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US Market Wrap - 16th May 2025

Stocks extend rally as US/China relations dominated the week

- **SNAPSHOT:** Equities up, Treasuries flat, Crude up, Dollar up
- **REAR VIEW:** Trump admin split on adding Chinese chip makers to export blacklist; US and EU break impasse to enable tariff talks, via FT; US UoM inflation expectations rise; Import/Export prices surprisingly gain; Disappointing housing data; Iran still awaiting US proposal on nuclear deal; Little Russia/Ukraine progress; Weak AMAT numbers.
- **WEEK AHEAD:** Highlights include UK-EU Summit, China Activity Data, PBoC LPR, RBA, Global PMI Data, and Inflation from Japan, Canada and the UK. [To download the report, please click here.](#)
- **CENTRAL BANK WEEKLY:** Previewing PBoC LPR, RBA, ECB Minutes; Reviewing BoJ SOO. [To download the report, please click here.](#)

MARKET WRAP

US indices ended the day with slight gains, albeit in thin newsflow on Friday, as the main event of the week came before US players even got to their desks on Monday. That is, the US and China agreed to cut tariffs on each other by 115ppts. Back to today, while headlines were light, there was some US data - import/export prices surprisingly rose, albeit marginally, while housing data and UoM disappointed. On the latter, all major metrics missed and inflation expectations soared, but the usual caveat applies, with the bias of Democrats vs. Republican figures. Elsewhere, the Dollar saw slight gains to the detriment of most G10 FX, while Treasuries chopped to the aforementioned data. The crude complex saw gains amid a lack of progress on Russia/Ukraine and US/Iran nuclear talks. Sectors were predominantly in the green with Health sitting atop of the pile, while Energy and Technology were the only ones in the red.

US

MICHIGAN: University of Michigan prelim data for May disappointed, highlighted by Sentiment tumbling to 50.8 (exp. 53.4, prev. 52.2), Conditions to 57.6 (exp. 59.6, prev. 59.8), and Expectations printing beneath the bottom end of the forecast range at 46.5 (exp. 48.0, prev. 47.3). Inflation expectations also rose, with 1yr ahead soaring to 7.3% from 6.5%, and 5yr jumping to 4.6% from 4.4%. The data set notes, "While most index components were little changed, current assessments of personal finances sank nearly 10% on the basis of weakening incomes". In addition, in commentary, it said tariffs were spontaneously mentioned by nearly three-quarters of consumers, up from almost 60% in April, and that uncertainty over trade policy continues to dominate consumers' thinking about the economy. The report highlights that the final release for May, due May 30th, will reveal the extent to which the May 12 pause on some China tariffs leads consumers to update their expectations. Moreover, the interviews for this release were conducted between April 22nd and May 13th, closing two days after the announcement of a pause on some tariffs on imports from China.

US IMPORT/EXPORT PRICES: US import prices rose unexpectedly in April by 0.1% against the expected decline of 0.4% and downwardly revised prior of -0.4% (prev. -0.1%). In Fuel Imports, prices declined by 2.6%, driven by lower prices for petroleum and natgas, while ex-fuel prices rose by 0.4%, driven by advances in prices for capital goods, nonfuel industrial supplies and materials, consumer goods, and automotive vehicles. Export prices saw the same theme, rising 0.1% (exp. -0.5%, rev. 0.1%), amid a 0.5% move higher in agricultural exports vs the 0.1% rise in all exports, ex ag. Given import/export prices feed into the PCE deflator figure, Oxford Economics noted the inputs "didn't move the needle on our forecast for the measure to rise 0.1% in April. The Fed will remain sidelined until December as the effects of tariffs filter through the economy".

BUILDING PERMITS/HOUSING STARTS: Housing data for April disappointed, as both building permits and housing starts fell short of expectations. The former dipped to 1.412mln (exp. 1.45mln, prev. 1.481mln), while housing starts lifted to 1.361mln from 1.339mln, but light of the consensus 1.365mln. The fall in permits was steepest in the South, where Pantheon Macroeconomics notes that building activity has overshot demand in the last couple of years. Ahead, the consultancy notes a further decline in permits looks very likely, given the sharp deterioration in the NAHB survey in May. The ratio of unsold new homes to monthly sales has risen to 8.8 in the three months to March, its highest since December 2022 and well above its average of 6.1 since 1963. As such, Pantheon Macroeconomics continue to look for near-zero growth in real residential investment this year and meagre growth of about 2% in 2026, down from 4% in 2024.

FIXED INCOME

T-NOTE FUTURES (M5) SETTLE 2+ TICKS HIGHER AT 110-10+

T-Notes chop to miss in housing data and rising consumer inflation expectations . At settlement, 2s +1.0bps at 3.983%, 3s -0.5bps at 3.957%, 5s -1.4bps at 4.059%, 7s -1.8bps at 4.241%, 10s -1.9bps at 4.436%, 20s -2.2bps at 4.921%, 30s -2.5bps at 4.894%

INFLATION BREAKEVENS: 5yr BEI +3.0bps at 2.433%, 10yr BEI +2.0bps at 2.355%, 30yr BEI +1.0bps at 2.307%.

THE DAY: T-Notes had been rising from overnight lows of 110-10 to a peak of 110-21+ in the wake of the housing data and ahead of the US University of Michigan Consumer Sentiment data. The housing data was weaker than expected with both building permits

and housing starts missing expectations. However, the sentiment data ultimately saw these gains pare with T-Notes falling back to the 110-10 handle and then meandering into settlement in quiet trade. The downside was largely due to the further rise in US consumer inflation expectations, with the 1yr rising to 7.3% from 6.5%, while the 5yr rose to 4.6% from 4.4%. However, the survey highlighted that the final release of this survey, due May 30th, will include updated sentiment and expectations to incorporate the latest rollback of tariffs between the US and China. Elsewhere in the data, sentiment was downbeat overall with a drop in both forward-looking expectations and current conditions. T-Notes settled slightly higher with the curve showing a flatter bias with the front end of the curve relatively unchanged, but long-end yields were lower by c. 3bps. There is little fresh data out next week aside from the Flash S&P Global PMI data, while 20yr bond and 10yr TIPS supply will also be in focus, alongside a plethora of Fed speak jotted throughout the week.

SUPPLY:

- US Treasury to sell USD 16bln of 20yr bonds on May 21st to settle June 2nd; to sell USD 18bln of 10yr TIPS on May 22nd, to settle May 30th.
- US Treasury to sell USD 70bln of 6-week bills on May 20th, USD 68bln of 26wk bills on May 19th and USD 76bln of 13wk bills on May 19th; all to settle May 22nd.

STIRS/OPERATIONS:

- Market Implied Fed Rate Cut Pricing: June 2bps (prev. 2bps), July 9bps (prev. 10bps), September 23bps (prev. 25bps), Dec 52bps (prev. 56bps).
- NY Fed RRP op demand at USD 137bln (prev. 109bln) across 30 counterparties (prev. 25)
- EFR at 4.33% (prev. 4.33%), volumes at USD 120bln (prev. 112bln).
- SOFR at 4.31% (prev. 4.29%), volumes at USD 2.686tln (prev. 2.543tln).

CRUDE

WTI (M5) SETTLES USD 0.87 HIGHER AT 62.49/BBL; BRENT (N5) SETTLES USD 0.88 HIGHER AT 65.41/BBL

Crude prices were bid on Friday due to a lack of progress on Russia/Ukraine talks, and US/Iran nuclear talks. WTI and Brent spend most of the session flat, awaiting updates from Istanbul regarding the Russia/Ukraine deal. However, given the delegations were not high-level, chances of a deal were slim. Geopolitics dominated the crude complex space on Friday, with the only real progress from Russia/Ukraine coming on a 1,000 PoW swap between the two, while Ukraine reiterated that Zelensky is ready to speak to Putin. Talks are set to continue this weekend. Meanwhile, regarding Iran, little progress has also been made despite Trump's optimism on Thursday. Iran reiterated today that they are yet to receive any written proposal from the US, whether directly or indirectly, regarding nuclear talks. Iran continues to toe the line that there is no scenario in which it will abandon its enrichment for peaceful purposes, and continues to call for sanctions to be terminated as part of an overall deal. Elsewhere, on the supply side, Nigeria's Renaissance Energy said it had isolated and halted production on one line feeding into Nigeria's Trans Niger oil pipeline, following an operational incident. WTI and Brent hit highs ahead of settlement, with focus remaining on geopolitics over the weekend, particularly on Iran/US and Russia/Ukraine. For the record, in the weekly Baker Hughes Rig Count Oil fell 1 to 473, Natgas dropped 1 to 100, leaving the total declining 2 to 576.

EQUITIES

- **CLOSES:** SPX +0.70% at 5,958, NDX +0.43% at 21,428, DJI +0.78% at 42,655, RUT +0.89% at 2,113
- **SECTORS:** Health +1.96%, Utilities +1.42%, Real Estate +1.27%, Consumer Staples +1.08%, Industrials +1.04%, Materials +0.91%, Consumer Discretionary +0.84%, Financials +0.69%, Communication Services +0.65%, Technology +0.12%, Energy -0.18%.
- **EUROPEAN CLOSES:** DAX: +0.23 % at 23,749, FTSE 100: +0.59 % at 8,685, CAC 40: +0.42 % at 7,887, Euro Stoxx 50: +0.33 % at 5,430, AEX: +0.20 % at 931, IBEX 35: +0.85 % at 14,049, FTSE MIB: +0.59 % at 40,656, SMI: +1.02 % at 12,338, PSI: +0.61 % at 7,236

STOCK SPECIFICS:

- **Nvidia (NVDA):** Plans to open an R&D centre in Shanghai. However, CNBC reported NVDA is not sending GPU designs to China, after reports of its new Shanghai operation.
- **Applied Materials (AMAT):** Revenue marginally missed with chip systems sales light amid export curbs; China rev. -25%.
- **Take-Two Interactive Software (TTWO):** Beat on revenue and net booking, while guidance was dismal.
- **Doximity (DOCS):** Weak next quarter & FY revenue guide.
- **Live Nation Entertainment (LYV):** DoJ probes the Co.
- **Vistra (VST):** Agreed to acquire seven natural gas plants totalling 2,600 MW from Lotus Infrastructure Partners for USD 1.9bln.
- **Vulcan Materials (VMC):** Upgraded to 'Buy' from 'Neutral' at UBS. The firm cites more confidence in margins due to price-cost dynamics and execution for the upgrade.
- **Microsoft (MSFT):** Proposed commitments to resolve European competition concerns about Teams.
- **Nvidia (NVDA), Cisco (CSCO) and OpenAI (MSFT)** are backing the UAE Stargate data centre project, via CNBC
- **Astera Labs (ALAB):** Upgraded to 'Overweight' from 'Equal Weight' at Morgan Stanley. The firm now sees a good entry point as AI enthusiasm comes back to the group and Astera "posts strong numbers".
- **Verizon (VZ)/Frontier Communications (FYBR):** FCC approves Verizon's USD 20bln acquisition of Frontier Communications after Verizon drops diversity policies.
- **Energy Drinks (MNST, CELH):** Monster Beverage (MNST) and Celsius (CELH) were knocked during trade as People.com

reported that a common energy drink ingredient, Taurine, has been linked to blood cancer. However, although losses were quick, shares recovered with the article citing a publication from two days ago.

- **Boeing (BA)**: DoJ weighs a non-prosecution agreement with Boeing (BA) versus taking the company to trial in the fatal crashes case, Reuters reported.
- **Latest 13-F filings**: Berkshire raises stake in STX; Starboard reduces stake in PFE; Third Point exits META.

US FX WRAP

The Dollar saw slight strength to end the week, albeit in thin newsflow, despite plenty of US data, including a first glimpse of May metrics. Recapping, import/export numbers for April surprised to the upside, and expectedly rose, while UoM preliminary May numbers disappointed, with all major metrics light and inflation expectations soared. Note, the usual caveat applies to the UoM, with the bias of Democrats vs. Republican figures. On the trade footing, FT reported that the Trump admin is reportedly split on adding Chinese chip makers to export blacklists as some US officials fear the move could jeopardise trade talks with Beijing. Separately, and also by the FT, Japan has signalled it is prepared to hold out for a better deal with US President Trump over trade tariffs, pushing for full removal of his 25% duty on imports of Japanese cars rather than risk a domestic political backlash. DXY saw a high of 101.25 against a low of 100.52

G10 FX largely weakened against the Dollar, although Antipodeans were flat, with the Swissy lagging. Currency-specific newsflow was light, with FX pairs in pretty tight parameters. Despite the lack of headlines, ECB's Kazaks said a meeting-by-meeting approach at the ECB is right and notes a lot of uncertainty around trade measures, while Villeroy said they are not currently in a currency wars situation but rather a trade war situation. For the Yen, Q1 GDP contracted more than anticipated, while BoJ Board Member Nakamura stated the countries economy has recovered moderately, but some weakness has been seen. He added economy is facing mounting downward pressure due to the implementation of US tariff policies. Moreover, he added, it is appropriate to keep monetary policy steady for the time being.

For the G10 laggard, **CHF**, SNB Chairman Schlegel said Switzerland is not a currency manipulator and has only acted to dampen the overvaluation of the CHF, which threatened price stability. Schlegel reiterated can not rule out negative rates, which may be necessary in the future, but SNB does not like negative rates. Meanwhile, Reuters source reports suggested UBS (UBSG SW) is in talks to refund clients who suffered FX derivatives losses; UBS' clients' losses are reportedly in the hundreds of millions of Swiss Francs.

Out of **Australia**, and ahead of RBA next week, the latest Reuters poll showed 42/43 economists expect the RBA to cut the Cash Rate by 25bps to 3.85% at the May meeting, and one economist expects a 50bps cut, while the median view is for the Cash Rate to be cut to 3.35% by year-end.

EMFX was mixed. COP, BRL, MXN firmed, CLP, ZAR, TRY weakened, and the Yuan was flat, in without sounding like a broken record, in a day of thin newsflow. In terms of headlines, and out of Latin America, the Brazilian government suspended exports of chicken meat from Rio Grande Do Sul state to the entire world.

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