

newsquawk

US Market Wrap - 19th May 2025

Stocks and bonds pare US downgrade downside

- **SNAPSHOT:** Equities mixed, Treasuries steepen, Crude flat/up, Dollar down
- **REAR VIEW:** Moody's downgrades US credit rating; Williams says policy is "slightly" restrictive; Bostic still sees one rate cut this year; Trump and Putin call "went well", and Russia and Ukraine agree to start ceasefire negotiations; US House Panel approves Trump tax cut bill, setting up possible vote this week; China says US undermines consensus reached in Geneva talks on chip export controls; Chinese state banks will cut deposit rate on Tuesday; SNB Chairman cannot rule out negative interest rates
- **COMING UP:** **Data:** Chinese LPR, German Producer Prices, Canadian Inflation, EZ Consumer Confidence, NZ Trade **Events:** RBA Policy Announcement, G7 Finance Ministers Meeting **Speakers:** RBA's Bullock, BoE's Pill, ECB's Cipollone, Nagel, Fed's Bostic, Barkin, Collins, Musalem, Kugler, Daly, Hammack **Supply:** Japan & Germany **Earnings:** Smiths Group, Greggs, Vodafone, Swiss Life, Palo Alto, Home Depot, Bilibili

MARKET WRAP

Stocks saw two-way price action and ultimately closed little changed, albeit the Russell underperformed. The session started rather sombre with downside in US stocks, bonds and the Dollar in the wake of Moody's downgrading the US credit rating. This sparked selling in Asia and European sessions, but the downside had largely rebounded throughout the US session to see equities close mixed. T-Notes settled well off the earlier lows while the Treasury curve steepened. There was little US data to digest on Monday, with the focus on the US downgrade, but there were several Fed speakers to digest. The wait-and-see message is still clearly the consensus, but highlights saw Williams describe policy as "slightly" restrictive, while Bostic reiterated he sees one rate cut this year. Crude prices settled green in a very choppy session. Initially, crude was sold on the risk-off conditions, before paring to peaks as risk sentiment improved. However, the conclusion of the Trump/Putin phone call saw pressure in the crude space, with talks between Ukraine and Russia set to begin immediately. In FX, the Dollar was sold, but Antipodes outperformed on the equity rebound. AUD traders' attention turns to the RBA overnight.

US

WILLIAMS (Voter): NY Fed President Williams noted how recent data has been very good and the labour market is pretty much in balance, noting how the Q1 growth was unusual due to trade issues. He noted it will take some time to get a good read on the economy, and that policy is in a good place. The FOMC Vice Chair said that the Fed policy is "slightly restrictive". The "slightly" language is a tweak from the "modestly" language he used in April, and also at odds with the "moderately" language others, including Powell, use on the FOMC to describe the state of policy. Although subtle, this might imply that Williams thinks we are now closer to neutral than before, and that rates may need to stay higher for longer at current levels to bring inflation down to target. Williams also repeated that the Fed can take its time to get a good read on the economy, he warned the path forward on policy might not become clearer for months, noting it is not going to be that in June, they are going to understand what is happening, or July. Stressing that it will be a process of collecting data to get a better picture.

BOSTIC (2027 Voter): Speaking on the Moody's downgrade, said it will cut across economics and financial markets, and it will have implications for the cost of capital and could ripple through the economy. The Atlanta Fed President said they will have to wait between 3-6 months to see how things settle and will have to wait and see about the impact of the downgrade on demand for US debt. Ahead, Bostic added the number of rate cuts this year depends on how things turn out, and the details of the tariffs will matter. He is leaning much more towards only one cut this year because it will take time to understand tariffs. However, it depends on how the trade situation unfolds. Note, in March he pencilled in one rate cut from two in December. On the Fed's mandate, he added that right now see more risk of higher inflation than the employment side, and inflation expectations are moving in a troubling way. On data, he said may be at a point where the distance between sentiment and data starts to narrow, but not there yet, and inventory rundown may be nearing an end.

FIXED INCOME

T-NOTE FUTURES (M5) SETTLE 6 TICKS LOWER AT 110-04+

T-Notes sold after Moody's US credit rating downgrade, but settled off lows. At settlement, 2s -1.3bps at 3.970%, 3s -0.8bps at 3.950%, 5s +0.2bps at 4.065%, 7s +1.8bps at 4.261%, 10s +2.2bps at 4.461%, 20s +2.9bps at 4.954%, 30s +2.8bps at 4.925%

INFLATION BREAKEVENS: 5yr BEI -0.1bps at 2.432%, 10yr BEI +1.1bps at 2.363%, 30yr BEI +5.8bps at 2.325%

THE DAY: T-Notes were lower across the curve on Monday, with pressure late Friday extending in the wake of the Moody's downgrade on the US credit rating. The downgrade was to Aa1 from AAA, albeit the outlook was now revised to stable from negative, as it reflects balanced risks at Aa1 rating. T-Notes had pared some of the late Friday losses on the reopening of trade, but downside resumed overnight and throughout the European session. T-Notes ultimately hit lows of 109-20 before paring during the US session back above 110-00 and remaining around that level into settlement. There was a lack of tier 1 data on Monday, but several fed speakers hit the wires. Bostic continues to favour just one rate cut in 2025, Williams said that policy is "slightly

restrictive", while Jefferson said it is appropriate to wait and see on policy decisions. Bostic told us in March he pencilled that in for the March Summary of Economic Projections, but given the plethora of trade/tariff updates since then, it is interesting that view is still held. Williams' use of the word "slightly" restrictive differs from the usual "moderately" or "modestly" language. Although a subtle language change, it could indicate the Fed has less room to manoeuvre with until they hit the neutral rate. Jefferson was toeing the party line. Focus this week remains on Fed speakers, with data highlights arguably the flash PMI report from S&P Global. Meanwhile, the US Treasury will sell 20-year bonds and 10-year TIPS.

SUPPLY:

- US sold USD 81bln of 3mth bills at a high rate of 4.285%, B/C 2.76x; Sold USD 72bln of 6mth bills at a high rate of 4.140%, B/C 2.59x
- 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; to settle May 22nd.

STIRS/OPERATIONS:

- Market Implied Fed Rate Cut Pricing: June 2bps (prev. 2bps), July 9bps (prev. 9bps), September 23bps (prev. 23bps), Dec 53bps (prev. 52bps).
- NY Fed RRP op demand at USD 180bln (prev. 137bln) across 39 counterparties (prev. 30).
- EFRF at 4.33% (prev. 4.33%), volumes at USD 117bln (prev. 120bln).
- SOFR at 4.30% (prev. 4.31%), volumes at USD 2.617tn (prev. 2.686tn).

CRUDE

WTI (N5) SETTLED USD 0.20 HIGHER AT 62.69/BBL; BRENT (N5) SETTLED USD 0.13 HIGHER AT 65.54/BBL

The crude complex was choppy as markets digested the US downgrade and the Trump/Putin phone call . Recapping the day, WTI and Brent were initially pressured by the risk-off sentiment in the European morning after Moody's downgraded the US in after-hours trade on Friday. As such, as players entered for the week, it sparked broad-based Dollar-denominated asset selling, and saw WTI and Brent hit a trough of USD 60.99/bbl and 64.43/bbl, respectively. However, as US players entered for the week benchmarks clambered off lows and were further supported by a reversal in risk sentiment after the US cash equity open. However, oil was pressured once again, albeit remained above the earlier lows, after positive rhetoric in the wake of the US President Trump/Russia President Putin phone call. Putin said the call was very informative and helpful, according to Ria, while Trump posted on Truth he completed his two-hour call [with Putin], believed it went very well, and that Russia and Ukraine will immediately start negotiations toward a ceasefire. In wake of the downside seen, the crude complex once again pared some of the weakness to settle the first trading session of the week in the black.

EQUITIES

- **CLOSES:** SPX +0.09% at 5,964, NDX +0.09% at 21,447, DJI +0.32% at 42,792, RUT -0.42% at 2,104
- **SECTORS:** Health Care +0.96%, Consumer Staples +0.42%, Industrials +0.38%, Materials +0.35%, Utilities +0.34%, Real Estate +0.21%, Communication Services +0.15%, Financials -0.01%, Technology -0.05%, Consumer Discretionary -0.27%, Energy -1.55%
- **EUROPEAN CLOSES:** DAX: +0.58 % at 23,906, FTSE 100: +0.17 % at 8,699, CAC 40: -0.04 % at 7,884, Euro Stoxx 50: 0.00 % at 5,428, AEX: -0.15 % at 930, IBEX 35: +0.15 % at 14,086, FTSE MIB: -1.20 % at 40,167, SMI: +0.06 % at 12,342, PSI: +0.19 % at 7,250

STOCK SPECIFICS:

- **China** issued a statement on the US adjusting chip export controls; said the US undermines the consensus reached in Geneva talks and has asked the US to correct any wrongdoings. China also vows to take measures if the US insists on going its own way.
- **JPMorgan (JPM)** 2025 expense outlook and NII ex-markets are unchanged at USD 95bln & ~USD 90bln, respectively.
- Trump tells **Walmart (WMT)** to 'eat the tariffs' after it warned of higher prices
- **Nvidia (NVDA)** plans to sell tech to speed AI chip communication
- **TXNM Energy (TXNM)** entered an agreement to be acquired by Blackstone Infrastructure for USD 61.25/shr; Note, TXNM closed Fri. at 52.88
- FDA approves **Novavax's (NVAX)** COVID-19 shot but with unusual restrictions
- **Netflix (NFLX)** and **Reddit (RDDT)** downgraded at JPM.

US FX WRAP

The Dollar began the week with losses, and DXY printed a trough of 100.060 as it was weighed on by the Moody's downgrade on the US credit rating, which saw Dollar assets heavily sold, at least in the morning. Recapping, Moody's downgraded the US sovereign rating, warning of government debt and a widening budget deficit. In addition, there was no US data but there was a deluge of Fed speak with the highlights being Bostic and Williams. The former reiterated he sees 1 rate cut this year, a view he held in March, while the latter noted how policy is 'slightly restrictive'.

G10 FX was exclusively firmer against the Greenback, and benefitted from the aforementioned Dollar selling, which saw Antipodeans notch up the greatest gains followed by the EUR, GBP, JPY, and CHF respectively. CAD only saw marginal gains.

Out of **Europe**, newsflow over the weekend for the single-currency mainly focused on ECB speak with Wunsch stating that the ECB may have to cut interest rates below 2% and noted that downside risks to growth and inflation have become bigger, while Schnabel said the ECB should remain cautious on interest rate moves and that a steady hand is needed for now. Separately, FBN's Gasparino reported "US-EU trade discussions are being complicated by an internal EU disagreement over how to approach any deal with the US, meaning this one APPEARS to have a long way to go before culmination". In addition, no reaction was seen but the European Commission cut EZ GDP growth forecast for 2025 to 0.9% (prev. 1.3% in Nov), and sees 2026 growth at 1.4% (prev. 1.6%); EZ growth forecast based on an assumption of 10% US tariff on all EU goods, 25% on steel and aluminium on cars, no tariffs on pharma and chips. EUR/USD traded between 1.1172-1288.

For the **safe-havens**, JPY and CHF, the SNB Chairman cannot rule out negative interest rates and noted they have only intervened to pursue its mandate. On policy, said SNB policy rate is the main instrument, but when necessary can intervene in FX markets. Meanwhile, on trade, Gasparino noted US-Japan trade agreement framework is being delayed in part over negotiations over so-called burden sharing, or how much money Japan has to kick in to support the US military in Japan. USD/CHF and USD/JPY traded between 0.8319-65 and 144.67-145.45, respectively, in a day where the two currencies profited from the Buck selling.

Cable dipped its head above 1.34, albeit very briefly, in light of Pound-specific newsflow, although BoE's Dhingra said her vote for 50bps rate cut was partly to make a statement on the direction of the economy. Note, the EU-UK Brexit reset deal agreement had little impact. As mentioned, Antipodeans outperformed and comes ahead of RBA overnight whereby the central bank is widely expected to cut rates 25bps to 3.85%. Highlighting this, 42 out of 43 economists surveyed by Reuters see this as the outcome, whereas the other one sees a 50bps reduction.

EMFX largely gained against the Dollar, although ZAR did see weakness. Overnight, Chinese data was mixed, as IP surpassed expectations, Retail Sales disappointed, and House Prices continued to contract Y/Y. In other news, via BBG, China issued a statement on US adjusting chip export controls, and said the US undermines consensus reached in Geneva talks and asked the US to correct wrongdoings; China vowed to take measures if the US insists on going its own way. Moreover, Reuters sources said Chinese state banks will cut deposit rate on Tuesday. In LatAm FX, both Banxico and BCB board members were on the wires, but said little new. In Brazil Finance Ministry's latest forecasts it marginally revised up both 2025 GDP and inflation.

Copyright © 2025 Newsquawk Voice Limited. All rights reserved.

Registered Office One Love Lane, London, EC2V 7JN, United Kingdom · Registered Number 12020774 · Registered in England and Wales.

newsquawk.com · +44 20 3582 2778 · info@newsquawk.com