

Risk sentiment improves on less aggressive tariff hopes as 'Liberation Day' awaits

- **SNAPSHOT:** Equities up, Treasuries up, Crude down, Dollar flat
- **REAR VIEW:** CNBC says out of the 3 main scenarios Trump is looking at, blanket 20% is the least likely; WaPo earlier said White House plans 20% tariffs on most imports; US ISM Mfg. falls more than expected & prices paid surge; US JOLTS falls short; Atlanta Fed GDPnow (Q1) revised lower; OPEC+ not expected to change April output plan; RBA holds cash rate as expected; US judge rejected JNJ 's bankruptcy proposal to settle lawsuits.
- **COMING UP:** **Data:** US ADP, Factory Orders. **Events:** US Tariff Implementation Date "Liberation Day", EU Defence Ministers Meeting, NBP Base Rate. **Speakers:** RBA's Kent, Bullock; ECB's Schnabel, Lane, Lagarde; Fed's Kugler, US President Trump. **Supply:** Australia, UK & Germany

MARKET WRAP

US indices saw choppiness and ultimately ended firmer with gains seen in the SPX and NDX, as risk sentiment was boosted after CNBC's Megan Casella said there are three main options that US President Trump is looking at, with blanket 20% tariffs less likely than tiered system of three different rates and also country-by-country rates. On top of this, CAD and MXN firmed against the Dollar as she added that Canada/Mexico fentanyl tariffs are expected to be lifted. Prior to this, risk sentiment was lacklustre, and US indices were seeing losses with Treasuries gaining after Washington Post sources said the White House aides have drafted a proposal to impose tariffs of around 20% on at least most imports to the US, and the move was further accentuated after dismal US data. ISM Mfg PMI fell deeper than expected into contractionary territory, with weak sub-indices and prices paid soaring, while JOLTS (at the same time) printed short of the Wall St. consensus. In wake of the data (incl. Construction spending) Atlanta Fed GDPNow Q1 model was revised down to -3.7% (prev. -2.8% on March 28th), with the Gold adjusted -1.4% (prev. -0.5%). Sectors were predominantly firmer, mega-caps (Cons. Disc., Comms. Tech) lead the way, and Health lagged as it was weighed on by Johnson & Johnson (JNJ) (-7.6%) as a US judge rejected Cos. USD 10bln bankruptcy proposal to settle lawsuits. Overall, Treasuries bull flattened with T-Notes off post-data peaks given positive tariff developments, which also saw the Dollar generally softer against peers in addition to the soft US data. Ahead, it goes without saying the highlight is 'Liberation Day' with President Trump set to speak at the Rose Garden event at 16:00EDT/21:00BST.

US

ISM MANUFACTURING: ISM Manufacturing PMI for March was a grim report, with the headline falling to 49.0 from 50.2 and beneath the expected 49.5. The inflationary gauge of prices paid jumped to 69.4 (prev. 62.4, exp. 65.0) and outside the top end of the forecast range. On this, Capital Economics notes it is still some way below its pandemic, even after rising again in March, it seems likely to increase further next month once more tariffs come into effect. However, new orders and employment dipped to 45.2 (prev. 48.6) and 44.7 (prev. 47.6), respectively, while production dropped back beneath 50 to 48.3 from 50.7. Backlog of orders, new export orders, and imports all fell as well. Inventories jumped 3.5 points and limited the damage to the headline figure and likely reflects some stock building ahead of the tariff announcement on April 2nd. Once again, respondent comments were largely dominated by tariff concerns and just picking out a few: 1) "Customers are pulling in orders due to anxiety about continued tariffs and pricing pressures"; 2) "Business condition is deteriorating at a fast pace. Tariffs and economic uncertainty are making the current business environment challenging"; 3) "Newly implemented tariffs are significantly impacting gross profits". Overall, CapEco said the slight dip in the headline suggests that, rather than triggering a reshoring factory renaissance, the uncertainty surrounding President Trump's tariff threats are depressing activity.

JOLTS: The February JOLTS data saw Job Openings fall to 7.568m from 7.762m, beneath the 7.616m forecast, while the vacancy rate slipped to 4.5% from 4.7%, with the quits rate unchanged at 2.0%. Note, in July 2024, Fed's Waller cited his own research with Fed economist Andrew Figura from 2022 on the Beveridge curve. He said that they projected that if layoffs were steady, the unemployment rate would rise to around 4.5% if the job vacancy rate dropped back to its pre-pandemic level of 4.6%. Analysts at Pantheon Macroeconomics write that elevated economic policy uncertainty began to weigh on labour demand in February, but warns a bigger decline likely lies ahead due to the increased uncertainty over the past month.

FIXED INCOME

T-NOTE FUTURES (M5) SETTLED 18 TICKS HIGHER AT 111-25

Treasuries bull flatten with T-Notes off post-data peaks as risk sentiment improves on less aggressive tariff hopes. At settlement, 2s -4.3bps at 3.869%, 3s -5.1bps at 3.852%, 5s -6.8bps at 3.913%, 7s -7.8bps at 4.031%, 10s -8.4bps at 4.161%, 20s -8.3bps at 4.555%, 30s -9.4bps at 4.520%.

INFLATION BREAKEVENS: 5yr BEI -3.0bps at 2.498%, 10yr BEI -3.0bps at 2.339%, 30yr BEI -2.2bps at 2.235%.

THE DAY: T-Notes continued to advance higher on Tuesday throughout the overnight and European morning, although strength had pared as US equity futures started rising in pre-market trade with risk sentiment improving. Nonetheless, around the US data at 10:00 EDT, T-Notes took out the earlier highs peaking at 111-30+ after a weak ISM Manufacturing PMI report and fall in the February

JOLTS data. The bid was short-lived, however, potentially as although the data was soft, the ISM Manufacturing Prices PMI was much hotter than expected. Meanwhile, CNBC reported that US President Trump has three options regarding trade and tariffs. 1) Blanket 20% tariffs, 2) a tiered system of three different rates, 3) country-by-country rates. One official said the first option was less likely than the other two, with the goal being country-based tariffs. She also reported that Canada/Mexico fentanyl tariffs are expected to be lifted. This helped boost risk appetite with equities pushing higher while T-notes were sold back to c. 111-25 ahead of settlement.

AHEAD: The focus on Wednesday is primarily on the Rose Garden event with US President Trump, who is set to announce reciprocal tariff rates on countries at 16:00EDT/21:00BST. Thereafter, attention lies on economic data with ISM Services PMI due on Thursday with NFP on Friday, ahead of Fed Chair Powell. Money markets are now pricing in 79bps of easing through year-end vs. Monday's 74bp, with traders boosting rate cut bets after the soft JOLTS and ISM data. NFP will help paint a clearer picture of the US labour market on Friday, but the March report may be too soon to show the full impact of Trump policies, although the DOGE layoffs are expected to weigh more than what was seen in February.

SUPPLY:

US Treasury sold:

- USD 50bln in 14-day CMBs at a high rate 4.250%, covered 3.43x.
- USD 74bln (exp. USD 70bln) of 6wk bills at a high rate of 4.245% (upsized due to SOMA reinvestments).

US Treasury to sell:

- USD 60bln (prev. 60bln) of 17wk bills on April 2nd. USD 80bln (prev. 75bln) in 4wk bills on April 3rd.
- USD 75bln (prev. 75bln) of 8wk bills on April 3rd.

STIRS/OPERATIONS:

- **Market Implied Fed Rate Cut Pricing: May 5bps (prev. 5bps), June 22bps (prev. 21bps), July 38bps (prev. 36bps), Dec 79bps (prev. 74bps).**
- NY Fed RRP op demand at USD 230bln (prev. 399bln) across 36 counterparties (prev. 67).
- SOFR at 4.41% (prev. 4.34%), volumes at USD 2.636bln (prev. 2.440bln).
- EFR at 4.33% (prev. 4.33%), volumes at USD 78bln (prev. 112bln).

CRUDE

WTI (K5) SETTLED USD 0.28 LOWER AT 71.20/BBL; BRENT (K5) SETTLED USD 0.28 LOWER AT USD 74.49/BBL

The crude complex saw slight losses in tight ranges, as participants await 'Liberation Day' on Wednesday. WTI and Brent were largely sideways but saw some choppiness through the day, as benchmarks saw strength after Reuters sources in the EU morning said Kazakhstan will have to start reducing oil production within days as the CPC pipeline reduces intake and CPC repairs will take more than a month. However, Kazakhstan quickly refuted this, saying oil shipments via CPC are going without restrictions. In addition, energy saw slight weakness on dismal US data as ISM Mfg. was the highlight, which disappointed, and JOLTS fell short of the Wall St. consensus. On the supply side, Reuters sources noted the eight members of OPEC+ that have been making voluntary oil output cuts will meet on Thursday, while sources added OPEC+ is not expected to change its plan to gradually raise its oil output from April. Regarding Ukraine/Russia, the latter's defence ministry said Ukraine continues to attack its energy infrastructure, while Zelensky said Kyiv provides US evidence of Russian ceasefire violations on a daily basis. Finally, Fox News's Jacqui Heinrich reported that US President Trump believes Russian President Putin is stalling, and the admin is eyeing aggressive sanctions enforcement, including Russian 'shadow fleet'. Ahead, private inventory data is after-hours (expectations below) before all focus turns to 'Liberation Day'. Expectations (bbls): Crude -2.1mln, Distillate -1.0mln, Gasoline -1.7mln, Gasoline -1.7mln.

EQUITIES

CLOSES: SPX +0.38% at 5,633, NDX +0.82% at 19,436, DJI -0.03% at 41,990, RUT +0.02% at 2,012

SECTORS: Health -1.75%, Financials -0.16%, Real Estate +0.09%, Consumer Staples +0.28%, Utilities +0.30%, Materials +0.32%, Energy +0.58%, Industrials +0.60%, Technology +0.95%, Communication Services +1.02%, Consumer Discretionary +1.14%.

EUROPEAN CLOSES: DAX: +1.67% at 22,534, FTSE 100: +0.61% at 8,635, CAC 40: +1.10% at 7,876, Euro Stoxx 50: +1.30% at 5,316, AEX: +0.72% at 905, IBEX 35: +1.40% at 13,320, FTSE MIB: +1.33% at 38,557, SMI: +0.73% at 12,690, PSI: +1.24% at 6,951.

STOCK SPECIFICS:

- **Chip Names:** Lutnick considering withholding promised grants under Chips Act unless semiconductor Cos. significantly expand US investments.
- **Johnson & Johnson (JNJ):** US judge rejected Cos. USD 10bln bankruptcy proposal to settle lawsuits.
- **Boeing (BA):** Reportedly slowed production of 737 Max jets to 31/mnth (targeted 38/mnth), although BA later refuted the report.
- **PVH (PVH):** Top and bottom line beat; FY profit view much better than expected.
- **Intel (INTC):** Plans to spin off non-core assets.
- **Progress Software (PRGS):** EPS and revenue topped; Next quarter outlook topped & raised FY.
- **Live Nation (LYV):** US President Trump signed an executive order targeting ticket scalping.
- **Warner Bros Discovery (WBD):** Adding Anton Levy to its board following pressure from activist investor Sessa Capital.

- **Ulta Beauty (ULTA):** Upgraded to 'Buy' from 'Neutral' at Goldman Sachs, believing the bottom has likely been reached regarding concerns with prestige and mass beauty industry growth and notes tariff risk is low for Ulta.
- **US airlines:** United Airlines (UAL), Delta Airlines (DAL), and Southwest Airlines (LUV) were all downgraded at Jefferies; LUV is now 'Underperform' from 'Hold', DAL and AAL now 'Hold' from 'Buy'. The firm sees March exit rates pressuring summer as corporate and consumer sentiment are seen remaining soft on "swelling macro uncertainty"; adds American, Southwest must cut their 2025 outlooks, and that Delta likely will too.
- **OpenAI:** CEO Altman said can expect new releases from OpenAI to be delayed.
- **Alibaba (BABA):** Reportedly preparing for the release of its flagship AI model as soon as April, via Bloomberg.
- **Hims and Hers (HIMS):** To sell Eli Lilly's (LLY) Zepbound through Telehealth platform, via Bloomberg.
- **Apple (AAPL):** The US labour watchdog froze two cases against Apple days after Donald Trump nominated an attorney who represents the tech group to be the agency's top legal official, via FT.
- **Meta (META):** Begins work on 2nd-gen glasses with dual screens and Meta's first glasses with display will have hand controls and apps, according to Bloomberg. Meanwhile, Meta has been fined a "substantial" amount for not complying with orders from Turkish authorities to limit content, a spokesperson told POLITICO.
- **Visa (V), American Express (AXP):** Are bidding to win Apple's (AAPL) credit-card network, according to WSJ citing sources.
- **WNS Holdings (WSN):** Exploring a sale after receiving takeover interest from potential buyers, including Capgemini

FX

The Dollar Index chopped in a tight range on Tuesday amid conflicting reports on "Liberation Day" tariffs; upside vs the EUR was offset by losses against the JPY, CAD, AUD, and SEK. Modest upside was seen in the US morning on WaPo reports that US White House aides have drafted a proposal to impose tariffs of around 20% on at least most imports to the United States. Later, WaPo also reported that the EU is mulling targeting big US tech firms in response to tariffs. That said, CNBC's Casella cited a US official who noted that 20% blanket tariffs are less likely than a tiered system of three different rates or a country-by-country rate approach, which saw a reversal in risk sentiment. Additionally, CNBC noted that Canada/Mexico fentanyl tariffs are expected to be lifted. As such, CAD outperformed amongst major peers. On data, gains in the DXY paled, which saw the ISM Mfg headline incur a deeper decline into contractionary territory than expected, and JOLTS fell short of expectations. Despite the larger-than-expected rise in construction spending, Atlanta Fed's GDPnow model now forecasts a Q1 contraction in GDP growth of 3.7% (prev. 2.8%), with the "gold-adjusted" model now posting to a 1.4% GDP growth decline (prev. -0.5%). Trump's announcement of reciprocal tariffs on Wednesday will be the key event, with the Rose Garden event scheduled to start at 16:00EDT/21:00BST. Separately, ADP and factory orders are due.

G10 FX was generally firmer against the USD ahead of "Liberation Day", gains were led by CAD, JPY, NZD, Scandi's and AUD. GBP and CHF were unchanged. Excluding updates concerning US trade policy, newsflow for G10 currencies was mainly light, with the RBA the main highlight (see below). The Euro lagged despite Bloomberg's report on Monday that several ECB officials are wavering on whether to cut interest rates next month, suggesting current Refinitiv market pricing (sees 80% chance of 25bps cut) of a rate cut in April is on the optimistic side. Data out of Europe saw EZ headline Y/Y HICP in line, while core eased more than expected, and the EZ unemployment rate unexpectedly fell to 6.1% (prev. 6.2%). As it stands, EUR/USD trades ~1.0790 with JPM noting a 10% US tariff (assuming a blanket 10% that also cancels/replaces Canada/Mexico tariffs but not China) would see EUR/USD fall to 1.06-1.07; 25% tariffs see EUR/USD falling to 1.03-1.05, as USD behaves as a safety haven; 35% tariffs see EUR/USD falling to 1.01-1.03.

AUD was immediately choppy on the RBA's decision to keep the Cash Rate unchanged at 4.1% as widely expected. The statement offered little on future policy adjustments, stating that the outlook remains uncertain, underlying inflation is moderating, and sustainably returning inflation to target is the priority. Governor Bullock, in the post-meeting press conference, said the board didn't discuss a rate cut and has not made up its mind on a May move. Currently, AUD pricing has ~69bps of easing by year, a prospect that Capital Economics disagrees on. "With GDP growth broadly back to trend and the monetary policy stance not particularly restrictive, we think the Bank will instead only cut its policy rate by another 50bps".

EMFX: Performance was mixed in the space, LatAm peers were firmer across the board, with the MXN outperformance likely buoyed by CNBC's Casella noting Canada/Mexico tariffs are expected to be lifted. Following the recent Banxico rate decision to cut by 50bps (expects economic weakness again in Q1 25), the latest Reuters poll sees USD/MXN to trade relatively stable at 20.55 in 6 months (prev. 20.89 in March). Elsewhere, CNH was softer despite China's Caixin Mfg PMI being revised higher in March to 51.25 (prev. 51.1), while the ZAR was one of the worst performers amid a key South African Parliamentary committee agreeing to recommendations for further budget changes.

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