

Stocks continue to trim recent gains ahead of FOMC with Bonds bid and Dollar sold

- **SNAPSHOT:** Equities down, Treasuries up, Crude up, Dollar down
- **REAR VIEW:** Trump says very big announcement to come, but not necessarily on trade; Trump says no, when asked if Carney could say anything to get the removal of tariffs; US International Trade deficit widens more than exp.; Strong US 10yr note auction; Atlanta Fed GDPnow (Q2) estimate revised higher; UK closes in on US trade pact with lower tariffs for cars and steel; EU and UK agreed to hold annual summits to discuss relationship; UK reaches FTA with India; Germany's Merz elected Chancellor after second vote; Kashkari to replace Schmid vote in May FOMC meeting due to personal reasons; HKMA says it has been lowering its duration in US Treasury holdings.
- **COMING UP: Data:** German Industrial Orders, French Trade Balance, EZ Retail Sales. **Events:** Fed, NBP, CNB, BCB Policy Announcements. **Speakers:** Fed Chair Powell. **Supply:** Australia, France, UK, US. **Earnings:** AppLovin, Carvana, Arm, DoorDash, AMC, Uber, Disney, Bunge, BMW, Novo Nordisk.

MARKET WRAP

US indices were in the red for the large majority of the session on Tuesday, with the majority of sectors also residing in negative territory. Utilities and Energy were the only ones in the green, with the former buoyed by Constellation Energy (CEG) earnings and the latter by firmer oil prices. The crude complex was firmer, with prices rebounding from the earlier OPEC-induced downside, and also partially aided by the geopolitical developments amid Israel expanding its operations in Gaza and conflicting reports regarding the Houthis. Namely, a Houthi spokesman denied that the group will stop attacking Red Sea ships and stated that Trump's statement that Houthis don't want to fight and the US will stop bombing is false. Trump added that he will take their word that they won't be blowing up ships. Back to sectors, Health was the laggard, with vaccine and gene therapy names weighed on by reports that Vinay Prasad is tapped to run the FDA centre that regulates vaccines and gene therapies. The Dollar was weaker amid falling US Treasury yields, with all G10 FX gaining against the Buck. EUR and GBP saw some strength in the EZ morning after Reuters said the EU and the UK have agreed to hold annual summits to discuss their relationship. Later in the session, FT citing sources noted that the UK closes in on a US trade pact with lower tariff quotas for cars and steel. T-Notes chopped to the risk environment, German political chaos and supply, but rose to fresh session highs after the solid US 10yr note auction. In data, US international trade for March fell to a deeper deficit than expected. In the updated Atlanta Fed GDPNow Model for Q2, it now estimates 2.2% growth vs. the prior 1.1% on May 1st. In addition, Canadian PM Carney and US President Trump met, and to open press, Trump said "no, it is what it is", when asked if Carney could say anything to get the removal of tariffs. Nonetheless, after they met behind closed doors Senior Canadian government official said Carney's lunch with US President Trump was constructive and Trump can't have a Canada deal without tariffs being lifted.

US

INTERNATIONAL TRADE: The US International Trade deficit in March rose to 140.5bln from a deficit of 123.2bln, larger than the expected deficit of USD 137bln. Exports in March rose by USD 0.5bln, but imports rose by USD 17.8bln. The report also noted that the increase in the goods and services deficit reflected an increase in the goods deficit of USD 16.5bln to USD 163.5bln, and a decrease in the services surplus of USD 0.8bln to USD 23bln. YTD, the goods and services deficit increased 92.6% Y/Y, exports rose 5.2%, and imports rose by 23.3%. Looking at each trade partner, the deficit the US had with the EU was USD 48.3bln, China USD 24.8bln, Mexico USD 16.8bln, Japan USD 5.8bln, India USD 7.7bln and Canada USD 4.9bln. However, it had a surplus with the UK, Hong Kong, and Brazil among others. The rise in deficit in March likely continues to be driven by front-loading taking place ahead of the Liberation Day tariffs.

FIXED INCOME

T-NOTE FUTURES SETTLED 8 TICKS HIGHER AT 111-10

T-Notes chopped to the risk environment, German political chaos and supply, but rose to fresh session highs after the US 10yr auction. At settlement, 2s -5.2bps at 3.789%, 3s -5.0bps at 3.761%, 5s -4.4bps at 3.899%, 7s -3.6bps at 4.100%, 10s -3.3bps at 4.310%, 20s -1.4bps at 4.829%, 30s -1.4bps at 4.815%.

INFLATION BREAKEVENS: 5yr BEI +1.6bps at 2.396%, 10yr BEI +0.6bps at 2.285%, 30yr BEI +0.2bps at 2.248%.

THE DAY: T-Notes steepened on Tuesday with front-end yields seeing greater losses than the long-end in choppy trade. 10yr T-Note futures sold off gradually overnight before paring in European trade and hitting initial intra-day peaks in the US morning at 111-07+. The upside was supported by risk-off trade which was sparked by commentary from HKMA, with upside in T-Notes seen despite the central bank noting they have been lowering their duration in US Treasury Holdings. Upside also tracked Bunds higher after German Chancellor Merz initially failed to hit the majority needed to become Chancellor, but he managed to secure it in a second vote later on. Nonetheless, once the initial peaks were hit, T-Notes then pared, trading either side of 111-00. The downside was likely concession ahead of the 10yr supply, while further corporate issuance weighed, from the likes of Biogen (BIIB), Starbucks (SBUX), Bank of America (BAC), UBS (UBSG SW) and Deutsche Bank (DBK GY). However, after the 10yr auction Treasuries saw

notable strength into settlement, with the 10yr hitting a fresh peak of 111-11+, and settling just off this level. On data, the US International Trade data saw a widening US deficit in March, as companies front-loaded purchases ahead of April tariff announcements. In the wake of the data, the Atlanta Fed GDP Now (Q2 2025) was upgraded to 2.2% from 1.1% on May 1st - would have also incorporated ISM Services PMI and the April NFP report.

SUPPLY:

- US Treasury sold USD 42bln of 10yr notes at a high yield of 4.342%, which stopped through the When Issued by 1.2bps, signalling better demand than the six auction average, but not as strong as the prior 10yr auction. The Bid-to-Cover of 2.60x was beneath the prior but in line with the averages. The demand breakdown saw directs rebound to 19.88% from the April 1.4% (post-Liberation day), while indirect demand fell back to 71.19%, more in line with the 70% six auction average but down from the unusually high prior of 87.9%. This left dealers with 8.93% of the auction, beneath both the prior and average, overall signalling a strong auction.
- US Treasury sold USD 70bln of 6wk bills at a high rate of 4.235%, B/C 2.91x
- US Treasury to sell USD 25bln of 30yr bonds on May 8th, USD 60bln of 17-wk bills on May 7th, to sell USD 85bln of 4-wk bills and USD 75bln of 8-wk bills on May 8th. To sell USD 25bln in 16-day CMBs on May 8th.

STIRS/OPERATIONS

- **Market Implied Fed Rate Cut Pricing: May 0bps (prev. 0bps), June 8bps (prev. 7bps), July 25bps (prev. 23bps), Dec 81bps (prev. 78bps)**
- NY Fed RRP op demand at USD 130bln (prev. 125bln) across 34 counterparties (prev. 32).
- EFFR at 4.33% (prev. 4.33%), volumes at USD 117bln (prev. 111bln).
- SOFR at 4.33% (prev. 4.36%), volumes at USD 2.632tln (prev. 2.694tln).

CRUDE

WTI (M5) SETTLED USD 1.96 HIGHER AT 59.09/BBL; BRENT (N5) SETTLED USD 1.92 HIGHER AT USD 62.15/BBL

The crude complex was firmer, with prices rebounding from the earlier OPEC-induced downside, and also partially aided by the geopolitical developments. Recapping, Israel expanded its Gaza operation and suggested that it plans to occupy the territory, marking a major escalation from its initial plans of destroying Hamas and its capabilities. Furthermore, Israel conducted airstrikes in Yemen. Separately, a Houthi spokesman denied that the group will stop attacking Red Sea ships and stated that Trump's statement is false. Trump, in his open meeting with Canadian PM Carney, said Houthi's don't want to fight and US will stop bombing, and he will take their word that they won't be blowing up ships. Meanwhile, the European Commission is to make a legal proposal to ban Russian gas and LNG imports by end-2027 and ban new Russian gas deals and existing spot contracts by end-2025. Some optimism could've also been injected from the UK and India reaching a free trade agreement. The EIA STEO revised up its 2025 world oil demand to 103.7mln BPD (prev. 103.6mln BPD in prior forecast), but revised down 2026 world oil demand to 104.6mln BPD (prev. 104.7mln BPD). After-hours there is the weekly private inventory data whereby current expectations are (bbls): Crude - 2.5mln, Distillate -2.7mln, Gasoline -1.5mln. WTI traded between USD 57.03-59.84/bbl while Brent sat between USD 60.18-62.80/bbl parameter.

EQUITIES

CLOSES: SPX -0.77% at 5,607, NDX -0.88% at 19,791, DJI -0.95% at 40,829, RUT -1.05% at 1,983

SECTORS: Health -2.76%, Consumer Discretionary -0.85%, Industrials -0.85%, Real Estate -0.69%, Materials -0.66%, Technology -0.63%, Financials -0.52%, Communication Services -0.50%, Consumer Staples -0.17%, Energy +0.10%, Utilities +1.23%.

EUROPEAN CLOSES: DAX: -0.46 % at 23,238, FTSE 100: +0.01 % at 8,597, CAC 40: -0.40 % at 7,697, Euro Stoxx 50: -0.39 % at 5,263, AEX: -0.10 % at 896, IBEX 35: -0.07 % at 13,509, FTSE MIB: +0.22 % at 38,560, SMI: -0.07 % at 12,224, PSI: +0.13 % at 7,009.

STOCK SPECIFICS:

- **Alphabet (GOOGL):** DoJ seeks to break up Google's ad business.
- **DoorDash (DASH):** Makes GBP 2.9bln approach for Deliveroo; to buy SevenRooms for ~USD 1.2bln in all cash deal. In addition, EPS marginally beat and revenue missed, with next quarter marketplace GOV guidance impressive.
- **Palantir (PLTR):** Strong Q1 earnings & upbeat guidance, but fell with reports citing market concerns over potential slower growth ahead.
- **Ford (F):** EPS & revenue beat, but suspended FY25 guidance due to uncertainty over US tariffs.
- **Hims & Hers Health (HIMS):** Issued light next quarter revenue guidance.
- **Vertex Pharmaceuticals (VRTX):** Top & bottom line missed.
- **Constellation Energy (CEG):** Q1 revenue topped expectations with Calpine acquisition on track to be completed by the end of the year. On tariffs, expects a 1-2% US tariff impact on CapEx plan, including fuel, for 2025 and 2026.
- **Nike (NKE):** Announced leadership changes as part of its "Win Now" plan.
- **Amazon (AMZN):** Amazon's RoboTaxi unit Zoox is recalling self-driving vehicles after crash last month in Las Vegas.
- **EV names:** US House Speaker Johnson said likely to kill EV tax credit and there's a 'better chance we kill it than save it'.
- **Vaccine/gene therapy names:** Said names fell on newsflow that Vinay Prasad will be the next director of the Center for Biologics Evaluation and Research at the Food and Drug Administration, overseeing the regulation of vaccines, gene therapies, and the blood supply, via STAT News.

- **Dell Technologies (DELL):** Asked Senior Managers to oversee larger teams, according to Business Insider.
- **Nvidia (NVDA):** CEO said best move is to let America go freely after the AI market, they're not afraid of a race, let the US race, via CNBC.

FX

The Dollar Index extended on Monday's weakness, failing to regain the 100 handle for any pronounced period as weakness was visible against all constituents. Behind the broad-based Dollar weakness ahead of the FOMC on Wednesday, a driver was hard to find, though ING's take is noteworthy, in which a period of supposedly USD-positive trade deals with Asian countries may turn into "an opportunity for USD-rich Asian countries to reduce USD exposure". Trade developments were mixed. US President Trump played down the idea of Carney's ability to get the removal of tariffs, while noting of a possible start to negotiate USMCA. Ahead, Trump said there will be a very big announcement before the Middle East trip, but it won't necessarily be on trade. Despite saying this, FT citing sources said that the UK closes in on US trade pact with lower tariff quotas for cars and steel. Over the next two weeks, Trump is to announce pharma tariffs. Separately, US data unveiled a widening in the US International Trade deficit in March, although Atlanta Fed's GDPnow (Q2) estimate was revised higher to 2.2% (prev. 1.1%) with the resilient NFP and ISM Services April reports offsetting the widening trade deficit. Prior to the Fed's meeting on Wednesday, money market pricing has a 98% chance of a hold, with the first 25bps rate cut largely priced in by the July meeting, after experiencing pushback in recent days after the April NFP report.

G10FX was entirely in the green, with NOK, SEK, and JPY the top gainers. Regarding the Yen, a narrowing rate differential between Treasuries and JGBs on both a strong US 10yr note auction and risk-averse theme in the US equity space helped the Yen move higher; USD/JPY now sits ~142.50. In Europe, Germany was the key focus, with CDU Leader Merz elected Chancellor in the second round Parliamentary vote, erasing the short-lived risk posed by the failed first vote on recent fiscal reform. Meanwhile, the EU targets EUR 100bln of US goods with tariffs if talks fail, a proposed measure that will be shared with member states on Wednesday, Bloomberg reported. On data, April Services PMIs were the highlight, with expectations being surpassed, the theme of the day.

Cable was helped by positive trade updates between the UK and its trading partners. Firstly, the EU and UK agreed to hold annual summits to discuss their relationship, according to a draft summit seen by Reuters. The notion of a closer relationship with Europe may result in a boost to the OBR's growth prospects in November, allowing the Chancellor more room to spend. Note, a summit was already scheduled for May 19th. Later, it was announced that the UK had reached a free trade agreement with India, where India is to cut tariffs on 90% of UK imports. The FTA is expected to boost UK GDP by GBP 4.8bln a year by 2040. Cable now sits back above its 10 DMA (1.3330), while EUR/GBP hovers around ~ 0.8500 off earlier lows of 0.8462.

EMFX: In China, the Caixin Services PMI fell more than expected, but still signalled an expansion in the month of February. Elsewhere, the CBRT Governor hit the wires, noting it's necessary to maintain a tight and determined stance in monetary policy, which will continue until a permanent fall in inflation and price stability is achieved. Despite the tight stance, TRY underperformed in EMs. Going forward, CEEs are the key focus on Wednesday, with the CNB expected to cut the Repo Rate by 25bps and the NBP to cut the Base Rate by 50bps.

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newsquawk.com · +44 20 3582 2778 · info@newsquawk.com