newsquawk

US Market Wrap - 8th May 2025

Risk on trade as tariff optimism grows

- **SNAPSHOT**: Equities up, Treasuries down, Crude up, Dollar up
- **REAR VIEW**: UK & US announce trade deal, with tariffs cuts on certain products, but 10% baseline tariff will remain; Trump thinks 10% is a low number and other deals will be higher; Trump says China tariffs can be lowered and can't get any higher than 145%; NY Post reports US to lower China tariffs to 50-54%; Trump reportedly urged Johnson to raise top tax rate; US 30yr note auction; US initial claims fall more than thought, Soft US Wholesale Sales growth in March; NY Fed SCE unveils highest three year ahead expected inflation since July 2022; Atlanta Fed GDPnow (Q2) revised higher; BoE cut rates as expected, but with a very split vote; Norges & Riksbank hold rates as expected; Energy firms raise concerns about low oil prices curtailing activity.
- **COMING UP**: **Data:** Japanese All Household Spending, Canadian Jobs, Chinese Trade Balance **Speakers:** BoE's Bailey, Pill; Fed's Barr, Kugler, Perli, Williams, Goolsbee, Waller. **Supply:** Australia. **Earnings:** IAG, Rightmove Bechtle, Commerzbank.

MARKET WRAP

Stocks closed well in the green on Thursday with the upside seen as US President Trump was speaking, which confirmed the UK/US trade deal, while he also noted how China tariffs cannot go higher and they will come down. This helped increase optimism ahead of US/China talks this weekend in Switzerland. The NY Post also reported in late trade that the US is weighing lowering China tariffs to as low as 50% from 145% as an olive branch for negotiations with China. However, stocks closed off highs amid reports that Trump is pushing for a new top tax rate on the highest earners. Consumer Discretionary, Industrials and Energy outperformed, while defensive sectors, Utilities, Health Care and Consumer Staples were sold. The risk on trade saw T-notes lower across the curve, but with the curve flattening due to the front-end pressure in the wake of the FOMC, where Fed Chair Powell stressed his wait-and-see approach. Traders dialled back rate cut bets for the year with policy likely to be on hold until more clarity is seen. Crude prices were bid on the trade hopes and risk-on environment, but several US producers were warning of lower activity ahead amid uncertainty and low crude prices, particularly if crude prices were to fall further. Some geopolitical risk may have also been supporting the crude complex, with tensions between Pakistan and India continuing to boil. In FX, the Dollar was bid on the aforementioned trade optimism and outperformed in the FX space. GBP was sold vs the buck but bid vs the Euro with GBP supported after the BoE rate decision (summary below), which cut rates as expected, but with a range of votes, namely, two voting to keep rates on hold, and two voting to cut by 50bps. The Yen and Swissy were clear underperformers on the positive risk tone, but with the rise in UST yields also weighing. US data did little to move the market, but jobless claims fell back from the prior week's spike, while Unit Labour costs rose more than expected, and productivity declined but was distorted by the same factors that distorted US GDP. Attention overnight turns to China trade data ahead of a plethora of Fed speak on Friday.

US

TRUMP TRADE: The UK and US announced a trade agreement, which will keep the UK tariff rate at 10%, while the UK will buy USD 10bln worth of Boeing (BA) planes, and Rolls Royce (RR LN) will be allowed engines and plane parts to go to the US tariff-free. US President Trump noted the deal will raise USD 6bln in external revenue from the tariffs and open up USD 5bln in new export opportunities. It will also enhance national security for both the US and the UK through the creation of an aluminium and steel trading zone and a secure pharmaceutical supply chain. The UK noted the deal removes UK market barriers for US exports of products including ethanol, beef, fruits, vegetables, animal feed and tobacco. Meanwhile, car manufacturers are limited to a 100k per year vehicle quota at a reciprocal rate of 10% and thereafter will pay 25%. Trump had suggested the 10% baseline is set and is not a template for future deals, noting it is a low number and others will be higher. Although USTR Greer later said this deal is the framework, other countries should look to this as a model. On China, Trump said China tariffs cannot get any higher than 145% and knows it is coming down. He reiterated China wants to make a deal, and he would not be surprised if a deal is reached with China, noting talks this weekend will be substantive, he thinks they will have a good weekend with China, and he might see China's President Xi after the talks. USTR Greer, meanwhile, noted that the talks this weekend are for laying the foundation for trade talks and are just the start. Greer and Treasury Secretary Bessent will be meeting with China Vice Premier He Lifeng. Greer is confident discussions will be straightforward and stressed they are not going just for formalities, they are going to talk.

UNIT LABOUR COSTS/PRODUCTIVITY: The BLS reported that nonfarm business sector labour productivity declined by 0.8% in Q1, a larger decline than the 0.7% fall expected. Output fell 0.3%, and hours worked increased 0.6%. The first decline in productivity since Q2 2022. On a Y/Y basis, productivity rose 1.4%. Labour costs rose by 5.7% in Q1, which reflected a 4.8% increase in hourly compensation and a 0.8% decline in productivity. Real hourly compensation rose 1.0% and was unchanged over the last four quarters. On the data, Oxford Economics note the decline in productivity reflects the same unusual factors that produced negative GDP growth and does not signal a major downward shift in productivity growth. Similarly, OxEco points out that it was also the case for the rise in labour cost and not a signal of a reacceleration in wage growth.

JOBLESS CLAIMS: Initial jobless claims (w/e May 3rd) printed 228k (exp. 230k, prev. 241k), while continued claims (w/e April 26th) dropped to 1.879mln (exp. 1.886mln, prev. 1.908mln). Note, that neither figure coincided with the usual US payrolls reporting period. The advance number of unadjusted claims totalled 206,937, a decrease of 16,972 W/W. Seasonal factors had expected a decrease of 4,584 from the prior week. The headline figure continues to remain in current ranges despite the recent Trump tariff announcements, with no read-through into the jobless claims data, as of yet, and shows last week's jump was likely a blip. Pantheon

Macroeconomics note the drop in initial claims confirmed that the previous week's jump was mostly due to the timing of spring break for NY public schools, as support workers in the education sector in NY state can claim benefits for the break. On the labour market, the consultancy said it will probably take until the FOMC's meeting in late July for a clear deteriorating trend in labour market conditions to emerge, suggesting an easing at the next meeting in June is very unlikely.

FIXED INCOME

T-NOTE FUTURES (M5) SETTLED 24 TICKS LOWER AT 110-25+

T-notes sold as risk tone improves on trade optimism, while the Fed's wait-and-see approach sees the curve flatten. At settlement, 2s +9.5bps at 3.889%, 3s +11.4bps at 3.868%, 5s +11.7bps at 3.990%, 7s +11.1bps at 4.173%, 10s +9.8bps at 4.373%, 20s +7.1bps at 4.856%, 30s +6.4bps at 4.836%.

INFLATION BREAKEVENS: 5yr BEI +6.0bps at 2.447%, 10yr BEI +3.4bps at 2.302%, 30yr BEI +1.6bps at 2.242%.

THE DAY: T-notes were sold gradually overnight and in the European morning, before downside accelerated in US trade. The downside was likely as global markets digested the prior day's FOMC rate decision, with Powell reiterating a wait-and-see approach, indicating policy is going to be on hold for longer. Money markets no longer fully price in three 25bps rate cuts throughout the rest of the year. Meanwhile, risk-on trade was observed in markets on trade hopes as the US and UK announced an agreement, while Trump also mentioned that China tariffs can come down if talks go well, adding he may see China President Xi after the talks with China this weekend, provided things go smoothly. The trade optimism and risk-on trade weighed on T-notes across the curve, with the curve bear flattening with the front end pressured in the wake of the FOMC. There was little reaction to the data, which saw jobless claims decline from the prior week's spike higher while unit labour costs were above expectations and productivity fell below expectations, but it was distorted by the same factors that had distorted the Q1 GDP data. Further downside was seen post-auction, namely in the long end after a weak 30-year bond offering. Attention on Friday turns to China trade data overnight and a plethora of Fed speakers throughout the day.

SUPPLY:

- US Treasury sold USD 25bln of 30-year bonds at a high yield of 4.819%, tailing the when issued by 0.7bps - a weak sign of demand vs the prior 2.6bps stop through and six auction average of a 0.3bps stop through. The Bid-to-Cover of 2.31x was beneath the prior 2.43x and average 2.45x, while the breakdown saw direct demand increase slightly to 27.2% from 25.8%, above the 22.3% average, but indirect demand fell to 58.88% from 61.9%, beneath the 63.9% average. This left dealers with 13.9% of the auction, in line with recent averages but slightly above the prior 12.3%.
- US Treasury sold USD 85bln in 4wk bills at high rate of 4.225%, B/C 2.82x; sold USD 75bln in 8wk bills at high rate of 4.225%, B/C 2.98x; sold USD 25bln of 16-day CMBs at high rate of 4.24%, B/C 4.00x.
- US Treasury to sell USD 68bln of 26-wk bills and USD 76bln of 13-wk bills on May 12th; to sell USD 70bln of 6-week bills and USD 48bln of 52-week bills on May 13th; all to settle May 15th

STIRS/OPERATIONS

- Market Implied Fed Rate Cut Pricing: June 4bps (prev. 6bps), July 18bps (prev. 21bps), September 35bps (prev. 42bps), Dec 67bps (prev. 78bps).
- NY Fed RRP op demand at USD 140bln (prev. 155bln) across counterparties 32 (prev. 46)
- EFFR at 4.33% (prev. 4.33%), volumes at USD 111bln (prev. 120bln).
- SOFR at 4.30% (prev. 4.32%), volumes at USD 2.535tln (prev. 2.620tln).

CRUDE

WTI (M5) SETTLED USD 1.84 HIGHER AT USD 59.91/BBL; BRENT SETTLED USD 1.72 HIGHER AT USD 62.84/BBL

The crude complex was firmer and grinded higher through the duration of the session as it was seemingly buoyed by risk sentiment and US optimism. Newsflow on Thursday was heavy, with US President Trump announcing a breakthrough in trade talks with the UK, although final details will be in the coming weeks, alongside a few central bank rate decisions after the FOMC on Wednesday. On trade, do note the US 10% tariff on the UK stays on. Once again, geopolitical tensions were front and centre, with Pakistan/India rhetoric continuing to ramp up, while the Houthis said they would not hesitate to carry out strikes against the US if US strikes on Yemen resume. Out of the US, several energy companies reported earnings, and on the conference call, Occidental (OXY) said they expect activity to plateau in the Permian earlier than expected due to headwinds and uncertainty, while APA Corp (APA) is reducing activity to six rigs by the end of Q2 and it may cut further if oil prices continue to decline. ConocoPhillips (COP) expects a lot of activity cutback in the industry in a below USD 60/bbl price environment.

Separately, US and Russian officials have reportedly held discussions about the US assisting in reviving Russian gas sales to Europe, according to Reuters citing sources, and the US involvement could give them visibility and control over how gas flows resume to the EU. S&P Global Commodity Insights noted how changing restrictions on Russian gas to Europe would disproportionately impact US LNG exports.

In terms of bank commentary, Citi revised its 0-3 month point price for Brent to USD 55/bbl (prev. 60), but no US-Iran deal and escalatory action could see prices return to USD +70/bbl. For reference, WTI traded between USD 57.74-60.00/bbl, while Brent saw a low of USD 61.00 and a high of 62.97/bbl.

EQUITIES

CLOSES: SPX +0.58% at 5,664, NDX +0.98% at 20,064, DJI +0.62% at 41,368, RUT +1.85% at 2,026

SECTORS: Health -0.91%, Utilities -0.86%, Real Estate -0.54%, Consumer Staples -0.49%, Communication Services +0.60%, Financials +0.71%, Technology +0.85%, Materials +1.20%, Energy +1.26%, Industrials +1.34%, Consumer Discretionary +1.35%.

EUROPEAN CLOSES: DAX: +1.01 % at 23,349, FTSE 100: -0.32 % at 8,532, CAC 40: +0.89 % at 7,694, Euro Stoxx 50: +1.11 % at 5,288, AEX: +0.66 % at 902, IBEX 35: -0.02 % at 13,478, FTSE MIB: +1.71 % at 38,974, SMI: -0.29 % at 12,067, PSI: +0.04 % at 7,024.

STOCK SPECIFICS:

- **Intel (INTC):** Entered into a large-scale semiconductor foundry contract with **Microsoft (MSFT)** utilising the 2nm 18A process.
- **Arm Holdings (ARM):** Next quarter guidance underwhelmed.
- **AppLovin (APP):** EPS & revenue topped expectations.
- **Coherent (COHR):** Top & bottom line surpassed expectations.
- **Toyota Motor (TM):** Revised outlook; now sees a 20% decline in operating profit amid downbeat commentary.
- **Carvana (CVNA):** EPS & revenue topped.
- **Cleveland-Cliffs (CLF):** Deeper loss per. shr & revenue light.
- **Maersk (AMKBY):** Lowers global container trade view.
- **Tapestry (TPR):** EPS, rev. beat, with strong FY top-line guidance.
- **Coinbase (COIN):** Agreed to acquire Deribit, the world's biggest trading platform for bitcoin and ether options, for roughly USD 2.9bln, according to WSJ.
- **Warner Bros Discovery (WBD):** Moving towards splitting the company, via CNBC citing sources.
- **Mattel (MAT)** - US President Trump says will put 100% on toys if Mattel (MAT) goes outside the US.

FX

The Dollar was firmer against all major peers, amid buyers stepping in amid a slow reintegration of confidence in the US economy in the FX space. Accompanying the move, Treasury yields across the curve gained sizably, particularly on the shorter end, as money markets priced fewer rate cuts from the Fed. 67bps of easing is priced through year-end, vs 78bps post-Fed on Wednesday, as participants continue to mull Fed Chair Powell's resilient view of strength in the economy and his wait-and-see approach.

On the day, the highlight was the announcement of the trade agreement between the US and the UK. The agreement saw US tariffs cut on steel and aluminium to zero and reduced on automotive from 27.5% to a reciprocal rate of 10%, subject to a per-year quota, thereafter rising to 25%. In return, the UK will remove ethanol tariffs, and engage in new market access on beef, amongst other things. The agreement is subject to further talks, including a cut to the 10% US base tariffs. Ultimately, the deal was viewed as a letdown, given that the UK on 'Liberation Day' was subject to the lowest reciprocal tariff and as such, of all tariffed countries, the UK was viewed as the likeliest country to achieve a baseline tariff reduction, to which, it hasn't 'yet', but there were exemptions to help sweeten the blow.

Meanwhile, US President Trump said the China tariff could be lowered, reversing Wednesday's rhetoric that he's not open to a lowering in the rate. There were also reports in NY Post in late trade suggesting the tariff could be lowered to 50-54% as the US/China head to talks.

From the NY Fed, the April SCE report saw mixed moves in inflation expectations, while current and expected views on the financial situation deteriorated sharply. Separately, the PBoC is reportedly going to allow local lenders to purchase more USD to fund increased gold import quotas, according to Reuters, citing sources. Ahead, US data is light while the Fed media blackout will end, with a ton of Fed members to hit the wires on Friday.

G10FX was entirely in the red as optimism on the US economy crept back into the FX market while upside in yields also weighed. The Yen was the biggest G10 underperformer, resulting in USD/JPY jumping above 146. Overnight, BoJ Governor Ueda remarked that uncertainties over rice and other food prices remain high but are likely to settle down eventually, and he is mindful of the impact of rising food prices on underlying inflation.

For Europe, the EU Commission released its list of provisional countermeasures towards the US if talks fail, including a broad range of industrial/agricultural products and restrictions on certain EU exports of steel scrap and chemical products. Meanwhile, German Industrial output surged 3.0%, well above the 0.8%.

Antipodes continued their weakness from Wednesday, but to a notably lesser extent. RBNZ's Hawkesby issued cautious commentary, warning supply-side impacts from tariffs could impact New Zealand significantly, adding that labour market data highlighted the subdued nature of the economy.

EUR/GBP fell post-BoE rate decision, which cut rates by 25bps as expected, but with a varying degree of dissent. 2 members on the MPC, Mann and Chief Economist Pill, opted to keep rates on hold. The remaining seven members opted to cut rates, but Dhingra and Taylor preferred a larger 50bps move, leaving it 5-4 in favour of a 25bps rate cut. The two votes for unchanged rates helped prop up the pound. Elsewhere, NIESR lowered its UK 2025 GDP growth forecast to 1.2% from 1.5%, while it said Chancellor Reeves looks set to miss her budget targets again, which is partly due to the economic impact from her tax increase on employers, raising the prospect of more tax hikes. By the end of the US cash session, Cable had reversed the BoE-induced upside, while the EUR/GBP BoE-induced weakness extended into the US afternoon, reaching lows of 0.8459, a touch above the 50 DMA of 0.8455

Scandi FX were both weaker in the aftermath of respective central banks holding rates as expected. The Norges Bank stated that restrictive policy is still needed, but the outlook showed the policy rate will most likely be reduced in the course of 2025. Meanwhile, the Riksbank noted inflation is more likely to be lower, not higher, than in the March forecast. NOK/SEK finished the day lower, residing at ~ 0.9301.

BRL: The BCB hiked rates by 50bps as expected, slowing from the prior pace of 100bps hikes, in a unanimous decision. Regarding the outlook, the BCB said that the next meeting requires additional caution due to the stage of the policy cycle and the scenario of heightened uncertainty. The committee will remain vigilant, and the calibration of appropriate tightening of policy will continue to be guided by goals of bringing inflation back to target. Meanwhile, inflation rose by 0.3% in April, below the 0.35% forecast. Despite USD strength, LatAM's strengthened, with BRL leading the way.

BOE REVIEW

BOE: As expected, the MPC cut the Base Rate by 25bps to 4.25%. However, the decision was subject to more division than anticipated. The decision to cut the Base Rate was 7-2, with Mann and Pill voting to keep rates unchanged; in their view, holding the rate would ensure policy remained sufficiently restrictive to “weigh against stubborn inflationary pressures”. Of the seven who voted to cut, two voted for a 50bps reduction; Dhingra and Taylor. Their justification was there are factors pointing to “potential downward risks to global growth and world export prices” and the risk that over the medium term, a stance that is too restrictive could open up an “unduly large output gap”. The majority of the five who voted for a 25bps cut were mostly of the view that recent developments on trade were enough to push them to a cut. Certain members of the group of five saw a cut as being fairly clear, irrespective of recent updates. The statement reiterated that a “gradual and careful approach to the further withdrawal of monetary policy restraint remains appropriate”; some desks had speculated that this language could be removed. Furthermore, policy "will need to continue to remain restrictive for sufficiently long". In the accompanying MPR, near-term inflation forecasts were lowered, the 2025 growth view was upgraded while 2026 was downgraded. However, these forecasts pre-dated the upcoming UK-US trade deal announcement. The follow-up press conference provided little in the way of additional insight. In short, a 25bps cut as expected but with much more division on the MPC than expected. The unchanged votes from Pill and Mann provided a hawkish takeaway with pricing for a June cut slipping from around 50% to 20% and a total of 60bps of cuts seen by year-end vs. 72bps pre-release.