

Stocks chop while yields rise ahead of key data and earnings later in the week

- **SNAPSHOT:** Equities flat/up, Treasuries up, Crude down, Dollar down
- **REAR VIEW:** US Treasury Secretary Bessent said the first trade deal could be announced as early as this week or next week, and it is up to China to de-escalate; Spanish/Portuguese power outage; Pakistan/India tensions escalate, as the former's Defence Minister said a military incursion by India is imminent; Dismal US Dallas Fed; Huawei AI chip ambitions continue to hit NVDA; US Energy Secretary notes US is refilling the SPR.
- **COMING UP: Data:** German GfK Consumer Sentiment, Spanish GDP, HICP, EZ Business Sentiment, US Advance Goods Trade, JOLTS Job Openings **Speakers:** RBA's Kent, ECB's Cipollone; BoE's Ramsden; SNB's Martin, US Treasury Secretary Bessent, US Commerce Secretary Lutnick **Supply:** UK, Italy **Earnings:** Starbucks, Visa, Snap, PPG, SoFi, PayPal, JetBlue, Coca-Cola, UPS, Pfizer, Royal Caribbean, Spotify, HSBC, BP, AstraZeneca, Ocado, Entain Lufthansa, Porsche AG, Deutsche Bank, Capgemini, Amundi, Rexel, Scor, URW, Carlsberg, Novartis, Logitech, BBVA

MARKET WRAP

Stocks were choppy on Monday with early optimism unwound at the open in a tech-led sell-off as Huawei AI chip ambitions continue to hit Nvidia (NVDA). Meanwhile, the only data point released today also caused some concern. The Dallas Fed Manufacturing survey was very disappointing and accentuated the downside in equities. However, as E-mini S&P 500 futures tested 5,500, a sharp reversal was seen into the closing bell on little newsflow in what was likely technical-driven trade after a convincing break of 5,500 was rejected. T-Notes, however, pared the morning downside (induced by a slew of corporate issuance) with the risk-off trade post-opening bell supporting T-Notes to session highs, with the aforementioned data also supporting. As such, the Dollar underperformed on more economic fears ahead of an important week for US data (GDP, PCE, ISM Mfg. PMI, NFP). The lower moves and choppy risk environment helped support the Yen to outperform while CAD was flat ahead of Canadian election results tonight. Elsewhere, crude prices were sold as risk soured but settled marginally off lows amid the weaker dollar and commentary from Energy Secretary Wright that the US is refilling the SPR, while some brief upside was seen earlier on India/Pakistan escalation fears. On trade, Treasury Secretary Bessent said the first trade deal could be announced as early as this week or next while noting they are doing bespoke deals with 18 trading partners, but noted China is more complex. The Treasury Secretary added that it is up to China to de-escalate and that Chinese exemptions show they want de-escalation on trade. However, Bessent said he has an escalation ladder in his back pocket but is anxious not to use it.

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DALLAS FED: The Dallas Fed Manufacturing Business Index tumbled to -35.8 in April from -16.3, the lowest reading since May 2020. Meanwhile, the company outlook index also retreated to a post-pandemic low of -28.3. The outlook uncertainty index pushed up 11 points to 47.1. The production index was largely unchanged at 5.1, indicative of modest growth. Delving into the report, it noted "Labor market measures suggested a slight decrease in head counts and shorter workweeks this month." While price pressures accelerated and wage growth remained fairly stable. Looking ahead, expectations for manufacturing activity six months from now remained mixed.

FIXED INCOME

T-NOTE FUTURES (M5) SETTLE 12+ TICKS HIGHER AT 111-29

T-Notes settle at highs in choppy risk environment ahead of a week full of key data . At settlement, 2s +3.0bps at 3.818%, 3s +2.2bps at 3.835%, 5s -0.4bps at 3.973%, 7s -2.4bps at 4.153%, 10s -4.1bps at 4.348%, 20s -7.5bps at 4.835%, 30s -8.3bps at 4.796%.

INFLATION BREAKEVENS: 5yr BEI -0.7bps at 2.383%, 10yr BEI -1.9bps at 2.250%, 30yr BEI -2.1bps at 2.192%

THE DAY: T-Notes saw gradual pressure overnight with equities catching a bid in risk-on trade on further trade hopes. T-Notes hit a low of 111-10 while a slew of corporate issues hitting the market also likely weighed. Bloomberg reported that 12 potential issuers are said to be considering US investment-grade deals on Monday and to expect around USD 35bln of new bond sales. We saw issuance announcements from Google (GOOGL), DR Horton (DHI), P&G (PG), Colgate (CL), Keurig Dr Pepper (KDP) and Norfolk Southern (NSC). However, once the lows were hit T-Notes started to rebound with a weak Dallas Fed Manufacturing Business Index aiding the rebound. The weakness in US equity futures also gave T-Notes a helping hand to ultimately pare the overnight weakness and hit a high of 111-25+. With the Fed in the blackout period ahead of next Wednesday's FOMC meeting, the focus lies on US data with GDP and PCE (both monthly and quarterly PCE) due on Wednesday, ISM Manufacturing PMI due Thursday, and NFP on Friday. Meanwhile, Quarterly Refunding is in focus too, with the Treasury expected to maintain nominal coupon and FRN auction sizes, with attention on any guidance changes.

FINANCING ESTIMATES: The financing estimates showed the US Treasury expects to borrow USD 514bln in privately-held net marketable debt, assuming an end-of-June cash balance of USD 850bln, this is USD 391bln higher than announced in February, primarily due to the lower beginning-of-quarter cash balance and projected lower net cash flows, partially offset by lower SOMA

redemptions of USD 60bln. Excluding the lower-than-assumed beginning-of-quarter cash balance, the current quarter borrowing estimate is USD 53bln lower than announced in February. Looking ahead, during the July-September Quarter, the Treasury expects to borrow 554bln, assuming end of Sept. cash balance of USD 850bln.

SUPPLY:

- **US Treasury sold** USD 82bln in 3mth bills at a high rate of 4.200%, B/C 3.10x; USD 73bln of 6mth bills at high rate of 4.065%, B/C 2.80x
- **US Treasury to sell** USD 70bln of 6-week bills on April 29th.

STIRS/OPERATIONS:

- Market Implied Fed Rate Cut Pricing: May 3bps (prev. 3bps), June 17bps (prev. 17bps), July 38bps (prev. 38bps), Dec 93bps (prev. 89bps)
- NY Fed RRP op demand at USD 149bln (prev. 94bln) across 38 counterparties (prev. 27)
- EFR at 4.33% (prev. 4.33%), volumes at USD 112bln (prev. 103bln).
- SOFR at 4.33% (prev. 4.29%), volumes at USD 2.565tln (prev. 2.542tln).

CRUDE

WTI (M5) SETTLES USD 0.97 LOWER AT 62.05/BBL; BRENT (N5) SETTLES USD 1.01 LOWER AT 64.79/BBL

The crude complex saw losses to start the week as it was weighed on by the broader risk-averse sentiment, as opposed to any oil-related headlines. WTI and Brent hit highs of USD 63.92/bbl and 66.50/bbl, respectively, in the European morning but ground lower through the duration of the US session as sentiment continued to sour. Benchmarks saw modest upside after Reuters reported that Pakistan's Defence Minister stated a military incursion by India is imminent. He added, that in an armed conflict nations should refrain from using the nuclear option. Elsewhere on the geopolitical footing, the Kremlin said Putin announced a temporary ceasefire for the May public holidays, but in the event of violations of the ceasefire by Ukraine, Russia will respond. On the gas footing, albeit European, there was a power outage across Spain, Portugal and France which led to widespread disruptions across operations within the countries. However, numerous outlets/execs have said they are not certain of the cause but it does not appear cyberattack related. Crude ultimately settled off lows but still well in the red. The US Energy Secretary spoke to CNBC, where he noted the administration is refilling the SPR now.

EQUITIES

- **CLOSES:** SPX +0.06% at 5,529, NDX -0.03% at 19,427, DJI +0.28% at 40,228, RUT +0.41% at 1,966.
- **SECTORS:** Utilities +0.70%, Real Estate +0.68%, Energy +0.63%, Health +0.37%, Financials +0.32%, Industrials +0.31%, Materials +0.15%, Communication Services +0.05%, Consumer Discretionary -0.09%, Consumer Staples -0.15%, Technology -0.30%
- **EUROPEAN CLOSES:** DAX: +0.06% at 22,257, FTSE 100: +0.02% at 8,417, CAC 40: +0.50% at 7,574, Euro Stoxx 50: +0.32% at 5,171, AEX: -0.02% at 873, IBEX 35: +0.68% at 13,447, FTSE MIB: +0.31% at 37,466, SMI: +0.47% at 12,009, PSI: -1.01% at 6,873

STOCK SPECIFICS:

- **Nvidia (NVDA):** Huawei develops new AI chip, seeking to match **Nvidia (NVDA)**, via WSJ.
- **Domino's Pizza (DPZ):** Rev. missed & US SSS surprisingly declined.
- **Roper Technologies (ROP):** EPS beat, rev. in line but FY midpoint profit view beneath expectations.
- **IBM (IBM):** Unveiled USD 150bln investment in America over the next five years; to accelerate technology opportunity; investment includes USD 30bln in R&D.
- **Boeing (BA):** Upgraded at Bernstein to 'Outperform' from 'Market Perform' with believing that after high FAA scrutiny, Boeing Commercial Airplanes "should be on a much firmer path than in 2023."
- **Eli Lilly (LLY):** Double downgraded at HSBC to 'Reduce' from 'Buy'. The bank believes the market has assumed a significant market share for Lilly, but with potential economic sensitivity to the adoption curve for weight loss drugs, these expectations might be revised down.
- **Amazon (AMZN):** Some Amazon sellers are pulling out of Prime Day amid Trump tariffs.

US FX WRAP

The **Dollar Index** was lower to start the week, with all G10 peers gaining against the Greenback. Newsflow was actually sparse, with limited earnings and no tier 1 data on Monday, but it comes ahead of a week filled with tier 1 data (GDP, PCE, QRA, NFP, ISM Mfg.) and mega-cap US earnings (AAPL, AMZN, META, MSFT). Nonetheless, the move lower in US Treasury yields weighed on the Buck while a dismal Dallas Fed survey also weighed. Elsewhere, the headline highlight was arguably US Treasury Secretary Bessent, who gave numerous TV interviews. He stated that all aspects of the government are in contact with China, and it is up to them to de-escalate.

Elsewhere, for China and the **Yuan**, there was a slew of commentary overnight. PBoC Deputy Governor Zou reiterated that US tariffs have triggered financial market volatility and said the impact on China's FX assets from volatility in US bond markets is limited. Separately, China NDRC Vice Head stated some new policies will be rolled out in Q2. In addition and following the Politburo statement on Friday, which flagged further interest rate cuts, a Reuters source close to the PBoC said it was in no rush to trim rates as the impact of tariffs is still unclear. But if data starts to deteriorate in the coming months, the PBoC, "the central bank will certainly

roll out monetary stimulus".

All G10 FX saw gains, although the CAD underperformed and was potentially weighed on by weaker oil prices. In addition, traders await the Canadian election overnight, with polls going into election day neck and neck for Conservatives (Poilievre) vs Liberals (Carney). EUR saw some ECB speak, albeit little new was said and little reaction observed, with a major power outage across Spain, Portugal and France which led to widespread disruptions across operations within the countries. However, numerous outlets/execs have said they are not certain of the cause, but it does not appear cyberattack-related. USD/CAD traded within a tight range (1.3826-92), while EUR/USD topped out at 1.1422 vs. earlier lows of 1.3330. Cable resides around session highs (1.3430) in light newsflow, although the White House Press Secretary said trade talks with the UK are moving in a very positive way.

EMFX was mixed. TRY, COP were flat, BRL, ZAR saw gains, and CLP and MXN weakened. Headline catalysts were sparse and there was little data, although in LatAm, the Mexican jobless rate came in underneath Wall St. consensus while the March trade balance saw a wider surplus than expected. We also heard from the Brazilian Finance Minister Haddad and BCB chief Galipolo. In CEE, Czech Central Bank Governor Michl said they will be very cautious with any rate cuts.

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