newsquawk

US Market Wrap - 27th March 2025

Stocks lower in choppy trade as fresh tariff threats dominate the tape ahead of PCE

- **SNAPSHOT**: Equities down, Treasuries steepen, Crude up, Dollar down
- **REAR VIEW**: Trump announces 25% auto tariffs & threatens large-scale tariffs on EU and Canada if they collude; US Q4 final GDP revised up, but consumer spending and core PCE prices revised down; Adv. goods trade balance deficit narrowed; Initial jobless claims inline, while continued claims fall more than exp.; Weak US 7yr note auction; China rejects Trump's tariff waiver offer in exchange for TikTok deal; Banxico cuts by 50bps, as expected; H3C says NVDA H20 chips are nearly depleted.
- **COMING UP**: **Data:** UK Retail Sales, German GfK Consumer Sentiment, GDP; French & Spanish CPI, German Unemployment Rate, EZ Sentiment, US PCE (Feb), Consumption. **Events:** ECB SCE. **Speakers:** Fed's Bostic, Barr; ECB's de Guindos. **Supply:** Australia, Italy.

MARKET WRAP

US indices saw mild losses, albeit settled well off worse levels, as markets continued to digest Trump's latest tariff actions, this time a 25% tariff on all autos made outside of the US from April 2nd. Ahead, participants await April 2nd "Liberation Day" and what the President decides to implement and proceed with. As such, the global macro reaction and possible fallout will be eyed for the next catalyst and how the reciprocal tariffs are viewed. Sectors were mixed, although Energy and Communication Services lagged, with Consumer Staples and Discretionary the two best performers. The Dollar saw losses and erased almost all of Wednesday's gains, with GBP and EUR the main beneficiaries. On the flip side, CAD and JPY lagged, with the former weighed on by its notable tariff exposure. Treasuries chopped but ultimately steepened with fixed trading off the risk tone, tariff updates, US economic data and supply. On data, it was overall mixed as initial jobless claims were more or less in line with forecasts, while continued claims fell by more than expected. The GDP data was revised up, but consumer spending and core PCE prices were revised down for Q4, which helped lift Treasuries. Meanwhile, the advanced goods trade deficit narrowed after the recent surge ahead of Trump's tariffs. Oil saw slight gains, albeit traded within narrow parameters, amid the aforementioned macro themes stealing the headlines and a lack of geopolitical updates. Ahead, the February PCE report on Friday is the key event, whereby Fed Chair Powell post-FOMC said PCE prices likely rose 2.5% in February, and core PCE prices probably rose 2.8%.

US

GDP: The Final Estimate of Q4 GDP in the US was revised up to 2.4% from 2.3%, despite expectations for this to be unchanged. However, Consumer Spending was revised down to 4.0% from 4.2%. With concerns around the consumer in Q1 amid uncertainty of the impact of Trump's policies, this gives Consumer Spending a lower base for the Q1 data, but for growth overall is now at a slightly higher starting point than initially expected for Q1. Within the report, the deflator eased to 2.3% from 2.4%, while prices saw headline PCE unchanged at 2.4%, but core PCE was revised down to 2.6% from 2.7%. Given that core is the Fed's preferred gauge of inflation, this will be a welcome sign, particularly with the revision higher to GDP, but the softer consumer may be of concern. Q1 is widely expected to see an economic slowdown, with the Atlanta Fed Gold adjusted GDP model tracking growth at just 0.2% (although there are concerns this is undershooting the current growth rate). The latest S&P Global PMI data said the survey is indicative of the economy growing at an annualized 1.9% growth rate in March and just 1.5% over the quarter as a whole, much slower than the 2.4% growth seen in Q4.

INTERNATIONAL TRADE: The Advanced Goods Trade Balance deficit narrowed to 147.91bln from 155.57bln. Exports of goods rose USD 7.0bln M/M to USD 178.6bln, while imports fell USD 0.6bln to USD 326.5bln. The rise in exports was the primary driver for the drop in the deficit, while the fall in imports also helped. Wholesale inventories rose 0.3% to USD 902.9bln, down from the prior 0.8%, with retail inventories ex-autos rising 0.1% to USD 823bln, down from the prior 0.5%. The reversal in the rising trade deficit has pared some of the increase seen in anticipation of Trump's tariffs, although it will be interesting to see what happens when the tariffs come into effect. Analysts at Pantheon Macroeconomics note that the general stockpiling of imported goods driven by tariff threats explains much of the recent blowout in the goods deficit, and it clearly has scope to continue in March.

JOBLESS CLAIMS: Initial jobless claims (w/e 22nd March) was more-or-less unchanged at 224k (prev. 225k), with the 4wk average dipping to 224k from 228.75k. Note, the seasonal factors had expected a decrease of 7,214 (-3.5%) W/W. Pantheon Macroeconomics writes that headline claims remained low last week, with powerful storms across large areas of the South and Midwest having no immediate impact. Although, the consultancy adds that the recent deterioration in hiring and firing indicators suggests that claims will climb over coming weeks. Continuing claims (w/e 15th March), which coincides with the usual payrolls survey window, fell to 1.856mln from the prior, revised lower, 1.881mln and underneath the expected 1.888mln. On the figure, Pantheon notes that in the week of the March household survey, which were just 1K higher than in the February reference week, it points to potential for a drop back in the unemployment rate to 4.0%, from 4.1%, as February's increase had not been signalled by the continuing claims data.

PENDING HOME SALES: Pending home sales rose 2% in February (exp. 1%, prev. -4.6%) with desks noting at least some of the M/M increase probably is weather-related, as very cold weather in January likely held back activity at the start of the year, pushing some sales into February. On the dataset, NAR Chief Economist Lawrence Yun said, "Despite the modest monthly increase, contract signings remain well below historical levels. A meaningful decline in mortgage rates would help both demand and supply—

demand by boosting affordability, and supply by lessening the power of the mortgage rate lock-in effect." Overall, pending home sales generally lead existing home sales by a month or two.

FIXED INCOME

T-NOTE FUTURES (M5) SETTLED 4+ TICKS LOWER AT 110-13+

T-Notes chopped but ultimately steepened with fixed trading off the risk tone, tariff updates, US economic data and supply. At settlement, 2s -0.8bps at 4.000%, 3s -0.3bps at 4.000%, 5s +1.2bps at 4.103%, 7s +2.5bps at 4.235%, 10s +3.5bps at 4.373%, 20s +4.2bps at 4.753%, 30s +4.8bps at 4.732%.

INFLATION BREAKEVENS: 5yr BEI +3.3bps at 2.557%, 10yr BEI +2.0bps at 2.394%, 30yr BEI +0.7bps at 2.294%.

THE DAY: T-Notes sold off overnight and in the European morning to bottom out at 110-06. However, once US players arrived the selling pressure reversed with T-Notes pushing higher to a peak of 110-17. The downside overnight coincided with upside in US equity futures after the slump on Wednesday, but the turnaround (in T-Notes) in the US morning was sparked by US President Trump threatening both Canada and the EU with large-scale tariffs if they teamed up to harm the US amid the tariff disputes. Further upside was seen in wake of the US data, which overall was mixed as initial claims was more or less in line with forecasts, while continued claims fell by more than expected. The GDP data was revised up but consumer spending and core PCE prices were revised down for Q4, which helped lift Treasuries. Meanwhile, the advanced goods trade deficit narrowed after the recent surge ahead of Trump tariffs. Nonetheless, T-Notes did pare somewhat after the strong US equity open but this was short-lived with T-Notes rising into settlement, although some marginal downside was seen after the weak 7yr note auction (more below). Attention turns to US PCE and the Final UoM survey on Friday, ahead of the updated Atlanta Fed GDPNow forecast.

SUPPLY:

US Treasury sold:

- Overall a soft 7yr auction. The US Treasury sold USD 44bln 7yr notes at a high yield of 4.233%, a higher yield than the prior offering of 4.194%, but it still tailed by 0.6bps, a worse reception than the prior stop through of 0.9bps and average of a stop through of 1.3bps. The bid-to-cover ratio was also soft at 2.53x. The breakdown of demand saw direct demand rise marginally to 26.1% from 25.2%, above the 19.64% six-auction average. The indirect demand, however, fell to 61.2% from 66%, well beneath the 71.3% average which left dealers with an above-average 12.7% from 8.8% (avg. is 9.05%).
- USD 75bln 4-week bills at 4.220%, covered 3.14x.
- USD 75bln of 8-wk bills at 4.245%, covered 3.14x.

US Treasury to sell:

- USD 70bln 6-week bills on April 1st; to sell.
- USD 68bln 26-week bills and to sell.
- USD 76bln 13-week bills on March 31st.

STIRS/OPERATIONS:

- **Market Implied Fed Rate Cut Pricing: May 4bps (prev. 5bps), June 18bps (prev. 19bps), July 29bps (prev. 30bps), Dec 63bps (prev. 63bps).**
- NY Fed RRP op demand at USD 292bln (prev. 241bln) across 43 counterparties (prev. 48).
- SOFR at 4.35% (prev. 4.33%), volumes at USD 2.472bln (prev. 2.460bln).
- EFFR at 4.33% (prev. 4.33%), volumes at USD 104bln (prev. 105bln).

CRUDE

WTI (K5) SETTLED USD 0.27 HIGHER AT 69.92/BBL; BRENT (K5) SETTLED USD 0.24 HIGHER AT 74.03/BBL

Oil saw slight gains, albeit traded within narrow parameters, as new Trump tariffs dominated macro newsflow and sentiment. Given the further auto-tariffs he announced last night that he will impose on April 2nd, participants await "Liberation Day", and what the President decides to implement and proceed with. As such, the global macro reaction and possible fall-out will be eyed for the next catalyst and how the reciprocal tariffs are viewed. Before then, we get US PCE on Friday, whereby Powell post-FOMC said PCE prices likely rose 2.5% in February and core PCE prices probably rose 2.8%. Elsewhere, crude-specific drivers remained fairly light with no notable updates on the Middle East or Russia/Ukraine. Despite saying this, Zelensky according to their intelligence, Russia is getting ready for new offensives against the Sumy, Kharkiv, and Zaporizhzhia regions. Meanwhile, Ukraine's foreign ministry spokesman said neither Russia nor Ukraine have attacked each other's energy infrastructure since March 25th. For the record, WTI traded between USD 69.12-69.91/bbl and Brent 73.23-74.05/bbl.

EQUITIES

CLOSES: SPX -0.33% at 5,693, NDX -0.59% at 19,799, DJI -0.37% at 42,300, RUT -0.39% at 2,066

SECTORS: Energy -0.85%, Communication Services -0.84%, Technology -0.75%, Industrials -0.51%, Real Estate -0.25%, Financials -0.23%, Utilities -0.04%, Materials -0.03%, Consumer Discretionary +0.09%, Health +0.19%, Consumer Staples +1.00%.

EUROPEAN CLOSES: DAX: -0.77% at 22,664, FTSE 100: -0.27% at 8,666, CAC 40: -0.51% at 7,990, Euro Stoxx 50: -0.66% at 5,376, AEX: -0.26% at 915, IBEX 35: -0.07% at 13,423, FTSE MIB: +0.10% at 39,099, SMI: -0.62% at 12,859, PSI: +0.18% at 6,899.

STOCK SPECIFICS:

- **AMD (AMD):** Downgraded to 'Hold' from 'Buy' at Jefferies.The firm cites the company's "limited traction" in AI, its belief that Street estimates are too high, and expectations of mounting competition from Intel (INTC) for the downgrade.
- **Nio (NIO):** Proposes to offer up to 118.8mln Class A shares.
- **Nvidia (NVDA):** H3C says NVDA H20 chip stocks are nearly depleted & new shipments due Mid-April.
- **Microsoft (MSFT):** Mulls developing its own high-end generative AI.
- **Jefferies (JEF):** EPS & revenue light with downbeat commentary.
- **Robinhood (HOOD):** Introducing wealth management. & private banking for retail investors.
- **H.B. Fuller (FUL):** EPS & revenue topped with midpoint of FY profit view better than expected.
- **Verint Systems (VRNT):** Adj. EPS and revenue missed; issued cautious FY26 guidance.
- **Alibaba (BABA):** Alibaba Cloud has launched Qwen2.5-Omni-7B, a compact, multimodal AI model processing text, images, audio, and video with real-time responses.
- Gotham published a short report on **Kyndryl Holdings (KD).** Kyndryl said the report is inaccurate and misleading.
- **Luminar (LAZR):** Collaborated with Caterpillar (CAT) on an industrial autonomous solution.
- Muddy Waters says short **AppLovin (APP).**

FX

The Dollar Index largely erased Wednesday's gains as auto tariff confirmation arrived from US President Trump. The tariffs are set to be on all cars not made in the US, and the President reiterated tariffs incoming on pharmaceuticals and lumber. That said, the Dollar was weaker despite increased tariff aggression, possibly on continued growth concerns it may bring to the US, but also due to the fact the tariffs are not effective immediately but will go into effect on April 2nd, alongside the reciprocal tariffs, on which Trump has previously said he will likely be more "lenient than reciprocal". Moreover, Trump threatened both the EU and Canada with large-scale tariffs if they collude with the aim to cause the US economic harm. US data had little influence over FX moves. Final revisions to the Q4 GDP report were mixed; GDP and GDP sales were revised higher, core PCE prices and the GDP deflator estimates were lowered, as was consumer spending. Separately, initial claims continue to hover around 225k, while continued claims fell more than expected in the week that coincides with the usual payrolls period. Rabobank noted, "In our view, short covering can support the USD on a 3-month view as the market unwinds some of its recent Fed rate cutting bets". The PCE report on Friday is the key event ahead; expectations are as follows: 2.7% for core Y/Y, and 0.3% for core M/M. As a reminder, Fed Chair Powell post-FOMC said PCE prices likely rose 2.5% in February and core PCE prices probably rose 2.8%. Final UoM revisions for March are also due.

G10 FX had an upward bias, gains were led by the Pound and Scandis while CAD and JPY lagged in the red. For the CAD, US-Canada trade tensions remained ahead of Canadian GDP on Friday, albeit Ontario Premier Ford said he agreed with PM Carney to not impose countermeasures til April 2nd. In other words, Canada is waiting to see what the US will do on "Liberation Day". Elsewhere, EUR/USD snapped its six-day losing streak. Attention is now on the US tariff decisions on the EU on April 2nd and whether it will meet or exceed/not exceed the 20-25% range suggested by Politico and FT sources. For Cable, gains were seen as the lesser-tariff-exposed currency outperformed, erasing losses seen post-UK budget; Cable sits at 1.2950 ahead of UK GDP (Q4) and retail sales (Feb) on Friday. In Japan, newsflow was light ahead of Tokyo CPI overnight; USD/JPY climbed to ~ 151.10, with the March high of 151.30 approaching

NOK was firmer vs. the EUR and USD following the Norges Bank decision to keep rates unchanged, a decision in line with most desks, though some looked for a 25bps cut. Ahead, the central bank held the view that the policy rate could be eased in 2025 and gradually over the next few years. Additionally, the change in pricing now points to a more hawkish scenario (in line with exp.) with two cuts seen by the end of 2025, from the three cuts implied by the December MPR. ING expects a EUR/NOK rebound in the coming weeks with a return to 11.50, possibly by mid-April.

EMFX: CEE FX outperformed with gains largely seen while LatAm FX was mainly lower; losses were led by the COP and MXN, while BRL was hit on Brazilian press Folha reports that the US is to target all Brazil sectors "If imposes tariffs on it". For MXN, little reaction was seen on Banxico's decision to cut by 50bps (as expected), with weakness expected in the Mexican economy once again in Q1 2025. The decision was unanimous.

CNH saw modest strength amid a couple of notable updates. Firstly, China rejected Trump's offer of tariff waivers in exchange for a TikTok deal. Meanwhile, the PBoC Deputy Governor said monetary policy is supportive and relatively loose, as well as reiterating they will cut interest rates and the RRR at the appropriate time.