US Market Wrap - 13th May 2025

SPX wipes out YTD losses in risk on trade alongside soft US CPI

- **SNAPSHOT**: Equities up, Treasuries down, Crude up, Dollar down
- **REAR VIEW**: US CPI largely cooler than expected; Trump announces Saudi US investment; White House EO says US will cut minimum tariff on China shipments; Bessent thinks US-Europe deal may be a bit slower than other deals; China removes ban on BA deliveries; US weighs letting UAE buy >1mln advanced NVDA chips; UK wage growth slows but remains relatively strong; UNH announces CEO transition and suspends 2025 outlook; MSFT reportedly cutting 3% of total workforce
- **COMING UP**: **Data:** Australian Wage Price Index, German/Spanish CPI (Final). **Events:** OPEC MOMR. **Speakers:** BoE's Breeden; Fed's Waller, Jefferson, Daly; ECB's Cipollone. **Supply:** Australia, UK, Germany. **Earnings:** Cisco Systems, CoreWeave, Alcon, Imperial Brands, Burberry, Daimler Truck, Brenntag, Porsche SE, Telefonica, Pirelli, ABN AMRO.

MARKET WRAP

US indices extended on gains seen on Monday, as largely cooler-than-expected US CPI provided an additional fillip to US equity futures, albeit only being short-lived. Thereafter, as sentiment continued to improve through the US afternoon, broad-based risk-on trade was seen, with US indices closing at highs, as did the crude complex. Meanwhile, the Dollar reversed a lot of yesterday's gains to the benefit of all G10 FX, with Antipodeans outperforming. Treasuries were lower across the curve with greatest weakness in the long-end, as the initial gains seen in wake of the aforementioned CPI were put aside as the Fed is likely to remain patient. On that, both Barclays and JPM moved their first Fed rate cut to December, from July and September, respectively, while Refinitiv money market pricing has the first full Fed 25bps cut for October. Sectors closed largely in the green, although Health was the distinct laggard and weighed on by UnitedHealth (UNH) (-17.8%), announcing leadership changes and suspending 2025 outlook. Technology sat atop the sectorial breakdown. Elsewhere, US President Trump spoke in the Middle East, where he announced a USD 600bln investment commitment from Saudi Arabia and stated how strong the ties are between the two countries. Note, there was no Fed speak on Tuesday as attention turns to Waller (Wed) and Chair Powell (Thurs).

US

CPI: The April inflation report was largely cooler than expected, with monthly metrics for core and headline inflation at 0.2% (exp. 0.3%, prev. 0.1%) and 0.2% (exp. 0.3%, prev. -0.1%), respectively. Similarly, headline Y/Y was beneath expectations, rising 2.3%, below the forecasted and prior 2.4%. Meanwhile, Core Y/Y, as expected, was unchanged from the March figure at 2.8%. Despite CPI coming in soft, the report is likely to keep the Fed in its patient and wait-and-see approach to resume policy easing, given that members will want to ascertain the impact tariffs will have on prices before making a move. At ING, one economist thinks it might take until June for the April tariffs to show up in prices, and remember, Fed's Barkin has made the case in the past that businesses usually have between 60-90 days of inventory. As such, businesses may wait until current inventories are exhausted to pass on costs to the consumer. Note, since the announced 90-day reduction in tariffs between the US and China, remarks have been made by Fed's Kugler and Goolsbee. The former believes the shift in tariff policy is still likely to lead to higher prices and slower growth, though not to the same rate as before. Kugler also thinks the tariff rates are still pretty high and believes there could be some permanency from price increases related to tariffs. While the pause is likely to trim inflationary effects, the uncertainty that lingers with a 90-day pause is a strong reason for the Fed to maintain its stance of uncertainty over the economic outlook. Post-CPI, Morgan Stanley now sees April core PCE at 0.23% Y/Y, and 2.59% Y/Y. Note, PCE projections are likely to be updated again after PPI on Thursday.

FIXED INCOME

T-Notes were sold in a risk-on trade with soft US CPI put aside as the Fed is likely to remain patient. At settlement, 2s +1.9bps at 4.021%, 3s +2.1bps at 4.012%, 5s +2.3bps at 4.126%, 7s +3.5bps at 4.308%, 10s +4.6bps at 4.503%, 20s +6.1bps at 4.980%, 30s +6.1bps at 4.948%

INFLATION BREAKEVENS: 5yr BEI +4.0bps at 2.444%, 10yr BEI +3.4bps at 2.335%, 30yr BEI +3.4bps at 2.291%

THE DAY: Treasuries traded sideways in the APAC and European sessions before seeing an initial spike higher on US CPI coming in cooler than expected on all gauges but the Core Y/Y, which met expectations. Treasuries briefly hit fresh session highs of 110-15, before swiftly paring the move and seeing losses as risk-on extended at the US cash open into the US afternoon, resulting in T-Notes session lows of 109-30+. While the CPI report unveiled a fourth month of easing in headline Y/Y and core Y/Y remaining sub 3% after a sticky plus 3% trajectory in 2024, the Fed is unlikely to resume with easing in the short term. Money markets were little fazed by the CPI report, where only pricing for year-end saw a move, now seeing 52bps of easing vs 57bps beforehand. The minimal moves are likely due to the inflation report offering little clarity for the Fed to move forward, even with the current job growth, as the impact of tariffs on price remains to be seen. Post CPI, a BBG report surfaced that around six companies are considering selling fresh US high-grade debt, looking to pounce on spread levels not seen since Trump's tariff announcement in early April. The latest Reuters Poll unveiled 19/35 bond strategists said they were concerned about the safe-haven status of US Treasuries, while 19/33 said session risk is to have a bigger impact on US 10yr Treasury yields than higher inflation.

SUPPLY

US sold USD 52bln of 1yr bills at 3.930%, covered 3.31x US to sell USD 60bln of 17wk bills on May 14th; to sell USD 85bln of 4wk bills on May 15th and USD 75bln of 8wk bills; all to settle on May 20th

STIRS/OPERATIONS:

- Market Implied Fed Rate Cut Pricing: June 2bps (prev. 2bps), July 10bps (prev. 11bps), September 25bps (prev. 28bps), Dec 52bps (prev. 57bps).
- NY Fed RRP op demand at USD 144bln (prev. 148bln) across 32 counterparties (prev. 34).
- EFFR at 4.33% (prev. 4.33%), volumes at USD 105bln (prev. 107bln).
- SOFR at 4.28% (prev. 4.28%), volumes at USD 2.535tln (prev. 2.479tln).

CRUDE

WTI (M5) SETTLED USD 1.72 HIGHER AT 63.67/BBL; BRENT (N5) SETTLED USD 1.67 HIGHER AT USD 66.63/BBL

The crude complex was firmer, continuing on its strength seen on Monday amid risk on trade, as benchmarks rose to highs into settlement, in fitting with the gains in US indices. Whilst it was a headline-busy day, the energy space was seemingly buoyed by broader sentiment as opposed to any specific headline driver. Highlighting this, the Kremlin said its delegation is preparing for talks in Turkey, and declined further comment on the proposal from Zelensky for Putin to attend the talks. Meanwhile, Zelensky said he expects a possible ceasefire agreement as the "number one" result of talks in Turkey, and Trump is yet to confirm attendance, but he has been invited. Zelensky added "signals of support from China on a 30-day ceasefire". Elsewhere, in Trump's address in Saudi Arabia, he noted the biggest destructive force in the Middle East is Iran, and wants to make a deal with Iran, but if Iran rejects the olive branch, he has no choice but to inflict maximum pressure. Trump said he would drive Iranian oil exports to zero, and the offer will not last forever. In bank commentary, Goldman Sachs estimates around USD 3-4/bbl of upside risk to Brent/WTI oil price forecast of USD 60/56 for the rest of 2025 and USD 56/52 in 2026 from recent trade de-escalation. WTI and Brent ground higher through the duration of the US session as risk continued to pick up and it benefited, and as such saw benchmarks trade between USD 61.65-63.90/bbl and 64.63-66.81/bbl, respectively. Ahead, private inventory data is after-hours where current expectations are (bbls): Crude -1.1mln, Distillate 0.1mln, Gasoline -0.6mln.

EQUITIES

CLOSES: SPX +0.72% at 5,887, NDX +1.58% at 21,198, DJI -0.64% at 42,140, RUT +0.49% at 2,102

SECTORS: Technology +2.25%, Consumer Discretionary +1.41%, Energy +1.32%, Communication Services +1.26%, Industrials +0.72%, Financials +0.38%, Utilities -0.08%, Materials -0.52%, Consumer Staples -1.24%, Real Estate -1.30%, Health -2.97%.

EUROPEAN CLOSES: DAX: +0.23 % at 23,620, FTSE 100: -0.02 % at 8,603, CAC 40: +0.30 % at 7,874, Euro Stoxx 50: +0.43 % at 5,415, AEX: +0.58 % at 927, IBEX 35: +0.83 % at 13,769, FTSE MIB: +0.39 % at 40,077, SMI: -0.58 % at 12,149, PSI: +1.11 % at 7,190.

STOCK SPECIFICS:

- **Coinbase (COIN):** Will replace **Discover Financial (DFS)** in the S&P 500 BMO on May 19th.
- **Boeing (BA):** China lifted its month-long ban on Boeing aircraft deliveries.
- **Hertz (HTZ):** Reported a deeper loss per share than expected & revenue missed.
- **Honda Motor (HMC):** Sees FY operating profit tumbling 59% citing US tariffs & a stronger JPY currency; postponed plans to build EV value chain in Canada by 2yrs.
- **On Holding (ONON):** Top line beat; raised FY25 net sales growth.
- **UnitedHealth (UNH):** Announced leadership transition; suspended 2025 outlook as medical expenditures expected to be higher than anticipated.
- **Under Armour (UAA):** EPS & revenue beat with a solid next quarter profit view.
- **Amazon (AMZN):** Signs deal with **FedEx (FDX).**
- **US large cap:** US President Trump said will be deals with **Amazon (AMZN), Oracle (ORCL), AMD (AMD), Uber (UBER), Johnson & Johnson (JNJ),** and **Qualcomm (QCOM).**
- **Nvidia (NVDA)** and Humain announce a strategic partnership to construct AI factories in Saudi Arabia; Nvidia to send 18k of the newest AI chips to Humain.
- **Nvidia (NVDA):** US reportedly weighs letting UAE buy in excess a million advanced Nvidia (NVDA) chips, according to Bloomberg.
- **AMD (AMD)** and Humain form strategic, USD 10bln collaboration to advance global AI.
- **Tesla (TSLA):** CEO Musk would like to bring Robotaxis to Saudi Arabia.
- **Microsoft (MSFT):** Reportedly cutting 3% of its total headcount, via CNBC; reportedly not performance related.
- **Intel (INTC):** Exec suggests new CEO is not considering major strategic shifts for the Co.; CFO adds, "committed volume is not significant" as it stands for the latest 14A manufacturing technology.
- **Boeing (BA):** April deliveries 45 airplanes and YTD through April 30th, BCA's gross orders was 249; official backlog 5,643 orders as of April 30th.

FX

The Dollar was lower, retracing a chunk of the gains seen on Monday after the better-than-expected US/China trade talks. DXY retraced from a peak of 101.73 to a low of 100.99, a level it sits around now. In terms of newsflow, US President Trump spoke in the Middle East but said little new, while US CPI largely came in softer than expected. Recapping, core M/M and headline M/M printed 0.2% (exp. 0.3%, prev. 0.1%) and 0.2% (exp. 0.3%, prev. -0.1%), respectively, while headline Y/Y came in at 2.3% (exp. & prev.

2.4%). Core Y/Y was in line with expectations at 2.8%, and unchanged M/M. In wake of the metrics, DXY saw a kneejerk lower before swiftly reversing. Post-data, Morgan Stanley sees April core PCE at 0.23% M/M & 2.59% Y/Y, with Pantheon Macroeconomics tracking a 0.11% increase in the core PCE deflator. In terms of the Fed, both Barclays and JPM pushed back their first Fed rate cut to December, with Refinitiv money markets pricing in the first 25bps Fed cut by October and 52bps of reductions by year-end. For the record, there was no speak as traders await Waller (Wed) and Chair Powell (Thurs).

G10 FX was firmer across the board, profiting off the flailing Greenback. Antipodeans outperformed, followed by the Pound, as they benefited from the broad risk environment, opposed to currency-specific newsflow. AUD/USD and NZD/USD reached peaks of 0.6478 and 0.5941, respectively, levels they both currently hover around. Out of the UK, there was limited reaction to UK jobs data that was broadly in line with market expectations, aside from showing a smaller slowdown in average weekly earnings vs the consensus.

EUR/USD traded between 1.1085-1187, although there was little movement seen in wake of German ZEW metrics. Sentiment improved much more than anticipated, while conditions surprisingly worsened. There was plenty of ECB speak, although little new was learnt. Meanwhile, Reuters sources overnight suggested the ECB strategy review will largely endorse past policies, including QE, despite some policymakers' criticisms, while the ECB is to keep reference to 'forceful action' when rates and inflation are low following the review.

EMFX largely saw strength vs. the Dollar, with COP, CLP, BRL, MXN, all gaining, while Yuan, TRY were flat, and ZAR was the laggard. For the Yuan, there was some punchier rhetoric from China in the EZ morning in which the Foreign Ministry, on US fentanyl tariffs, said China has repeatedly stated it is a US issue, adding that the US is ignoring China's goodwill, and the responsibility lies with the US. Meanwhile, Goldman Sachs raised its 2025 China GDP growth forecast to 4.6% (prev. 4%) after the US agreed to a larger-than-expected tariff cut. Although this is still below Beijing's 5% target. For 2026, Goldman now expects 3.8% growth (prev. 3.5%). It also no longer sees a 5% export decline this year, expecting exports to stay flat. Elsewhere, the latest BCB Minutes (May) said calibration will continue to be guided by the inflation objective, and heightened uncertainty requires additional caution and flexibility.