

Stocks chop amid yield rise as rate cut bets trim ahead of Powell

- **SNAPSHOT:** Equities mixed, Treasuries down, Crude down, Dollar flat/up
- **REAR VIEW:** US not seeking to weaken USD as part of trade deals; Fed's Jefferson says Q1 GDP overstated deceleration in activity; Trump reiterates wants to do a deal with Iran; South Korean official says Deputy finance minister met with US Treasury to discuss FX; China criticised UK-US trade deal; US issues new Iran-related sanctions; OPEC MOMR maintains 2025/26 global oil demand forecasts; EIA unveils surprise crude stock build; Foxconn tops profit expectations.
- **COMING UP:** **Data:** Australian Jobs, German Wholesale Price Index, UK GDP, EZ Employment, GDP, US NY Fed Manufacturing, Jobless Claims, Philly Fed Index, PPI, Retail Sales, Industrial Production. **Events:** IEA OMR. **Speakers:** ECB's Cipollone, Elderson, de Guindos; Fed Chair Powell, Barr; BoE's Dhingra. **Supply:** Japan, US. **Earnings:** Applied Materials, Take-Two, Alibaba, Walmart, Deere.

MARKET WRAP

US indices were mixed on Wednesday (SPX +0.1%, NDX +0.6%, DJI -0.2%). Gains were seen in the Mag-7 led sectors, namely, Communications (GOOGL +3.7%), Tech (NVDA +4.2%), and Consumer Discretionary (TSLA +4.0%). Additionally, AMD's announced USD 6bn stock buyback boosted sentiment in the semiconductor space, with the company noting the decision reflects confidence in growth prospects amongst other things. Meanwhile, Healthcare led the downside, while Materials and Real Estate followed. Weighing on the latter and small caps RUT's underperformance (-0.9%) was the continued rally in US yields, where traders trimmed bets of Fed rate cuts by year-end, now seeing less than two full 25bps rate cuts on anticipation of improved economic growth following the 90-day US/China tariff reduction. In FX, the Dollar was firmer against major peers except for the Yen, which was helped by KRW-led regional strength. The Dollar was supported by the widening rate differential vs. G10s and BBG reports that the US "are not looking to weaken the Dollar as part of trade deal". Keeping on trade, White House Economic Adviser Hasset said that the admin has more than 20-25 deals on the table, and when President Trump returns, he will announce the next deal. FBN's Gasparino reported that deals with Japan and South Korea are said to be "close". Concerning Fedspeak, Goolsbee (2025 voter) and Jefferson (voter) were in fitting with recent rhetoric from Fed members, though Jefferson noted Q1 GDP data overstated deceleration in activity. For crude, prices settled lower with traders citing profit-taking following the recent upside, as attention turns to Ukraine/Russia talks on Thursday. Pressure on Iran from the US showed no signs of easing, with another set of sanctions from the US targeting individuals in China and Iran. The move is likely aimed at forcing Iran to make a deal, a prospect US President Trump reiterated he wants in Saudi Arabia today. Attention on Thursday turns to Fed Chair Powell and US data for April, namely, PPI, Retail Sales, Initial Claims, Industrial Production, and Philly Fed Business Index (May).

FED

Goolsbee (2025 Voter) said some part of April inflation represents the lagged nature of data and the Fed is still holding its breath. Chicago Fed President said it will take time for current inflation trends to show up in data, and right now is a time for the Fed to wait for more information and try to get past the noise in the data. Goolsbee added that cannot jump to conclusions about long-term trends given all the short-term volatility.

Jefferson (voter), speaking for the first time since early April, said the current moderately restrictive policy rate is in a good place to respond to economic developments. On data, said Q1 GDP overstated deceleration in activity, and recent inflation data are consistent with further progress toward the 2% goal, but the future path is uncertain due to tariffs. Jefferson added watching closely for signs in hard data of weaker activity. On tariffs, stated that it could lead to higher inflation, and still uncertain if the impact would be temporary or persistent. Jefferson noted labour market is still solid.

FIXED INCOME

T-NOTE FUTURES (M5) SETTLED 8 TICKS LOWER AT 109-23

Treasury yields continue to march higher as participants dial back further Fed rate cuts in 2025, leaving 2yr yields at the highest level since March. At settlement, 2s +4.4bps at 4.061%, 3s +4.9bps at 4.059%, 5s +4.9bps at 4.170%, 7s +5.0bps at 4.352%, 10s +3.9bps at 4.538%, 20s +2.8bps at 5.003%, 30s +3.1bps at 4.974%

INFLATION BREAKEVENS: 5yr BEI +0.2bps at 2.449%, 10yr BEI +3.6bps at 2.377%, 30yr BEI +2.8bps at 2.326%.

THE DAY: Treasuries meandered in APAC trade before seeing modest gains into the US cash open. Short-lived highs of 110-09+ were seen before the gradual move to session lows of 109-21. Key updates included US White House Economic Adviser Hasset noting the administration has more than 20-25 trade deals on the table, and when US President Trump returns, he will announce the next delay. Meanwhile, FBN's Gasparino said deals with Japan and South Korea are said to be close. Elsewhere, remarks were seen from Fed's Goolsbee (2025 voter) and Jefferson, who kept in fitting with recent Fed members' commentary, albeit Jefferson noted Q1 GDP overstated deceleration in activity. Fedspeak sparked little reaction in money market pricing, with markets now pricing in less than two full 25bps rate cuts (48bps vs. 52bps on Tuesday) by year-end as bets over an improved economic outlook due to reduced trade tensions grow. Additionally, eyes are attentive to Washington, where Republicans push ahead with Trump's budget

package, involving tax cuts and spending increases. Given that US tariffs largely remain notably lower since "Liberation Day", multiple tariff exceptions being announced in April, and seemingly trade deals to be made on the horizon, it remains to be seen/addressed how Trump/Republicans will instil confidence on the funding of said package, as Trump has advocated for the use of tariffs to offset tax cuts.

SUPPLY:

- US sold USD 60bln 17wk bills at high rate of 4.24%, B/C 3.28x

STIRS/OPERATIONS:

- Market Implied Fed Rate Cut Pricing: June 2bps (prev. 2bps), July 9bps (prev. 10bps), September 22bps (prev. 28bps), Dec 48bps (prev. 52bps).
- NY Fed RRP op demand at USD 165bln (prev. 144bln) across 36 counterparties (prev. 32)
- EFR at 4.33% (prev. 4.33%), volumes at USD 113bln (prev. 105bln).
- SOFR at 4.30% (prev. 4.28%), volumes at USD 2.565tln (prev. 2.535tln).

CRUDE

WTI (N5) SETTLED USD 0.57 LOWER AT USD 62.68/BBL

The crude complex was lower with traders citing profit taking after its recent upside, albeit settling off lows, as attention turns to Ukraine/Russia talks on Thursday, whereby the delegations are yet to be decided. Russian outlet Kommersant noted that Russian Foreign Minister Lavrov will not take part in the talks. Meanwhile, Trump stated he does not know whether Putin will attend the Ukraine peace talks. On the day, WTI and Brent saw weakness in the European morning and were pressured in wake of US President Trump repeating that the US wants to do a deal with Iran, but once again noted Iran cannot have a nuclear weapon. In light of the weekly EIA data, benchmarks saw fleeting downside, as crude saw a surprise build, in fitting with the private metrics last night. Distillates saw an unexpected draw, and gasoline drew more than Wall St. consensus, which also mirrored Tuesday's API figures. The US issued new Iran-related sanctions, targeting individuals in Iran and China, as pressure mounts from the US on Iran to make a deal. All in all, WTI and Brent were choppy on the day and hit highs of USD 62.34/bbl and 66.59/bbl, against lows of 63.23 and 65.72, respectively.

On the OPEC side of things, the MOMR showed 2025 & 2026 global oil demand forecasts were maintained at 1.3mln BPD, with supply forecasts cut to 0.8mln BPD (prev. 0.9mln BPD). Separately, Kazakhstan's oil output fell 3% in April from March to 1.82mln BPD, remaining above the OPEC+ quota, according to Reuters calculations.

EQUITIES

CLOSES: SPX +0.10% at 5,983, NDX +0.57% at 21,319, DJI -0.21% at 42,051, RUT -0.88% at 2,084

SECTORS: Communication Services +1.58%, Technology +0.96%, Consumer Discretionary +0.38%, Financials -0.28%, Consumer Staples -0.37%, Industrials -0.48%, Utilities -0.49%, Energy -0.59%, Real Estate -0.90%, Materials -0.96%, Health -2.31%.

EUROPEAN CLOSES: DAX: -0.50 % at 23,500, FTSE 100: -0.38 % at 8,571, CAC 40: -0.65 % at 7,823, Euro Stoxx 50: -0.36 % at 5,397, AEX: +0.09 % at 928, IBEX 35: +0.38 % at 13,825, FTSE MIB: +0.52 % at 40,285, SMI: -0.20 % at 12,124, PSI: -0.23 % at 7,174.

STOCK SPECIFICS:

- **American Eagle Outfitters (AEO):** Solid Q1 prelim earnings but withdrew FY25 guidance citing macro uncertainty
- **Hon Hai (HNHPF):** Net profit topped expectations driven by strong AI server demand
- **Tesla (TSLA):** Board has formed a special two-person committee to consider a new stock option package for Musk
- **Walmart (WMT):** CFPB dropped its lawsuit against Walmart & its fintech partner
- **GlaxoSmithKline (GSK):** Will acquire liver drug efasifermin for \$1.2bln upfront w/ potential milestone payments of up to \$800mln
- **Novo Nordisk (NVO), Septerna (SEPN):** To collab on oral small molecular modules w/ deal worth up to \$2.2bln for Septerna
- **AbbVie (ABBV):** Downgraded at Citi.
- **PVH (PVH):** Upgraded at Jefferies.
- **AMD (AMD):** Announced a new USD 6bln share repurchase authorisation.
- **Costco (COST), Affirm (AFRM):** Partnered to bring a new, flexible payment option to Costco.com.
- **Boeing (BA)** US and Qatar are to sign a deal for the purchase of Boeing (BA) jets; US President Trump says Boeing agreement is for over USD 200bln. Qatar Airways has ordered over 160 craft.
- **Microsoft (MSFT):** EU antitrust regulators set to accept Microsoft's revised offer to end investigation into its video app teams; EU regulators likely to seek market feedback in coming months before making final decision.
- **Lockheed Martin (LMT):** CEO said F35 Lot 19 award has the potential to accelerate compared to the previous expectation of H2 of the year; says what their customer is telling us now is to expect Lot 18 and Lot 19 to be combined into a single award.
- **Netflix (NFLX):** Said it now has 94mln subscribers to its advertising supported service.
- Jim Chanos said he remains short **Coinbase (COIN)**; is also short **Strategy (MSTR)** too.

FX

The Dollar Index was around flat on Wednesday. In the European morning, DXY fell to lows of 100.27 after notable strength in the Yen amid the rally in Treasury yields taking a breather. Additionally, some participants attributed some of G10's strength earlier on to

a South Korean official, noting Deputy Finance Minister meeting with US Treasury's Kaproth on May 5th to discuss FX, as well as EUR/USD breaching stop/technical at 1.1214. That said, earlier strength was largely pared, with Bloomberg reports offering strength to the buck's rebound, "US are not looking to weaken the Dollar as part of trade deals"; DXY hit session highs on the news, holding at ~101.07. Aside from the aforementioned, Treasury yields continued to rise on reduced bets of Fed easing in 2025, favouring the Dollar on a rate-differential basis. Trade updates were seen from White House Economic Adviser Hassett, who said that the admin has more than 20-25 deals on the table, and when President Trump returns, he will announce the next deal. According to FBN, deals with Japan and South Korea are said to be "close". Separately, Fed's Goolsbee (2025 voter) and Jefferson (voter) hit the wires, with the latter noting Q1 GDP data overstated deceleration in activity. On Thursday, key risk events return, namely, Fed Chair Powell is to give remarks while US data for April returns, e.g. PPI, Retail Sales, Initial Claims, and Industrial Production.

G10 FX-ex JPY weakened on the day, where Antipodes led the downside. Overnight, wage data in Australia was hotter-than-expected, resulting in choppy trade. Ultimately, the day saw AUD/USD trundle lower, heading into APAC trade lows of ~0.6423. In Europe, ECB's Nagel highlighted the uncertain environment, while Germany and Spain's inflation figures were unrevised. EUR/USD finished the day modestly lower, after morning highs of 1.1265. On Thursday, GBP will be watched for March GDP data. As it stands, Cable trades at ~1.3260 and EUR/GBP at ~0.8420.

JPY was the clear G10 outperformer, KRW-led regional FX strength, 4.0% wholesale inflation supporting BOJ tightening bias, and increased downside USD/JPY option demand signalling bearish positioning. Yen strength reduced over the session, but remained with USD/JPY at ~146.8 ahead of Q1 GDP overnight, where expectations are for a 0.1% contraction after Q4's 0.6% expansion.

EMFX: LatAm FX performance was mixed, a result of outperformance in MXN and COP, while BRL and CLP were hit. From Brazil, reports stated that Finance Minister Haddad is to leave office in April 2026 for an election bid, according to O Globo. Meanwhile, Service Sector Growth data for Brazil in March disappointed, on both M/M and Y/Y metrics. Elsewhere, USD/CNH finished the day higher at ~7.21 amid China criticising a trade deal between the UK and US that could be used to squeeze Chinese products out of British supply chains, FT reports.

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