariffs may also be less inflationary which helped keep T-notes pressured throughout the overnight and European session. Another report likely weighing was the Washington Post suggesting that tax revenue is to fall 10% Y/Y by April 15th amid turmoil at the IRS, suggesting lost federal revenue could top USD 500bln. T-notes then extended to lows after the S&P Global Flash PMI data, which saw manufacturing fall by more than all forecasts into contractionary territory, but this was offset by an above-all forecast print in the services component, which lifted the composite to 53.5 from 51.6. The report noted, "the survey data are indicative of the economy growing at an annualized 1.9% rate in March and just 1.5% over the quarter as a whole, pointing to a slowing of GDP growth compared to the end of 2024." However, this is well above the Atlanta FedGDPNow estimate of -1.8%, albeit the gold-adjusted model last had growth tracking at 0.4% after the February labour market report, but is set to be next updated on the 26th of March. The downside in T-notes also came amid a flurry of corporate supply announced Monday morning, ahead of 2, 5 and 7yr supply on Tuesday, Wednesday and Thursday this week.

SUPPLY

US Treasury sold:

- USD 69bln (exp. 68bln) in 6mth bills at a high rate of 4.085%, B/C 3.27x
- USD 77bln (exp. 76bln) of 3mth bills at a high rate of 4.190%, B/C 2.96x

US Treasury to sell:

- USD 70bln 6-wk bills on March 25th
- USD 69bln 2-yr notes on March 25th
- USD 70bln 5-yr notes on March 26th
- USD 44bln 7-yr notes on March 27th
- USD 28bln 2-yr FRN on March 26th

STIRS/OPERATIONS:

- **Market Implied Fed Rate Cut Pricing: May 5bps (prev. 5bps), June 22bps (prev. 23bps), July 33bps (prev. 34bps), Dec 69bps (prev. 71bps).**
- NY Fed RRP op demand at USD 197bln (prev. 201bln) across 43 counterparties (prev. 42)
- SOFR at 4.30% (prev. 4.29%), volumes at USD 2.444tln (prev. 2.438tln).
- EFFR at 4.33% (prev. 4.33%), volumes at USD 106bln (prev. 106bln).

CRUDE

WTI (K5) SETTLED USD 0.83 HIGHER AT 69.11/BBL; BRENT (K5) SETTLED USD 0.84 HIGHER AT USD 73.00/BBL

The crude complex started the week with gains as it was buoyed by broader risk sentiment and heightened geopolitical tensions despite a slew of bearish headlines. In the European session benchmarks were choppy and hit lows of USD 67.95/bbl and 71.80/bbl, respectively, before seeing upside as US players entered for the week to grind to session peaks of USD 69.33/bbl and 73.16/bbl. Throughout the day there were numerous oil-specific catalysts, with WTI and Brent testing overnight troughs in the wake of AP reporting that Egypt has put forward a new proposal to try to put the ceasefire between Israel and Hamas back on track. Thereafter, oil was pressured again as Reuters sources said that Indian refiners are set to issue fewer tenders for crude oil purchases on the spot market in the coming months. Further still, and continuing an attempt to dent the upside in oil, Reuters sources stated that OPEC+ is set to proceed with plans for the next monthly oil output hike in May. On Russia/Ukraine, closed talks between US and Russian delegations in Riyadh commenced, with participants on the lookout for an alignment between Russia and Ukraine's demands, albeit unlikely. Since the US/Russia meeting concluded, officials from the US and Ukraine are to hold more talks. During the talks, Russia reported Ukraine attempted to attack an oil pumping station in Russia's Krasnodar, while the Kremlin, on the energy strike moratorium, said they are monitoring the situation after attacks by Ukraine. Oil continued higher after US President Trump posted on Truth that the US "will be putting what is known as a Secondary Tariff on the Country of Venezuela...any Country that purchases Oil and/or Gas from Venezuela will be forced to pay a Tariff of 25% to the United States on any Trade they do". WTI and Brent then went on to print the aforementioned session highs before paring somewhat into settlement but still settled well in the green.

EQUITIES

CLOSES: SPX +1.76% at 5,768, NDX +2.16% at 20,180, DJI +1.42% at 42,583, RUT +2.55% at 2,109

SECTORS: Utilities -0.01%, Consumer Staples +0.66%, Health +0.76%, Energy +1.00%, Materials +1.24%, Real Estate +1.43%, Technology +1.71%, Financials +1.79%, Industrials +1.87%, Communication Services +2.10%, Consumer Discretionary +4.07%.

EUROPEAN CLOSES: DAX: -0.16% at 22,856, FTSE 100: -0.10% at 8,638, CAC 40: -0.26% at 8,022, Euro Stoxx 50: -0.13% at 5,417, AEX: +0.09% at 916, IBEX 35: -0.20% at 13,324, FTSE MIB: -0.16% at 38,973, SMI: -0.56% at 12,993, PSI: -0.35% at 6,774.

STOCK SPECIFICS:

- **James Hardie Industries (JHX):** To acquire **AZEK (AZEK)** for USD 8.75bln; AZEK shareholders will get USD 56.88/shr.
- TOMS Capital has amassed a stake in **Kenvue (KVUE)** & is pushing for them to consider a full sale or separation of some assets
- **Nvidia (NVDA):** Malaysia to crack down on Nvidia chip flows under US pressure
- **Dun & Bradstreet (DNB):** To be acquired by Clearlake for USD 9.15/shr in cash; Closed Fri. at USD 8.73/shr
- **Super Micro Computer (SMCI):** Downgraded to 'Sell' from 'Neutral' at Goldman Sachs on unfavourable risk/reward.
- **Ally Financial (ALLY):** 90-day positive catalyst watch at Citi, believes the market is discounting two positive trends at Ally: improving auto credit and net interest margin expansion.
- **Lockheed Martin (LMT):** Downgraded at BofA to a 'Neutral' from 'Buy' after losing out on the USAF's Next Generation Air Dominance programme to Boeing (BA).
- **Steel Dynamics (STLD):** Upgraded to 'Buy' from 'Neutral' at UBS, seeing a good entry point for Steel Dynamics with earnings momentum from Q2, upside risk to consensus if spot hot-rolled coil steel prices hold, and a more supportive valuation.
- **FedEx (FDX):** Upgraded at Jefferies to a 'Buy' from 'Hold'.
- China Commerce Minister met with **Apple (AAPL)** CEO Cook; welcomed AAPL to expand investment in China, said China is willing to work with the US through equal dialogue to foster a more stable policy environment for businesses.
- **Verizon (VZ):** Said on track to deliver on its FY2025 financial and operational guidance.

FX

The Dollar Index edged higher on Monday as a surprise surge in S&P Global Flash Services PMI for March more than offset the manufacturing slump into contractionary territory. Pre-PMI, Dollar trade was generally subdued, although developments were notable over the weekend concerning US trade policies. Specifically, reports noted US President Trump's planned April 2nd reciprocal tariffs won't necessarily be universal and that Trump is not planning separate, sector-specific tariffs, suggesting a pullback of Trump's previously announced aggressive tariff approach. Later, the post-data Dollar gains trimmed on Trump saying he may give a lot of countries breaks to tariffs. Although, Trump to an extent, pushed back on said weekend reports, noting they will announce additional tariffs over the next days on autos, lumber, and chips. The US President also announced a "Secondary Tariff" on Venezuela, motivated by criminal activity, threatening 25% tariffs on those who purchase oil/gas from Venezuela (e.g. China, Spain, Italy, and India). Meanwhile, higher US yields across the curve were present before and extended after PMIs as recessionary/growth fears were alleviated. Separately, Fed's Bostic was interviewed by Bloomberg, maintaining his hawk position on the FOMC, announcing he only pencilled in one rate cut for 2025 in the dot plots, down from two in December. Tuesday highlights in the US include Richmond Fed Comp Index, Home Sales-Units, and remarks from Fed's Kugler, and Williams.

G10-FX was mixed on USD strength. CAD and Scandis saw gains pre-Trump potential tariff break announcement. Thereafter, existing G10 gains extended, while AUD and GBP went green from flat and NZD, EUR, and CHF trimmed losses. JPY was the clear laggard amid the sold Treasury environment and contractionary services and composite PMI prints in Japan. BoJ Governor Ueda spoke overnight, reiterating rates will continue to be raised if the likelihood of achieving economic and price targets increases. Also, Ueda did not rule out the possibility of selling the BoJ's government bond holdings but said they cannot sell long-term JGB holdings immediately but they have been gradually tapering long-term JGB holdings now. USD/JPY sits ~ 150.60.

In **Europe**, PMIs were in focus. French PMIs offered EUR/USD support as manufacturing jumped more than expected. Though, sub 50 svs and mfg prints, highlighted the French industry is still struggling, with the HCOB report noting the only reassuring news is that input cost pressures have somewhat eased, and service providers' pricing power has slightly increased. Thereafter, the German and EZ metrics showed a mixed trend, manufacturing rose, beating estimates, and services unexpectedly fell with composite improving but not as much as expected. For the Pound, mild support was seen from a jump in UK Services Flash PMI outweighing the slump in manufacturing. The pound will be closely watched ahead of Chancellor's Reeves spring statement and UK CPI on Wednesday. Into overnight trade, EUR/USD is ~ 1.0800, Cable 1.2920, and EUR/GBP 0.8360.

EMFX: MXN led outperformance amongst EMs against the USD despite inflation coming in mostly cooler than expected on the 1st half-mth March data. Elsewhere, NBP's Wnorowski said an interest rate cut is possible at the beginning of Q3 2025 - money markets have the first full 25bps rate cut priced by the July meeting. Meanwhile, Polish retail sales growth fell well short of expectations, with the constant prices metric unexpectedly shrinking. However, the PLN still gained vs the EUR and USD. Ahead, NBH (Tue), and CNB (Wed) meetings are due. ING noted, "Both meetings should be positive for currencies."