

Risk sentiment reverses as US officials confirm tariffs are to go into effect

- **SNAPSHOT:** Equities down, Treasuries down, Crude down, Dollar down.
- **REAR VIEW:** White House confirms China 104% tariffs set to be implemented from 00:01EDT April 9th; US reciprocal tariffs set to go into effect; Many US officials say c. 70 countries have reached out for trade talks, but Trump has been clear that he will not do tariff exemptions in the near term; Trump posted on China wants a deal, and "it will happen!"; Weak US 3yr auction.
- **COMING UP:** **Data:** US Wholesale Sales **Events:** RBNZ, RBI Policy Announcements; FOMC Minutes **Speakers:** BoJ's Ueda; ECB's Knot, Cipollone; Fed's Barkin **Supply:** Australian, UK, US **Earnings:** Delta, Constellation Brands.

MARKET WRAP

Markets were, once again, extremely volatile with earlier risk on sentiment faded by the US close. Early upside was supported by commentary from US officials that many countries are looking for trade deals with the US, while Trump posted on Truth that China wants a deal, they just don't know how to make one, noting "It will happen!". However, after the US equity open sentiment soured as officials were clear that reciprocal tariffs are set to come into force tonight as planned. Meanwhile, the downbeat sentiment accelerated as it was reported that China has missed the deadline to avoid the additional tariffs which are set to go into force tonight. Note, US President Trump is reportedly yet to sign the additional tariff bill, however, via CNBC's Javers, there will be no social media/live stream announcement of the signing- so we may have to wait and see it implemented on the federal register for confirmation after midnight tonight. With reciprocal tariffs on trading partners and additional tariffs on China set to come into force tonight, stocks ultimately closed heavily in the red with SPX closing sub-5k for the first time since April 2024. T-Notes were very choppy with the curve steepening with Treasuries largely tracking risk sentiment but a soft 3yr auction did add to pressure while post-settlement the steep equity slide also saw weakness in T-Notes. In FX, the Dollar was sold on economic fears while JPY and CHF outperformed, EUR and GBP were also bid while AUD lagged although USD/CNH hit record highs on the aforementioned additional tariff implementation. Crude prices continued to be sold in risk-off trade.

GLOBAL

TRADE: The White House Press Secretary announced additional tariffs on China will go into effect from the start (00:01) of April 9th with China set to face tariffs of 104% as they missed the deadline to remove their tit-for-tat 34% tariffs on the US. She also noted how reciprocal tariffs are also set to be implemented as planned. Many officials mentioned that around 70 countries have reached out to the US for trade talks, but USTR's Greer noted how Trump has been clear that he will not do tariff exemptions in the near term. With reciprocal tariffs set to come into effect, and many countries reaching out for talks, the current lay of the land appears to be an implementation of the tariffs as planned and then negotiations will continue over the next several months - Treasury Secretary Bessent said it is going to be a busy April and May, and maybe into June. Note, US President Trump posted on Truth in the US morning (just before the open) that China wants to make a deal... they are awaiting their call and "It will happen!". Although the focus has been on tariffs, it is worth stressing that officials continue to state that non-tariff barriers are also an issue. In regards to talks, US has noted they are prioritising Japan and South Korea in tariff talks.

RESPONSES: China strongly opposed 50% additional tariff and urged a resolution of disputes with the US via dialogues; China said it will take necessary measures, and notes if the US insists on waging a trade and tariff war, China will fight until the end. The EU said they will present a plan for tariff response early next week, noting they are ready to discuss and negotiate with US on energy, noting all instruments are on the table, including LNG. South Korea's Acting President said they will not band together with China and Japan to counter US tariffs, noting they would like to negotiate with US President Trump.

FIXED INCOME

T-NOTE FUTURES (M5) SETTLED 19 TICKS LOWER AT 111-15

T-Notes chopped to volatile trade dynamics and two-way risk sentiment; 3yr auction was weak . At settlement, 2s -6.0bps at 3.678%, 3s -3.3bps at 3.707%, 5s +2.0bps at 3.862%, 7s +5.6bps at 4.041%, 10s +8.4bps at 4.241%, 20s +13.1bps at 4.759%, 30s +11.8bps at 4.712%

INFLATION BREAKEVENS: 5yr BEI +2.1bps at 2.294%, 10yr BEI +0.7bps at 2.207%, 30yr BEI +1.4bps at 2.182%.

THE DAY: T-Notes chopped with the curve steepening as ongoing volatility in markets continued as participants' ongoing trade updates. T-Notes saw a gradual bid overnight to peak in the European morning at a peak of 112-08, although as risk sentiment improved through Europe, it weighed on T-Notes to see a fresh low of 111-08. Supporting the move was a post on Truth from US President Trump that China wants to make a deal but does not know how to do it, saying "It will happen!". Officials had also been doing the rounds on business television talking about all the countries wanting to make deals. The majority of this downside reversed as sentiment soured once again after the US open as it became apparent that reciprocal tariffs are looking like they are set to take effect tonight as planned, upsetting those potentially bracing for some sort of delay. Many officials have stated countries are

reaching out for deals, but these tariffs are not a negotiating tactic and they are set to be implemented tonight. The White House Press secretary also confirmed that China has missed the deadline to remove its tit-for-tat tariffs on the US, therefore the additional 50% tariffs on China will be implemented tonight (taking the total import on goods to 104%). This accelerated the risk off with stocks ending the session around lows but T-Notes were more choppy, seeing upside back to c. 112-00 as sentiment soured. However, T-Notes then reversed after a weak 3yr-T-note auction to settle at 111-15, but with stocks pushing even lower into the close (ES back beneath 5k briefly), T-Notes were initially bid post settlement but failed to hold heading into the closing bell.

SUPPLY:

US Treasury sold:

- USD 58bln of 3yr notes at a high yield of 3.784%, below the prior 3.908% and tailing the WI by 2.4bps, a larger tail than the prior 0.6bps and six auction average of a 0.4bps tail - showing worse demand at the April offering when compared to both the March supply and six auction average. The Bid-to-Cover was also soft at 2.47x (prev. 2.7x, average 2.62x). The breakdown saw direct demand plummet to just 6.2% from 26%, although indirect bidders helped pick up the slack, rising to 73% from 62.5%, although it was not enough to completely offset the weak direct demand as dealers took home an above average and prior 20.7%. Overall, a weak 3yr auction.
- USD 70bln of 6wk bills at a high rate of 4.265%, B/C 2.83x

US Treasury to sell:

- USD 39bln of 10yr notes on April 9th
- USD 22bln of 30yr bonds on April 10th
- USD 60bln of 17wk bills on April 9th
- USD 75bln of 8wk bills on April 10th
- USD 85bln of 4wk bills on April 10th

STIRS/OPERATIONS:

- **Market Implied Fed Rate Cut Pricing:** May 14bps (prev. 10bps), June 41bps (prev. 34bps), July 64bps (prev. 55bps), Dec 107bps (prev. 95bps)
- NY Fed RRP op demand at USD 157bln (prev. 148bln) across 34 counterparties (prev. 30)
- SOFR at 4.33% (prev. 4.35%), volumes at USD 2.630tln (prev. 2.587tln).
- EFFR at 4.33% (prev. 4.33%), volumes at USD 93bln (prev. 95bln).

CRUDE

WTI (K5) SETTLED USD 1.12 LOWER AT 59.58/BBL; BRENT (K5) SETTLED USD 1.39 LOWER AT 62.82/BBL

The crude complex was choppy, but ultimately lower and sold off through the latter end of the US session as risk sentiment soured. On this, risk sentiment was initially buoyed in the morning and reversed recent trends on Tuesday as stocks were heavily bid, after the recent flogging, but this soon changed and was further exacerbated by reports that US tariffs on China will go into effect at midnight EST tonight. As such, this even turned US equities negative, which had been up as much as 4% earlier in the session. Once again, the energy space was dominated by the broader macro sentiment and tariff newsflow, as opposed to anything oil-specific. Despite saying that, AP reported that Keystone oil pipeline in North Dakota reportedly was shut after a rupture, which was seemingly later confirmed as South Bow confirmed the news. On the geopolitical footing, Ukrainian President Zelensky stated Kyiv's forces fought six Chinese soldiers in Eastern Ukraine and took two of them prisoner. Meanwhile, South Korean military fired warning shots at around 10 North Korean soldiers who violated the demarcation line between the two Koreas. North Korean soldiers then returned North. For the record, WTI traded between USD 59.37-61.75/bbl and Brent 62.68-65.21/bbl. Ahead, private inventory data is after-hours, whereby current expectations are (bbls): Crude +1.4mln, Distillate +0.3mln, Gasoline -1.5mln.

EQUITIES

CLOSES: SPX -1.57% at 4,983, NDX -1.95% at 17,090, DJI -0.84% at 37,646, RUT -2.57% at 1,764.

SECTORS: Materials -2.96%, Consumer Discretionary -2.54%, Energy -2.48%, Real Estate -2.46%, Technology -2.17%, Consumer Staples -1.35%, Communication Services -1.25%, Health -1.06%, Industrials -0.89%, Utilities -0.48%, Financials -0.41%.

EUROPEAN CLOSES: DAX: +2.36% at 20,256, FTSE 100: +2.71% at 7,911, CAC 40: +2.50% at 7,100, Euro Stoxx 50: +2.86% at 4,789, AEX: +2.82% at 824, IBEX 35: +2.38% at 12,067, FTSE MIB: +2.44% at 33,657, SMI: +3.12% at 11,389, PSI: +2.80% at 6,438

STOCK SPECIFICS:

- **Marvell Technology (MRVL):** Infineon will acquire Cos. automotive ethernet unit for USD 2.5bln in cash
- **Broadcom (AVGO):** Authorised USD 10bln share repurchase programme.
- **Levi Strauss (LEVI):** Profit topped & affirmed guidance
- **CVS Health (CVS):** CFO Cowhey is set to leave amid leadership changes under new CEO Joyner; expects financial results to meet or exceed 2025 guidance
- **CVS Health (CVS), UnitedHealth Group (UNH), Humana (HUM), Elevance Health (ELV) :** Trump admin approved a 5.06% rate rise for Medicare Advantage plans well above the 2.23% bump that the Biden admin proposed.
- **Walgreens Boots Alliance (WBA):** Top and bottom line beat; withdrew FY25 guidance citing pending Sycamore deal
- **Robinhood Markets (HOOD):** Downgraded at Morgan with a USD 40 PT (prev. 90); firm sees risks for retail dis-engagement to pressure trading revenue at HOOD, given a tougher macro backdrop with greater need to hedge risks; has led the firm to cut

EPS estimates.

- **Samsung Electronics:** Prelim Q1 op. profit & sales beat w/ strong shipments of chips and AI features in the Galaxy S25.
- **Micron (MU):** Tells US customers it will impose a tariff related surcharge on some products from April 9th, according to Reuters citing sources.
- Spruce Point releases report and strong sell research opinion on **Monster Beverage (MNST)**.
- **TSMC (TSM):** Could reportedly face fine of USD 1bln or more from US probe of Huawei AI Chip, according to Reuters citing sources.

FX

The Dollar tumbled, and while it was initially weighed by a reversal in risk sentiment to start the session, which saw equities and all G10 peers bid, before that once again altered amid significant China tariff worries. As such, concerns sank back into the market into the close and ahead of the tariff deadline - the DXY hit lows of around 102.750 and currently sits around 102.90. Additionally, JPY and CHF saw chunky haven appeal. While Trump tariff talk dominated the slate again, the key update came in the US afternoon when numerous wires, citing US officials, reported that the US is moving forward with 104% China tariffs and additional China tariffs starting at 12:01 am April 9th. As a result, this caused the reversal in risk sentiment to see equities dive into the close, as did the Dollar. Elsewhere, newsflow was actually fairly sparse as all attention resides around tariff updates, calls between various countries, and if any deals can be reached. Highlighting this, there was no tier 1 US data and only Fed speak from Goolsbee and Daly, but they said little new.

AUD was the G10 laggard vs. the Buck, despite being one of the initial outperformer as risk sentiment improved. However, and as mentioned, as it soured so did the appetite for the AUD, as AUD/USD fell to a low of 0.5952 against an earlier high of 0.6085. Its Antipodean counterpart, **NZD**, saw slight gains albeit the pair currently hovers just above lows of 0.5531, vs. highs of 0.5625. Ahead, RBNZ overnight is the highlight whereby the central bank is widely expected to cut by 25bps to 3.5%.

Safe-haven FX, JPY and CHF, were the clear gainers with their respective pairs vs. the Buck sitting at lows as risk sentiment cratered into the close and boosted haven appeal, as mentioned above, as China tariff woes undermined anything else. USD/CHF and USD/JPY hover around 0.8475 and 146.30, respectively. In terms of updates out of Japan, Chief Cabinet Secretary Hayashi stated PM Ishiba is considering visiting the US to meet with Trump. Additionally, US Treasury Secretary Bessent said he has not seen a trade offer from Japan and expects Japan to get priority in negotiations because they came forward early. For the record, BoJ Governor Ueda speaks afterhours.

GBP and **EUR** strengthened against the Greenback, as they benefitted off the floundering Dollar given the widely mentioned trade updates. Despite saying this, EUR and GBP were already seeing gains prior to this. For the Pound, UK-specific drivers were light, and desks continue to look to see how the UK positions itself between the US and EU with Starmer noting last week that discussions on an economic deal with the US are "well advanced". There was a slew of ECB speakers on the wires, as well as BoE's Lombardelli but little moved the needle. Cable printed above 1.28 at the highs but failed to hold above it, while EUR/USD once again tested 1.10 to the upside.

EMFX was broadly lower, as CLP, MXN, BRL, Yuan, ZAR, and COP all saw losses with USD/CNH hitting a record high after White House stated the 104% China tariff will be collected.

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