

# newsquawk

## US Market Wrap - 12th May 2025

### Markets see risk-on trade as US & China announce 115ppts 90-day tariff reduction

- **SNAPSHOT:** Equities up, Treasuries down, Crude up, Dollar up
- **REAR VIEW:** US & China announce 115ppts 90-day tariff reduction on one another, doesn't cover "de-minimis" exemptions, US fentanyl tariffs on China to remain; Bessent said UK and Switzerland have moved to the front of the queue, EU is much slower; Trump signs an executive order on lowering Pharma prices; Trump reportedly seeks USD 1tn in deals during Gulf trip; US Fed Budget posts bigger-than-expected surplus in April; AAPL said to be weighing price increases for Autumn iPhone line-up.
- **COMING UP: Data:** UK Jobs, German ZEW, US CPI, Earnings. **Events:** BoJ SOO. **Speakers:** BoE's Pill, Bailey; ECB's Rehn. **Supply:** Japan, Netherlands, UK, Italy, Germany. **Earnings:** JD.Com, Intuitive Machines, On, Munich Re, Hannover Re, Bayer, K+S, Leg, Ferrovia, A2A.
- **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

Risk-on trade was seen to start the week amid the positive trade developments between the US and China, whereby both countries agreed to cut tariffs by 115ppts, in what was a much larger drop than expected. The combined 145% US tariffs on China and China's levies on US goods will drop to 30% and 10%, respectively. In wake of the news, global risk-on trade was seen with downside in fixed income and gold, and upside in the Dollar, US equities, and crude. Given the readout was in the European morning, it set the tone for the duration of the US session with the aforementioned moves firmly holding, with notable gains seen in US indices, and weakness across the Treasury curve. Despite the geopolitical angst, the crude complex was buoyed although benchmarks traded some way off earlier peaks amid potential profit-taking. In FX, the Dollar was bid to the detriment of G10 FX peers, although safe-havens (JPY, CHF) lagged, and high beta FX were the relative outperformers given the risk environment. As expected, trade headlines dominated the slate and there was little else new with no US data and a lack of pertinent Fed speak. However, US President Trump signed an executive order on drug prices and they could come down from 59% to 80-90% and he will no longer tolerate profiteering from Big Pharma.

### MACRO

**US/CHINA:** The US and China agreed to reduce tariffs by 115ppts for 90 days. In the joint statement, it noted the US is to cut tariffs on Chinese goods to 30% from 145% and China to cut tariffs on US goods to 10% from 125% for 90 days. The US will modify the application of rate of duty on articles of China by suspending 24ppts of that rate for an initial period of 90 days. The US will retain the remaining rate of 10% on those articles; China is to retain the remaining ad valorem rate of 10% and remove the modified rate. Throughout the day US Treasury Secretary Bessent had numerous appearances, where he noted over the next 90 days they will see, but has to be fair for the American people. When asked if he considers the new level a ceiling or a floor, stated it "is obviously a floor". Said the 34% April 2nd level is a ceiling. Not saying tariffs will go up, but it is implausible that the tariff level will go below 10%. The first level is that there will be a phone call with Trump/Xi, and there is nothing currently scheduled. Can always go back to April 2nd level for China tariffs. The 20% fentanyl tariff imposed by the US will remain, with Bessent believing China is now serious about halting fentanyl flows in the US. USTR Greer said as it stands, the fentanyl issue remains unchanged. In addition, Reuters sources noted that the US-China trade deal does not cover "de minimis" exemptions for e-commerce firms and White House Press Secretary Leavitt said unfreezing rare earth was part of US-China discussions.

### FED

**Goolsbee** (2025 voter) said tariffs would still have a stagflationary impulse, NYT reports, and the temporary nature of the US/China deal would weigh on the economy. The bar for action has to be high, and again endorsed the waiting approach due to uncertainty and the central bank could afford to take time for policy decisions.

**Kugler** (voter) said trade policy is shifting but still likely to lead to higher prices and slower growth; it has become hard to judge the underlying growth of the economy. On inflation, she noted progress on disinflation has slowed, and still expects an increase in prices and slowdown in the economy, though not to the same rate as before. Additionally, she believes there could be some permanency from price increases related to tariffs. On the labour market, stated conditions are mostly stable. Regarding policy/rates, the Fed is in a good position to deal with changes in the macroeconomic outlook. Lastly, on tariffs, said if long-lasting, she would look into how supply chains get rearranged in the rest of the world, and remarked the US/China tariff reduction is obviously an improvement as far as trade between countries goes, still pretty high.

## FIXED INCOME

### T-NOTE FUTURES (M5) SETTLED 21 TICKS LOWER AT 110-05

T-Notes were sold amid broad-based risk-on sentiment as US/China agreed to reduce tariffs. At settlement, 2s +10.8bps at 3.991%, 3s +12.0bps at 3.986%, 5s +10.9bps at 4.096%, 7s +9.9bps at 4.271%, 10s +8.2bps at 4.457%, 20s +6.1bps at 4.919%, 30s +5.5bps at 4.888%.

**INFLATION BREAKEVENS:** 5yr BEI -3.5bps at 2.419%, 10yr BEI +0.2bps at 2.308%, 30yr BEI +1.0bps at 2.259%.

**THE DAY:** T-Notes saw weakness in the European morning as we got a readout on US/China trade talks, whereby both sides agreed to cut tariffs by 115 percentage points, in what was a much larger drop than traders expected. The combined 145% US tariffs on China and China's levies on US goods will drop to 30% and 10%, respectively. In wake of the news, global risk-on trade was seen, with immediate downside in T-Notes, which saw them hit an intra-day low of 110-06 from ~ 110-13+ around 30 minutes after the headline hit. Thereafter, and as the moves accentuated T-Notes gradually ground lower to a trough of 110-01+, before marginally paring through the US afternoon and into settlement. Weakness was further accentuated at the UK open, as desks noted of heavy hedge fund sales. Elsewhere, there was little new amid a lack of US data and Fed speak, ahead of CPI on Tuesday.

#### SUPPLY:

- US sold USD 74bln of 6-mnth bills at 4.105%, covered 3.26x; sold USD 83bln of 3-mnth bills at 4.300%, covered 2.51x

#### STIRS/OPERATIONS

- Market Implied Fed Rate Cut Pricing: June 2bps (prev. 4bps), July 11bps (prev. 17bps), September 28bps (prev. 35bps), Dec 57bps (prev. 67bps).
- NY Fed RRP op demand at USD 148bln (prev. 142bln) across 34 counterparties (prev. 31).
- EFR at 4.33% (prev. 4.33%), volumes at USD 107bln (prev. 113bln).
- SOFR at 4.28% (prev. 4.29%), volumes at USD 2.479tln (prev. 2.545tln).

## CRUDE

### WTI (M5) SETTLED USD 0.93 HIGHER AT 61.95/BBL; BRENT (N5) SETTLED USD 1.05 HIGHER AT USD 64.96/BBL

The crude complex was bid to start the week and buoyed by China/US trade optimism. As such, WTI and Brent hit highs of USD 63.61/bbl and 66.40, respectively, in the European morning amid immediate risk on trade given the aforementioned countries cutting their tariffs by 115ppt each. Benchmarks swiftly reached their peaks, before slipping off these due to likely profit taking. Geopolitics continues to remain of focus, but largely took a back seat on Monday, although the Kremlin said Russian President Putin's proposal for talks aimed at resolving the Ukraine crisis was met with understanding and support by many leaders, and the Kremlin stated it is serious about finding ways to achieve a long-term peaceful settlement. However, Zelensky has repeatedly stated how Russia has given no response on Ukraine's proposal for direct meeting.

## EQUITIES

**CLOSES:** SPX +3.26% at 5,844, NDX +4.02% at 20,868, DJI +2.81% at 42,410, RUT +3.42% at 2,092.

**SECTORS:** Consumer Discretionary +5.66%, Technology +4.66%, Communication Services +3.35%, Industrials +3.06%, Energy +2.47%, Health +2.43%, Financials +2.03%, Materials +1.90%, Consumer Staples +0.07%, Real Estate +0.04%, Utilities -0.68%.

**EUROPEAN CLOSES:** DAX: +0.22 % at 23,552, FTSE 100: +0.59 % at 8,605, CAC 40: +1.37 % at 7,850, Euro Stoxx 50: +1.58 % at 5,393, AEX: +1.80 % at 922, IBEX 35: +0.56 % at 13,630, FTSE MIB: +1.40 % at 39,922, SMI: +1.37 % at 12,229, PSI: +1.76 % at 7,111.

#### STOCK SPECIFICS:

- **Eli Lilly (LLY):** Zepbound showed superior results vs. **Novo Nordisk's (NVO) Wegovy.**
- **Nvidia (NVDA):** Product price hikes are due to increased costs & regulatory challenges, DigiTimes reports.
- **Shopify (SHOP):** Will join the Nasdaq-100 Index on May 19th, replacing **MongoDB (MDB).**
- **Apple (AAPL):** To be weighing price increases for its autumn iPhone line-up, WSJ reports. Meanwhile, US President Trump said he spoke to Apple CEO Tim Cook this morning and said Cook will build a lot in US.
- **Tesla (TSLA)** US auto safety agency asked Tesla to answer questions on plans to deploy paid Robotaxi service in Austin, Texas by June.
- **NRG Energy (NRG):** Q1 top and bottom line was strong, with the midpoint of the FY25 adj. EPS outlook reaffirmed below forecasts.
- **Fox Corp (FOXA):** Q3 adj. EPS and revenue beat expectations.

## FX

The Dollar saw broad-based strength on the US-China announcement to reduce tariffs by 115% on each other's goods, resulting in DXY heading into overnight trade just off earlier session highs of 101.97. The day marked the biggest jump in the DXY since November 2024, with lessened tensions between the US and China offering the Dollar more room to catch up with the rally in US equities over the past month. US Treasury Secretary Bessent said there was no discussion on currency with China at the trade talks. Aside from trade, updates were thin and contained to remarks from Fed's Kugler (voter) and Goolsbee (2025 voter). The latter

cautioned that the temporary nature of the deal would weigh on the economy, again endorsed a wait-and-see approach due to remaining uncertainty, and said tariffs would still have a stagflationary impulse. Markets now look towards US CPI on Tuesday, although given the recent trade update some participants may look through it. ING notes in the event inflation surprises on the hot side, the reaction would typically be USD-positive, but "we are not sure in this case", given markets have already trimmed Fed easing expectations, the room for further hawkish repricing being limited and a hot CPI/PPI may simply raise the stagflationary risk, "potentially harming the dollar in the near term."

**G10FX** was entirely red amid the risk-on environment which supported the Greenback. Relative outperformance was seen in CAD amid higher oil prices, while higher-beta FX was hit to a lesser extent. Due to the risk-taking mood, Haven FX, which were the biggest beneficiaries from "Liberation Day" lagged the most, with Yen retracing a large chunk of the move since that day, whereas more unwinding in strength has to be done in CHF. As it stands, USD/JPY is ~148.30 and USD/CHF ~0.8450. Similarly, Gold took a beating on the somewhat paused trade war between the US and China, although uncertainty still reverberates from the 90-day pause. Meanwhile, the Euro was weighed on by Bessent speaking on trade deals, "the UK and Switzerland have moved to the front of the queue; the EU is much slower"; EUR/USD now sits below 1.11, with the 50 DMA (1.1074) in view.

**EMFX:** Despite the USD strength, CNH strength was present. Over the weekend, Chinese CPI (Apr) Y/Y metrics were in line with expectations (-0.1%) while PPI Y/Y was slightly above (-2.7% vs. exp. -2.8%). INR also outperformed in EMs. Elsewhere, weakness was the theme, particularly in CEEs. Concerning Mexico, the latest Reuters poll unveiled that 30/31 analysts surveyed expect Banxico to cut rates by 50bps on Thursday, with 1/31 analysts expecting a rate hold.

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