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US Market Wrap - 5th May 2025

Stocks and Dollar off lows after strong ISM Services PMI

- **SNAPSHOT:** Equities down, Treasuries steepen, Crude down, Dollar flat
- **REAR VIEW:** Trump to tariff non-US movies; Trump willing to lower China tariffs; US rejects Japan's full exemption from "reciprocal tariffs"; Strong ISM Services PMI, but Prices Paid rise; OPEC+ to accelerate production hikes; Israel plans to occupy Gaza unless a deal is made by next week; Average 3yr auction; SKX to be acquired by 3G Capital
- **COMING UP: Data:** Chinese Caixin Services PMI, EZ PMI (Final), US International Trade, Canadian Exports/Imports, NZ HLFS Unemployment Rate **Events:** EIA STEO **Speakers:** US President Trump (Open Press), BoE's Breeden **Supply:** Australia, Germany, **US Earnings:** AMD, Supermicro, Rivian, Continental, UniCredit, Intesa Sanpaolo, Ferrari

MARKET WRAP

Stocks and Dollar started the session in the red with Trump announcing tariffs on the non-US film industry, which hit names like NFLX, DIS, and AMZN. However, it was later clarified that no final decision has been made, and Trump will be meeting with executives in the industry to discuss it. Both equities and the Buck began to pare the earlier weakness in the wake of the ISM Services PMI report, which beat all analyst expectations on the headline, although Prices Paid surged. The report alleviated some of the economic growth fears after a downbeat Q1, although uncertainty does remain ahead. Equity prices closed red but were off the pre-data lows. Longer-dated T-Notes were hit on the report with the curve steepening while attention turns to the FOMC on Wednesday. Meanwhile, there was a plethora of corporate issuance (AAPL, CMCSA, PLD, GM) alongside the 3-year note auction, which saw an improvement from the post-Liberation Day offering. Crude prices were hit but settled off lows with the downside seen in the wake of OPEC+ accelerating production hikes. In FX, the Dollar was ultimately flat while havens and antipodes outperformed. On trade (aside from the aforementioned movie updates), US President Trump said he will not be speaking with Chinese President Xi this week, but the US is meeting with many countries, including China, on trade deals. He also said he is willing to lower tariffs on China at some point, but he would need to keep at least some tariffs in place to convince businesses to move production to the US. The President also replied "could be" when asked if any trade deals are coming this week. Regarding Japan, Kyodo reported the US has refused Japan's full exemption from not only a 10% "reciprocal" tariff but a country-specific tariff in recent negotiations, according to sources.

US

ISM SERVICES PMI: The headline Services PMI rose to 51.6 in April from 50.8 in March, above the 50.2 forecast, signalling expansion within the US services sector. Business activity, however, did decline to 53.7 from 55.9 but new orders rose to 52.3 from 50.4. Employment improved to 49.0 from 46.2, but remained sub 50 - the line that separates expansion and contraction. Prices Paid also saw a chunky rise to 65.1 from 60.9. Overall, the data was welcomed as it helped quell some recent fears about an economic slowdown after the -0.3% contraction seen in Q1 in the economy overall. The better-than-expected print and rising prices paid components bolster the case for the Fed to stay on hold for longer as it shows the economy can currently withstand current policies while with a still "modestly restrictive" monetary policy stance while the Fed aims to get inflation back to target. However, although a welcomed report - it is still too early to digest the full impact of Trump's tariff and immigration policies, and uncertainty remains ahead. The report highlights that a services PMI of 51.6 corresponds to a 1-percentage-point increase in real GDP on an annualized basis.

FIXED INCOME

T-NOTE FUTURES (M5) SETTLE 3 TICKS LOWER AT 111-02

Strong ISM Services PMI sees long-end yields rise . At settlement, 2s +0.3bps at 3.843%, 3s -0.2bps at 3.822%, 5s +1.1bps at 3.943%, 7s +1.6bps at 4.135%, 10s +2.3bps at 4.343%, 20s +2.8bps at 4.842%, 30s +3.5bps at 4.830%.

INFLATION BREAKEVENS: 5yr BEI +0.6bps at 2.383%, 10yr BEI +1.4bps at 2.281%, 30yr BEI +1.6bps at 2.247%.

THE DAY: T-Notes peaked in the US morning at 111-13+ with traders reacting to the downbeat risk tone. However, the upside began to pare ahead of the ISM Services PMI report, supported by an influx of corporate issuance. The ISM Services PMI data ultimately came in stronger than expected, with prices paid rising to the highest level since 2023. The headline beat helped offset some fears around economic growth, but the prices paid jump kept inflationary fears in focus. The combination of higher prices and strong growth weighed on T-Notes, particularly the long end with the curve steepening. T-Notes ultimately went on to hit lows of 110-28+ ahead of settlement. Elsewhere, besides the data, there was a plethora of issuance. On the corporate side, Apple (AAPL), Comcast (CMCSA), General Motors (GM), American International Group (AIG), Prologis (PLD) and ADP (ADP) all hit the market today. Meanwhile, the US Treasury sold USD 58bln of 3yr notes, with the auction seeing a much better reception than the April offering post-Liberation Day. Attention turns to the FOMC on Wednesday.

SUPPLY:

- US Treasury sold USD 58bln of 3yr notes at a high yield 3.824%, a higher yield than the April offering of 3.784%, and

stopped through the When Issued by 0.2bps. The stop-through is an improvement on the prior tail of 2.4bps and better than the six-auction average of 0.7bps. However, the last auction was in the immediate aftermath of Liberation Day and saw a very poor reception with a huge drop in direct demand. The Bid-to-Cover saw an improvement on the prior, rising to 2.56x from 2.47x, but remained below the six-auction average of 2.63x. The breakdown saw a return of direct demand, rising to 23.7% from 6.2%, above the 16.3% average. Indirect demand, however, eased to 62.4% from 73.0%, below the 67.6% average. This left dealers with 13.9% of the auction, a better sign of demand than the prior and six auction average.

- US Treasury sold USD 72bln of 6-month bills at a high rate of 4.090%, B/C 3.52x and USD 81bln of 3-mth bills at a high rate of 4.220%, B/C 2.74x
- US Treasury to sell USD 42bln of 10yr notes on May 6th, USD 25bln of 30yr bonds on May 8th, and USD 70bln of 6wk bills on May 6th.

STIRS/OPERATIONS

- Market Implied Fed Rate Cut Pricing: May 0bps (prev. 1bps), June 7bps (prev. 9bps), July 23bps (prev. 26bps), Dec 75bps (prev. 78bps)
- NY Fed RRP op demand at USD 125bln (prev. 148bln) across 32 counterparties (prev. 35)
- EFRR at 4.33% (prev. 4.33%), volumes at USD 111bln (prev. 107bln).
- SOFR at 4.36% (prev. 4.39%), volumes at USD 2.694tln (prev. 2.789tln).

CRUDE

WTI (M5) SETTLES USD 1.16 LOWER AT 57.13/BBL; BRENT (N5) SETTLES USD 1.06 LOWER AT 60.23/BBL

The crude complex was lower, and weighed on following the weekend's OPEC+ meeting, which saw an acceleration of production increases. Recapping, OPEC+ countries with voluntary cuts agreed to raise oil output by 411k BPD in June. Separately, Reuters, citing sources, reported that OPEC+ would likely approve in June another accelerated oil production hike of 411k BPD for July and could unwind voluntary cuts of 2.2mln BPD through October 2025 if compliance with quotas doesn't improve as Saudi Arabia looks to punish some members for exceeding quotas. Nonetheless, Kazakhstan's deputy minister said that cutting production is a "hard task" for them and wasn't able to lay out a future plan to cut output, according to Kpler's Bakr. As such, WTI and Brent were in the red for the duration of the session and saw lows of USD 55.30/bbl and 58.50, respectively, but pared some losses into settlement as the risk appetite improved.

On geopolitics, it was reported Israel is readying a massive response to Houthis and Iran after the airport missile attack, according to Washington Examiner, although AFP said "Iran denies aiding Yemen's Houthis, after missile strike on Israeli airport". Thereafter, Houthi Media reported that the Israeli air force conducted strikes in Yemen in retaliation for the attack. Separately, on Gaza, Israel plans to occupy the Gaza Strip if a new deal is not reached with Hamas by the time of US President Trump's visit to the Middle East next week. Israeli PM Netanyahu "made it clear that the [new] plan differs from its predecessors in that [Israel is] moving from the method of raids to occupying the territories and remaining in them".

EQUITIES

- **CLOSES:** SPX -0.63% at 5,651, NDX -0.67% at 19,968, DJI -0.24% at 41,219, RUT -0.82% at 2,004.
- **SECTORS:** Energy -2.02%, Consumer Discretionary -1.32%, Technology -0.85%, Financials -0.73%, Materials -0.66%, Health -0.35%, Utilities -0.29%, Real Estate -0.15%, Communication Services -0.06%, Industrials -0.04%, Consumer Staples +0.02%
- **EUROPEAN CLOSES:** Euro Stoxx 50 -0.05% at 5,283, DAX +1.08% at 23,335, CAC 40 -0.55% at 7,728, SMI -0.01% at 12,253, FTSE MIB +0.39% at 38,476, IBEX 35 +0.53% at 13,518, PSI +0.49% at 7,000.

STOCK SPECIFICS:

- **Berkshire Hathaway (BRK-B):** Warren Buffett will step down as CEO at year-end
- **Netflix (NFLX):** Trump orders 100% tariffs on foreign-made movies. WH Spox says no final decision has been made, Trump will be meeting with industry executives.
- **Shell (SHEL)** is evaluating a potential acquisition of BP (BP) +2.5%
- **Henry Schein (HSIC):** EPS beat but rev. missed; Backed FY outlook
- **Zimmer Biomet Holdings (ZBH):** Cut FY25 adj. EPS guidance; Note, EPS & rev. beat alongside raising FY rev. growth view
- **Tyson Foods (TSN):** Rev. missed
- **ON Semiconductor (ON):** Top and bottom-line surpassed expectations, with the midpoint of next quarter guidance also topping St. consensus.
- 3G Capital is to acquire **Skechers (SKX)** for USD 63/shr. Note, SKX closed Friday at 49.37.
- US lawmakers have urged the SEC to delist Chinese firms like **Alibaba (BABA), JD.com (JD) and Baidu (BIDU)** over alleged military links, citing "unacceptable risk" to investors, according to the FT.
- **Sunoco (SUN)** to acquire **Parkland Corporation (PKI CT)** in a transaction valued at USD 9.1bln, expected USD 250mln in run-rate synergies by year 3; Parkland shareholders will receive 0.295 SUN units and CAD 19.80 for each Parkland share.

US FX WRAP

The Dollar was flat on Monday which was a quiet day of newsflow ahead of the FOMC on Wednesday, whereby the central bank is widely expected to leave rates unchanged at 4.25-4.5%. On data, ISM Services was mixed – the headline topped expectations and even printed outside the top end of the forecast range, and new orders and employment rose, albeit with the latter still below 50.

However, prices paid jumped, and business activity fell. The data helped support the buck from its lows. On the trade footing, US President Trump said he is willing to lower tariffs on China at some point, but answered "no" when asked if he plans to speak with Chinese President Xi this week. He also announced plans to tariff the non-US film industry.

G10 FX was firmer against the Buck, aside from the CAD, flat, which was weighed on by weaker oil prices. JPY and Antipodeans outperformed, with the latter benefiting from their exposure to the Yuan, as gains were seen throughout Asia FX. On that, the TWD saw its largest one-day gain vs. the USD on Friday since 1988. The Taiwanese central bank confirmed today that it intervened in the FX market to maintain market stability. Elsewhere in Asia, Japanese Finance Minister Kato said on Sunday that Japan has no intention of using the possibility of selling its US Treasury holdings for advantage in trade negotiations with the US, according to Nikkei. Meanwhile, Kyodo reported the United States has refused Japan's full exemption from not only a 10% "reciprocal" tariff but a country-specific tariff in recent negotiations, according to sources. Back to the Aussie, PM Albanese's Labor Party won an increased majority in the election on Saturday. AUD/USD hit a peak of 0.6493 against an earlier low of 0.6435, while NZD/USD traded between 0.5941-95.

EUR and **GBP** saw similar gains, albeit in thin currency-specific newsflow. For the single-currency, ECB's Stournaras said he does not see inflation if the EU tariff reaction is selective, and seems the ECB will continue with rate cuts. On data, EZ Sentix data saw an improvement to -8.1 from -19.5 with the accompanying release noting that "one month after the massive shock that rocked investors with US tariff policy and sent Sentix economic data into free fall, the smoke is clearing". For the Pound, participations await BoE on Thursday whereby the central bank is expected to cut rates by 25bps. Cable traded on either side of 1.33, while EUR/USD touched a high of 1.1364, but resides now around 1.1320. Modest pressure was seen in the Swissy in the wake of the cooler-than-expected Swiss CPI.

EMFX was mixed. BRL, MXN, and COP all saw weakness, while CLP, ZAR, and CNH all strengthened. ZAR hit a five-week high after Eskom's positive power outlook, while BRL watchers await BCB on Wednesday where they are anticipated to hike rates by 50bps.

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