

Markets lack direction ahead of US-China weekend trade talks

- **SNAPSHOT:** Equities flat/down, Treasuries flat, Crude up, Dollar down.
- **REAR VIEW:** Trump touts China tariff reduction ahead of US/China meeting this weekend; Swiss official said it's possible that US and China could agree a mutual suspension of customs duties for the duration of talks; Fed members stick to the Powell script; US/Europeans to propose 30-day Russia-Ukraine ceasefire, will impose Russian sanctions if Russia refused; PBoC suspend Treasury bond buying and selling in phases; Canada adds more jobs than expected, while Unemployment Rate unexpectedly ticks higher.
- **COMING UP: Data:** US Federal Budget. **Speakers:** ECB's Schnabel; BoE's Lombardelli, Greene, Mann, Taylor; Fed's Kugler. **Earnings:** Grifols, Almirall, Evonik.
- **WEEK AHEAD:** Highlights include US & China CPI; US retail sales; UK & Aus jobs data, Japan & UK GDP; Banxico policy announcement. [Click here for the full report.](#)
- **CENTRAL BANK WEEKLY:** Previewing BoJ Summary of Opinions, Banxico; Reviewing FOMC, BoE, BCB, Riksbank, Norges Bank. [Click here for the full report.](#)
- **WEEKLY US EARNINGS ESTIMATES** Earnings season winds down but highlights include CSCO, DE, WMT, AMAT, BABA. [Click here for the full report.](#)

MARKET WRAP

US indices were little changed (SPX -0.1%, NDX unch, DJIA -0.3%, RUT -0.1%) with markets now awaiting the outcome of US-China trade talks over the weekend. On the day, both stocks and Treasuries chopped to US President Trump floating the idea of a reduction in the China tariff to 80% from 145% but said it's up to the US Treasury Secretary Bessent. Thereafter, the upside at the US cash open was short-lived, gains pared in equities, and trading largely sideways for the remainder of the day, while Treasuries finished the day flat. Sectors were mixed, downside was led in Healthcare amid press reports suggesting that the White House is likely to announce the adoption of a Most Favored Nation model for Medicare Part B drug pricing. Meanwhile, Energy, Real Estate, and Consumer Discretionary led gains, with the former buoyed by higher crude prices. Similar to stocks, Treasuries were little changed, with trade the main focus in the immediate future. The PBoC said they will suspend Treasury bond buying and selling in phases; will resume buying and selling depending on market supply and demand situations. The session saw multiple remarks from Fed speakers, with the tone echoing Chair Powell's post-FOMC appearance. FOMC members advocated for a wait-and-see approach to the evolving trade policy, called monetary policy moderately restrictive, and maintained the view of a solid/resilient economy, although Williams (Voter) said he's hearing from business/others that there is some paring back of discretionary spending. In FX, the Dollar saw broad-based weakness against G10 peers, but the DXY finished the week higher for the third consecutive week amid a reintegration of optimism on US assets. CAD was the G10 outlier in the red amid a mixed jobs report, where the unexpected rise in the unemployment rate offset the larger-than-expected addition of jobs to the economy. As mentioned, crude prices were firmer with WTI finishing the week back above USD 60/bbl, paring some of the recent OPEC+ induced downside. Regarding geopolitics, tensions between India and Pakistan continue to grow, while Reuters reported via citing a source, that the US and EU are to propose a 30-day Ukraine-Russia ceasefire, where if Russia refuses, they'd face new US and EU sanctions. For Monday, price action and headlines are likely to centre around the outcome of the US-China trade talks, where Bessent is to lead the negotiations.

FED

Overall, whilst there was a deluge of Fed speak (listed below) they all sang from the same hymn sheet as Chair Powell in wake of the FOMC, noting that monetary policy is in a good place to adjust as conditions unfold, makes sense to maintain it, and continue the 'wait-and-see' approach. On the mandate, there was continued repetition that risks are elevated to the upside in both sides of the mandate, and there do not know the full effects of Trump's tariff policies.

WILLIAMS (voter) spoke a couple of times and said price stability is foundational for the Fed, it's important to have well-anchored inflation expectations and focused on keeping inflation as close to target as possible. Williams added that well-anchored inflation expectations are very important and help to reinforce the Fed's ability to achieve its goals. On trade, noted the Fed currently have the time to collect more data and information on trade policy. He echoed that the current policy is in a good place, and it's hard to speculate on what the Fed will do. NY Fed President added that now is an inflection point between hard and soft data, and hard data is saying that the US economy is good. Ahead, he noted it's key to think through scenarios in times of uncertainty. Williams stated factors keeping the long-run neutral rate low are still in place, and still sees it quite low. Moreover, estimates of real interest rates (Williams' own model) have been around 0.75% for the last 18 months, and have not fluctuated much in that period. Williams noted the domestic economy is in a good place, but interestingly said, hearing more reports from businesses and others that there is some paring back of discretionary spending.

KUGLER (voter) spoke numerous times but said the US labour market is stable, has been resilient, and is close to maximum employment. On policy, stated right now it's moderately restrictive, and makes sense to maintain it. Kugler added that Q1 GDP showed the real side of the economy is resilient, and Q1 growth data and retail sales showed front-loading ahead of tariffs. Ahead, the Governor said there could be some pullback in consumer spending, and in times of uncertainty key to watch different scenarios.

BARR (voter) noted monetary policy is in a good place to adjust as conditions unfold, and it's too soon to know how tariffs affect the economy. On policy, Barr said the Fed may be in a difficult position if both inflation and unemployment rise, and the outlook is clouded by trade policies that have increased uncertainty and hurt consumer and business sentiment. Overall, Barr said growth has been strong over the last year and remains so today, and data so far are consistent with a strong US economy and low unemployment. Once again, he echoed Powell, noting the Fed need to be in a wait-and-see approach.

BOSTIC (2027 voter) said it's not prudent to adjust policy amid uncertainty, and said the economy in 2025 is to be less resilient than earlier expected.

BARKIN (2027 voter) stated consumer spending and business investment are still very solid, and it's not a given that firms can raise prices on tariffs.

FIXED INCOME

T-NOTE FUTURES (M5) SETTLED HALF A TICK HIGHER AT 110-26

T-Notes end the day unchanged as attention turns towards US-China trade talks over the weekend. At settlement, 2s -1.0bps at 3.885%, 3s -0.7bps at 3.867%, 5s -0.6bps at 3.988%, 7s -0.2bps at 4.175%, 10s +0.1bps at 4.375%, 20s +0.2bps at 4.860%, 30s +0.4bps at 4.835%.

INFLATION BREAKEVENS: 5yr BEI -0.1bps at 2.448%, 10yr BEI +0.1bps at 2.306%, 30yr BEI +0.1bps at 2.247%.

THE DAY: T-Notes meandered throughout APAC and European trade in a very narrow range, finding lows of 111-23+ before breaking out higher in the US morning. On trade, US President Trump floated the idea of a reduction of China tariffs and even posted to Truth about an 80% figure, but said it's up to Treasury Secretary Bessent, who is set to lead negotiations with China in Switzerland over the weekend on trade. T-Notes and equities chopped to the news, ultimately, little bothered, while NY Post reported on Thursday that the US weighs a plan to slash China tariffs to as low as 50% from 145% as soon as next week. As US players arrived, Treasuries flipped green, with the space finding relief, particularly on short-dated Treasuries following the selling on Thursday as markets readjusted to a more hawkish Fed Chair Powell. Gains extended on the risk-off equity trade, shortly after the US cash open, resulting in 111-03 highs. Thereafter, equity trade was choppy, trading little changed at Treasury settlement, at which point T-Notes ended the day where they began amid a flattening curve. From the PBoC, the Q1 Monetary Policy Implementation Report unveiled that the Central Bank will suspend Treasury bond buying and selling in phases; will resume buying and selling depending on market supply and demand situations. The day saw a ton of Fed speak, whereby members kept to Chair Powell's script on Wednesday of a strong/resilient economy, a moderately restrictive policy, and a wait-and-see approach for a change in the policy rate. Come Monday, the main conversation will concern the developments over the weekend in Switzerland between US officials and Chinese officials over trade, where perhaps the outcome will dictate Bessent's recommendation to Trump on his proposed China tariff reduction to 80%.

STIRS/OPERATIONS

- Market Implied Fed Rate Cut Pricing: June 4bps (prev. 4bps), July 17bps (prev. 18bps), September 35bps (prev. 35bps), Dec 67bps (prev. 67bps).
- NY Fed RRP op demand at USD 140bln (prev. 155bln) across counterparties 32 (prev. 46)
- EFR at 4.33% (prev. 4.33%), volumes at USD 113bln (prev. 111bln).
- SOFR at 4.29% (prev. 4.30%), volumes at USD 2.545tln (prev. 2.535tln).

CRUDE

WTI (M5) SETTLED USD 1.11 HIGHER AT USD 61.02/BBL; BRENT (N5) SETTLED USD 1.07 HIGHER AT USD 63.91/BBL

The crude complex ended the day and week in the green amid trade optimism despite mounting geopolitical concerns. On the former, the US and China meet in Geneva over the weekend with markets viewing the confab as a potential turning point, although any outcome is likely to be limited to initial engagement rather than a comprehensive agreement. Heading into the meeting, US President Trump posted on Truth that "80% Tariff on China seems right!", which followed the NY Post touting as low as 50% on Thursday evening. Separately, India and Pakistan tensions continue to rise, and both reportedly continue to fire at each other. Out of Europe, Reuters, citing a French diplomatic source, said that the US and Europeans are working to put together a proposal for a 30-day Ukraine-Russia ceasefire. A proposal is still being finalised but could be put forward in the coming days, and it would either be a unilateral ceasefire or give a very short response time to Russia. If Russia refused the 30-day ceasefire proposal, new US and European sanctions would be imposed. For the record, in the weekly Baker Hughes Rig Count Oil fell 5 to 474, Natgas was unchanged at 101, leaving the total down 6 at 578. WTI and Brent traded between USD 59.89-61.07/bbl and 62.84-63.94/bbl, respectively.

On the gas footing, Russia's Kremlin said Russia and the US discussed gas supply to Europe.

EQUITIES

CLOSES: SPX -0.07% at 5,660, NDX -0.01% at 20,061, DJI -0.29% at 41,249, RUT -0.16% at 2,023

SECTORS: Energy +1.05%, Real Estate +0.65%, Consumer Discretionary +0.63%, Materials +0.26%, Utilities +0.17%, Industrials +0.11%, Financials +0.03%, Technology 0.00% (unchanged), Consumer Staples -0.61%, Communication Services -0.62%, Health -1.10%.

EUROPEAN CLOSES: DAX: +0.59 % at 23,489, FTSE 100: +0.26 % at 8,554, CAC 40: +0.64 % at 7,744, Euro Stoxx 50: +0.42 % at 5,311, AEX: +0.43 % at 906, IBEX 35: +0.40 % at 13,543, FTSE MIB: +0.98 % at 39,357, SMI: +0.20 % at 12,094, PSI: -0.52 % at 6,988

STOCK SPECIFICS:

- **TSMC (TSM):** April revenue +48% Y/Y & YTD sales +43.5% Y/Y; expect next quarter revenue +38%.
- **Nvidia (NVDA):** Plans downgraded H20 chip for China.
- **Lyft (LYFT):** EPS and revenue beat; increased share buyback programme.
- **Affirm (AFRM):** Soft next quarter revenue outlook.
- **Trade Desk (TTD):** Top & bottom line beat.
- **Toast (TOST):** Raised FY adj. EBITDA view.
- **Microchip Technology (MCHP):** Revenue topped with solid next quarter guidance.
- **Paramount (PARA):** Beat Wall St. earnings expectations, while its potential merger with Skydance remains on track.
- **Pinterest (PINS):** Revenue EBITDA, MAUs beat with solid next quarter revenue guide.
- **Coinbase (COIN):** EPS & revenue light.
- **Expedia Group (EXPE):** Revenue short & cut FY gross bookings view.
- **Monster Beverage (MNST):** Q1 earnings disappointed.
- **McKesson (MCK):** Profit topped as did midpoint of FY guide.
- **Wolfspeed (WOLF):** Downgraded at Citi & JPM post-earnings amid dismal FY revenue guide.

FX

The Dollar saw weakness to end the week, putting a stop to its recent recovery and gains seen post-FOMC and amid trade optimism. There was no data out of the US to end the week, albeit a slew of Fed speakers who reiterated Powell's tones in wake of the FOMC on Wednesday. The Fed folk noted policy is in a good place and the Fed needs to wait to see how tariffs impact the US economy. Ahead, pivotal US/China talks are over the weekend, and ahead of that, Trump touted a China tariff cut, whereby he posted on Truth Social, "80% Tariff on China seems right!." DXY traded between 100.08-86.

G10 FX, ex-CAD, saw broad-based gains vs. the Dollar, albeit to varying degrees. GBP and JPY outperformed, while CHF saw the fewest gains. CAD slightly weakened, with USD/CAD trading in a tight range but hitting a high of 1.3944. Canada added more jobs than expected for April, but the unemployment rate surprisingly rose to 6.9% from 6.7%, with expectations of a rise to 6.8%. Elsewhere, newsflow to end the week was quite sparse, and currencies seemed to take profit off of the floundering Greenback. For the Pound, BoE dissenter Pill (voted for unchanged) said not seeing a dramatic shift in the UK economy after tariff announcements, and limited economic reaction to tariffs partly reflects expectations of loose BoE policy. Ahead, the Chief Economist said "careful" rate cuts should be understood to represent being alert to and agile to future economic changes. Cable hit a high of 1.3322 against an earlier trough of 1.3213

For the single-currency **EUR,** US-EU trade updates are lacking after the EU on Thursday proposed potential countermeasures on up to EUR 95bn of US imports in the event that negotiations fail. ECB speak proved non-incremental with Simkus noting ECB June projections may be a little bit worse and a cut next month is needed, whilst Rehn remarked disinflation is on track, and the growth outlook is weakening. EUR/USD traded between 1.1197-1292.

EMFX was mixed. COP, BRL, MXN strengthened, Yuan, CLP were flat, while TRY and ZAR weakened. EM-related headline drivers were light (ex-China), as aside from the aforementioned trade news, there was also data and PBoC's Q1 monetary policy implementation report. Exports soared much more than expected, while imports only marginally declined, against a much deeper forecasted decline. In the report, it said it will continue moderately loose monetary policy, and it will suspend Treasury bond buying and selling in phases; will resume buying and selling depending on market supply and demand situations

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