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US Market Wrap - 16th April 2025

Risk off trade amid US/China tensions while Powell sticks to script

- **SNAPSHOT**: Equities down, Treasuries up, Crude up, Dollar down
- **REAR VIEW**: Trump orders investigation into critical minerals imports; NVDA & AMD face US export restrictions to China; China said to be open to talks if Trump shows respect; Powell still favours wait-and-see approach; US retail sales slightly beat, industrial output falls short; Atlanta Fed GDPnow (Q1) revised up; BoC hold rates, vs split expectations; China GDP (Q1) tops forecasts; EIA crude stocks show slightly bigger build than anticipated; Cooler-than-expected UK CPI; ASML falls short on revenue and bookings.
- **COMING UP**: **Desk Closure (Good Friday Related):** The desk will operate its usual schedule until Thursday April 17th 2130BST at which point, the desk will close. **Data:** Japanese Trade, Australian Jobs, German Producer Prices, US Jobless Claims, Philly Fed Index. **Events:** ECB, CBRT, BoK Policy Announcement. **Speakers:** BoJ's Ueda & Nakagawa, ECB President Lagarde, Fed's Barr & Williams. **Supply**: France, US. **Earnings:** TSMC, UnitedHealth, American Express, DR Horton, Netflix, Sainsbury's, Rentokil, L'Oreal.

MARKET WRAP

Stocks were sold while havens were bid, although the DXY approached YTD lows. Trade tensions with China remain high, US President Trump launched an investigation into national security risks posed by US reliance on imported processed critical minerals. Trump is also plannning to use negotiations with over 70 countries to ask them to disallow China to ship goods through their countries. Additionally, the US put export restrictions on certain Nvidia and AMD chips to China following the recent halt China imposed on Boeing deliveries. The latter update weighed on chip names, with NVDA, AMD and INTC tumbling. This saw tech post the largest losses in the sector space, while Nasdaq underperformed. The majority of sectors were red, with the large-cap sectors weighing but with outperformance in energy as crude prices were buoyed. Upside in crude started on Bloomberg reports that China is open to talks with the US, but only if US President Trump shows respect. Crude prices continued to gain after the US issued fresh Iran-related sanctions, including on a Chinese refiner said to be buying Iranian crude, while Treasury Secretary Bessent said they are prepared to take all actions available to get Iran's energy exports down to zero. The downside in stocks accelerated after Fed Chair Powell spoke, where he continued to tow the line that patience is needed until they get more clarity on the impact of tariffs. This is at odds with Governor Waller, who recently announced support for lowering rates sooner, and to a greater extent, in response to Trump's current large tariff policies. He also dismissed talks of a Fed put, noting markets are functioning and orderly. The risk-off trade gave a helping hand to havens (including Treasuries) with T-notes, Yen, Gold and CHF catching a bid into APAC trade before a last-minute bid in equities saw havens off best levels. Elsewhere, US data largely took the back seat, but retail sales rose 1.4% in March, above the Refinitiv consensus of 1.3%, with ex-autos also beating expectations with upward revisions. The control metric missed expectations, but this was offset by an upward revision to the prior. Meanwhile, IP was a touch softer than forecasted. NAHB Housing Market index beat, while business inventories were in line with expectations. The latest data saw an update to the Atlanta Fed GDPNow, which now tracks growth at -2.2% (prev. -2.4% on April 9th), with the gold-adjusted model at -0.1% (prev. -0.3%).

CENTRAL BANKS

FED CHAIR POWELL: Fed Chair Powell continued to tow the line the Fed is well-positioned to wait for greater clarity before considering a change to its policy stance. The key takeaway is that Powell is sticking to a wait-and-see approach, despite Governor Waller's preference to ease faster, and to a greater extent, in response to Trump's current tariff policy. Chair Powell warned the Fed may find itself in a challenging scenario in which dual-mandate goals are in tension; if that occurs, the Fed would consider how far the economy is from each goal and potential time horizons for those gaps to close. He noted that effects remain high in uncertainty, with administration policies still evolving. Powell added that so far, larger-than-expected tariffs likely mean higher inflation and slower growth, but the inflationary effects of tariffs could be more persistent, noting how it depends ultimately on inflation expectations. Powell said the Fed's obligation is to keep longer-term inflation expectations well-anchored. He remarked that the US is at or near maximum employment, while inflation is a bit above the 2% goal, with the labour market solid, broadly in balance and not contributing to inflation. On growth, he said the economy is solid despite uncertainty, but warned of downside risks, stating growth likely slowed in Q1 from last year's solid pace. Powell stated that the sharp decline in business, household sentiment, and elevated uncertainty reflect trade policy concerns. In the Q&A, Powell noted that tariffs are even later than in the Fed's upside estimates, warning car company supply chains are likely to be disrupted for years, and that could lead to inflation persistence.

FED'S HAMMACK (2026 Voter) said she sees a strong case to hold policy steady for now, policy patience will allow the Fed to gather more data on the economy. Further, she noted that being slow and reacting correctly is better than going too fast. If the job market holds, inflation rises, a more restrictive policy path is needed; If growth falters and inflation eases, the Fed could cut rates, even quickly. Hammack said high inflation and slow growth would present a challenge to Fed policy. On the economy, Hammack remarked that recent signals are mixed, and financial conditions have tightened. The Cleveland Fed President said the focus is on how markets impact the economy, she is not focused on asset prices per se. Hammock noted its key for the Fed to keep inflation expectations contained, which are "reasonably close" to desired levels, and added that recent market moves are somewhat unusual and hard to interpret.

BOC: The Bank of Canada left rates on hold at 2.75%, vs split expectations for a hold and for a 25bps cut, although both options

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were discussed. The BoC also left its estimate of the neutral rate unchanged between 2.25-3.25%, implying that current rates sit at the centre of the neutral range. The BoC also noted how they will support economic growth while ensuring that inflation remains well controlled. It stated it will proceed carefully, with particular attention to risks and uncertainties facing the domestic economy. The Bank of Canada acknowledged that major shifts in US trade policy have increased uncertainty, cut prospects for growth, and raised inflation expectations. However, it noted that longer-term inflation expectations are little changed, although short-term inflation expectations have moved up. It also noted that from April, inflation will be pulled down for one year by the removal of consumer carbon tax, while lower oil prices will also dampen inflation. Within the monetary policy report, the GC released two scenarios for their forecasts. In the first scenario, where most tariffs imposed are negotiated away, uncertainty is high but tariffs are limited in scope. Canadian growth weakens temporarily and inflation remains around the 2% target. In scenario two, where a long-lasting trade war unfolds, a protracted trade war causes Canada's economy to fall into recession this year and inflation rises temporarily above 3% next year. It also notes how many other trade policy scenarios are possible. There is also an unusual degree of uncertainty about the economic outcomes within any scenario, since the magnitude and speed of the shift in US trade policy are unprecedented. Within the MPR, the BoC updated its estimate of the output gap in Q1 to be between -1% and 0% (prev. -1.25% and -0.25%) indicating an economy in modest excess supply. Governor Macklem noted how the BoC are prepared to act decisively if incoming information points clearly in one direction, and their focus will be on assessing the downward pressure on inflation from a weaker economy, and the upward pressure from higher costs. In response to the rate decision, CAD saw strength as rate cut bets for this meeting were unwound, meanwhile looking ahead money markets are still pricing c. 50bps of easing by year-end, with the June decision currently priced as a coin flip.

US DATA

RETAIL SALES: US retail sales for March marginally topped expectations, with the headline printing 1.4% (exp. 1.3%, prev. 0.2%). Ex-Autos rose 0.5% (exp. 0.3%, rev. 0.7%), while ex-gas/autos remained at 0.8%, as the prior was revised up to 0.8% from 0.5%. Retail control came in at 0.4%, underneath the forecasted 0.6% and the previous 1.3%, which was revised higher from the initial 1.0%. On the headline, Pantheon Macroeconomics highlight that over two-thirds of the jump was due to a 5.3% rebound in auto sales, likely due to consumers bringing forward purchases in anticipation of the new tariffs on finished vehicles, which came into effect in early April. In addition, sales of building materials jumped 3.3%, electronics & appliances stores rose 0.8%, and clothing climbed 0.4%, while gasoline stations fell 2.5% and furniture sales dipped 0.7%. Pantheon Macroeconomics notes that, "Mapping this report's numbers onto the PCE provisionally suggests real consumers' spending increased by 0.36% last month." The consultancy adds, combined with the upward revisions to January and February's retail sales, that is consistent with quarterly annualized consumption of just over 1% in Q1, stronger than the 0.5% expansion they previously expected, but still the smallest increase since Q2 2023. Pantheon illustrate the slowdown from the pace of H2 last year is partly due to a weather-related hit to goods spending early in the quarter, and a broad-based slowdown in spending on services. Ahead, consumption over the next quarter or two looks set to be just as weak as Q1, if not weaker.

BUSINESS INVENTORIES: Business inventories in February rose by 0.2%, in line with expectations and cooling from the prior 0.3% rise, suggesting the data is yet to show the front-loaded inventory builds ahead of Trump's tariffs. Oxford Economics highlight that imports tend to lead business inventories by up to three months, and given imports surged ahead of Trump's tariffs, the desk suggests the tariff induced boost to stock building may have to wait until Q2. Oxford Economics note the positive GDP contribution from stock building may be a quarter of what is baked into the baseline and was earlier anticipated based on the January numbers. Another thing to bear in mind with inventory data, is commentary from Fed's Barkin, who noted firms typically have between 60-90 days of inventory. He suggested this could result in a delay of the inflationary impact from tariffs on the data. The Inventory/Sales ratio was relatively unchanged at 1.35months worth in February - it will be interesting to see if this is boosted in the month's ahead, as it may give an indication of when the tariffs start to impact inflation, as firms will likely run through their current ex-tariff inventory before adjusting prices to the tariffs.

NAHB: NAHB housing market index for April rose to 40.0 from 39.0, and above the expected 37.0. Within the release, the current sales conditions rose two points to 45, while sales expectations in the next six months fell to 43 from 47. Traffic of prospective buyers increased one point to 25. In commentary, the survey revealed that 29% of builders cut home prices in April, unchanged from March, however, the average price reduction was 5%, also the same rate as the previous month. Lastly, the use of sales incentives was 61%, rising slightly from 59% in March. Overall, Oxford Economics stated most builders are already seeing a tariff-induced rise in the cost of building materials. Despite the pressure of higher costs on their profit margins, builders continue to offer price cuts and other incentives to encourage sales.

FIXED INCOME

T-NOTE FUTURES (M5) SETTLED 11 TICKS HIGHER AT 111-13+

T-notes rally in risk-off trade after Powell maintains call for patience. At settlement, 2s -5.0bps at 3.778%, 3s -5.7bps at 3.778%, 5s -6.7bps at 3.896%, 7s -6.6bps at 4.067%, 10s -5.4bps at 4.269%, 20s -3.1bps at 4.779%, 30s -3.4bps at 4.742%

INFLATION BREAKEVENS: 5yr BEI -3.6bps at 2.243%, 10yr BEI -1.9bps at 2.172%, 30yr BEI -0.9bps at 2.149%.

THE DAY: T-notes were bid overnight as equity futures slumped in response to a USD 5.5bln charge at NVDA due to US export licensing, seeing T-notes hit 111-09, but a reversal was seen on reports that China is open to talks with the US, but only if President Trump is respectful. This took T-notes back down to later lows 110-31. There was two-way trade on the US Retail Sales report, which rose 1.4% in March, above the Refinitiv consensus of 1.3%, with ex-autos also beating expectations with upward revisions. The control metric missed expectations, but this was offset by an upward revision to the prior. Meanwhile, IP was a touch softer than expectations. NAHB Housing Market index beat, while business inventories were in line with forecasts. The latest data saw an update to the Atlanta Fed GDPNow, which now tracks growth at -2.2% (prev. -2.4% on April 9th), with the gold adjusted model at -0.1% (prev. -0.3%). T-notes saw mild upside ahead of Fed Chair Powell, who stuck to his script, noting the Fed is well-positioned to wait for greater clarity before considering any changes to the policy stance. This hit stocks, and briefly bonds, as it shows he is taking a different approach to Fed Governor Waller, who was supportive of acting sooner on rate cuts, and to a greater extent in response to the large Trump tariffs. Nonetheless, as stocks continued to slide, T-notes started to catch a bid in likely a safe haven play with other havens also performing well (gold, Yen and CHF). Elsewhere, the 20yr bond auction was in line with recent averages, but the stop through was solid.

SUPPLY:

US Treasury sold:

- USD 13bln of 20-year bonds on April 16th. The high yield of 4.810% was above the prior 4.632%, and stopped through the When Issued by 0.4bps. Not quite as impressive as the prior stop through of 1.4bps, but better than the six-auction average of a 0.8bps tail. The Bid-to-Cover of 2.63x was above the average but below the prior, also. The breakdown saw direct demand fall to 12.3% from 22.4%, beneath recent averages, while indirect demand rose to 70.68% from 68.8%, above recent averages. This left dealers with an above-average 17% of the auction, up from the prior 8.8%.
- USD 60bln of 17-week bills at a high rate of 4.255%, B/C 2.75x

US Treasury to sell:

- USD 25bln of 5yr TIPS on April 17thUSD 85bln of 4wk bills on April 17th
- USD 75bln of 8wk bills on April 17th

STIRS/OPERATIONS:

- Market Implied Fed Rate Cut Pricing: May 5bps (prev. 5bps), June 20bps (prev. 21bps), July 41bps (prev. 39bps), Dec 91bps (prev. 86bps).
- NY Fed RRP op demand at USD 55bln (prev. 89bln) across 30 counterparties (prev. 23)
- Treasury Buyback (Cash management, nominal coupons 1mth-2yr): Accepts USD 8.5bln (max. 8.5bln) of 16bln offers; Accepts 29 issues of 40 eligible
- SOFR at 4.36% (prev. 4.33%), volumes at USD 2.526tln (prev. 2.561tln).
- EFFR at 4.33% (prev. 4.33%), volumes at USD 96bln (prev. 99bln).

CRUDE

WTI (M5) SETTLED USD 1.08 HIGHER AT 61.83/BBL; BRENT (M5) SETTLED USD 1.18 HIGHER AT 65.85/BBL

The crude complex was firmer on Wednesday and buoyed by reports China is open to talks with US. WTI and Brent rose from session troughs of USD 60.44/bbl and 63.79/bbl, respectively, after Bloomberg sources reported that China is said to be open to talks if US President Trump shows respect. As such, this provided initial risk on sentiment, albeit later reversed on Nvidia semiconductor concerns, but the crude complex managed to hold the bid and ground higher throughout the US session to hit highs of USD 62.84/bbl and 66.13/bbl. Elsewhere, the weekly EIA data saw a build more or less in line with expectations, while both gasoline and distillates drew more than forecasted, in fitting with the private figures last night. On the geopolitical footing, the US issued fresh Iran-related sanctions, targeting oil tankers, although a Chinese refinery said to be buying Iranian crude was also targeted. Bloomberg sources reported that the US is in talks with Yemeni forces on a land offensive against the Houthis, but it would not involve US troops. Overnight, the mostly better-than-expected GDP and activity data from China failed to provide a boost to the complex, given that they were from a period before the US-China tariff escalation. Elsewhere, OPEC released its compensation lists, although this is more of a technical release as opposed to a market mover.

EQUITIES

CLOSES: SPX -2.24% at 5,276, NDX -3.04% at 18,258, DJI -1.73% at 39,669, RUT -1.03% at 1,863

SECTORS: Technology -3.94%, Consumer Discretionary -2.69%, Communication Services -2.48%, Financials -1.57%, Industrials -1.38%, Consumer Staples -1.15%, Health -1.00%, Utilities -0.93%, Materials -0.77%, Real Estate -0.16%, Energy +0.80%.

EUROPEAN CLOSES: DAX: +0.21% at 21,276, FTSE 100: +0.26% at 8,270, CAC 40: -0.07% at 7,330, Euro Stoxx 50: -0.19% at 4,961, AEX: -0.42% at 854, IBEX 35: +0.48% at 12,932, FTSE MIB: +0.51% at 36,026, SMI: -0.04% at 11,594, PSI: +0.59% at 6,746.

EARNINGS

- **ASML (ASML):** Revenue & bookings missed amid weak demand in the chip sector.
- **Interactive Brokers (IBKR):** Profit light & announced 4-for-1 stock split is set for June 17th; Raised quarterly dividend to USD 0.32/shr from 0.25
- **United Airlines (UAL):** EPS topped & maintained FY EPS guidance, but warned a recession could reduce it.
- **US Bancorp (USB):** EPS & revenue surpassed expectations.
- **Travelers (TRV):** Profit topped, but revenue light on BBG expectations; Lifted quarterly dividend by 5%.
- **Omnicom Group (OMC):** Top line fell short. Expects to close its acquisition of Interpublic Group of Companies (IPG) in the second half of the year, and sees the deal driving revenue growth and cost synergies.
- **Abbott Laboratories (ABT):** EPS beat, revenue and Q2 EPS guidance in line.

STOCK SPECIFICS

- **Nvidia (NVDA):** Expects Q1 FY26 charges of up to USD 5.5bln related to US imposing export restrictions to China on its H20 chip.
- **AMD (AMD):** To apply for a US export license for its MI308 chips into China; expects up to USD 800mln in charges.
- **Target (TGT):** Downgraded at Goldman Sachs to 'Neutral' from 'Buy' cites concerns around seeing a recovery in growth for

discretionary categories, more downside risk in earnings than upside is given possible sales deleverage and tariff risk, and recent data indicating Target's sales may be slowing for the downgrade.
- **Lockheed Martin (LMT):** Upgraded at Morgan Stanley to 'Overweight' from 'Equal Weight', noting it has updated the defence sector to 'Attractive' from 'In-Line' as it contemplates a USD 1tln US defence budget and the potential for increased international exports.
- **Tesla (TSLA):** California registrations (Q1): -15.1% Y/Y, California EV market share down to 43.9% (prev. 55.5% Y/Y).
- **Lyft (LYFT):** On track to launch autonomous vehicles in downtown Atlanta this summer; says Freenow sets up well for autonomous strategy years ahead.
- **Ford (F):** Told dealers it may raise prices in may if tariffs continue, according to Automotive News.
- Congressional panel asks **Nvidia (NVDA)** about sales to China, according to Bloomberg; Report found DeepSeek used US AI models.
- Pershing Square's **Hertz (HTZ)** stake is 19.8% through shares and swaps, CNBC reports; Pershing Square stake in Hertz makes it the second largest shareholder.

FX

The Dollar struggled to hold Tuesday's gains as demand once again dried up to the benefit of major peers, leaving the DXY approaching YTD lows of 99.014. Key developments were on trade and Fed speak, with the former largely pointing to a worsening in US-China relations. Namely, US President Trump launched an investigation into national security risks posed by US reliance on imported processed critical minerals while planning to use the negotiations with over 70 countries to ask them to disallow China to ship goods through their countries. Additionally, the US put export restrictions on certain Nvidia and AMD chips to China following the recent halt China imposed on Boeing deliveries. The last two days possibly highlight that the tariff approach to apply pressure on each other is over for now, with both countries fixated on company-specific exports to punish the other. On the contrary, risk-on was seen on reports that China is said to be open to talks if Trump shows respect, albeit stocks later pared the upside, while gains in crude held throughout the day amid further US pressure on Chinese importers of Iranian oil. Given the continued focus on trade dynamics, US data took the back foot, whereby retail sales beat slightly (though retail control missed) and industrial output fell more than expected. In the afternoon, the main event was Fed Chair Powell, with continued risk-off in markets, equities sold and treasuries bid. Dollar was mixed on Powell's remarks, with JPY extending on gains as the narrowing yield differential benefited the currency. Likely the factor behind the risk-off was Powell maintaining the wait-and-see approach, thus, putting off the recently founded optimism over Waller saying he favours cuts sooner rather previously thought, given the current tariff environment. Ahead, remarks are due from Fed's Williams, with weekly initial claims also due.

G10FX was entirely in the green with EUR and CHF leading the way, reversing Tuesday's underperformance. Prior to overnight trade, USD/CHF sits at ~ 0.8130 and EUR/USD is at session highs of ~ 1.14. GBP was the relative underperformer, posting marginal gains vs the Dollar as a softer-than-expected headline UK CPI in March perhaps capped upside. For Thursday, the Euro will be the main focus amid the ECB's April meeting. As it stands, money markets price in ~ 95% of a 25bps cut, 5% for a 50bps cut. Click here for the Newsquawk ECB Preview.

CAD strength was present both before and after the BoC's decision to hold rates. Expectations going into the event were pretty much split between a hold and 25bps rate cut, with BoC Governor Macklem noting the decision to hold came as they want to gain more information about the path of US tariffs and the impact they will have. The accompanying MPR had two scenarios: 1) high uncertainty but tariffs are limited, leaving growth weaker temporarily and inflation around 2%, 2) a protracted trade war causing a recession this year and inflation to climb temporarily above 3% next year. Ultimately, both scenarios had annual growth, exports and inflation all lowered for 2025 from the January report.

EMFX: Gains were mainly seen in the space, with CEE's generally leading the way while TRY was the notable laggard in the red. In CEE, NBP's Dabrowski said July is a safe moment to cut interest rates, while the INR was modestly firmer with India reportedly planning to scrap import tax on US ethane and liquefied petroleum gas under broader negotiations with the US as it looks to reduce its trade surplus and ease its tariff burden, according to Reuters citing sources.

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