

newsquawk

US Market Wrap - 20th May 2025

Markets chop with eyes on Trump tax bill

- **SNAPSHOT:** Equities down, Treasuries steepen, Crude flat/down, Dollar down
- **REAR VIEW:** Trump pushes for no changes on Medicaid/care; House Freedom Caucus Chair says they are still a long way away, but they can get there; Japan reportedly mulls accepting a US tariff reduction rather than exemption; India expects to reach interim agreement with US before July; Iranian Supreme Leader doesn't think nuclear talks with US will be successful; Largest JGB 20yr tail since 1987; EU is reportedly considering imposing a handling fee on small packages ordered online, primarily from China, via FT; Hotter-than-expected Canadian CPI; RBA cuts by 25bps as expected, but discussed a 50bps cut; AAPL to open AI models to developers.
- **COMING UP:** **Data:** Japanese Trade, UK CPI. **Events:** G7 Central Bank and Finance Minister Meeting. **Speakers:** ECB's Lagarde, Lane, Nagel, Cipollone, Fed's Barkin & Bowman. **Supply:** Australia, UK, Germany, US. **Earnings:** JD Sports, Marks & Spencer, ICAP, IDS, SSE, Severn Trent, Snowflake, Zoom, Baidu, Target, TJX, VF Corp, Medtronic.

MARKET WRAP

Stocks were choppy but ultimately closed in the red on Tuesday, with the majority of sectors lower while defensives outperformed. With a lack of US data today, the focus was on US President Trump's tax bill talks. The President attempted to get Republicans on side with his tax bill, although it appears there is still some work to do. The House Freedom Caucus Chair suggested they would eventually get there, but maybe not by tomorrow. T-notes were choppy, with morning strength fading before rising back into settlement to see the 10-year settle little changed, although the curve was steeper, with attention turning to the 20-year bond auction on Wednesday, after the very weak 20yr JGB auction overnight. Fed speak saw Musalem express concern about a slowdown of businesses and consumers amid uncertainty, while Hammack provided three tariff scenarios, and suggested the most likely one is a case of stagflation. Crude prices were choppy but also settled little changed, as the upside in the morning, sparked by the Iranian Supreme Leader casting doubt over a US nuclear deal, later pared, but was off lows amid the UK and EU announcing fresh sanctions on Russia. Regarding the US, Secretary of State Rubio said the US will impose new sanctions on Russia if no progress on the peace deal is made. In FX, the Franc, Euro and Yen outperformed, while CAD saw brief upside on a hotter-than-expected inflation report, which dialled back rate cut pricing for the next BoC meeting. AUD was the clear laggard after the dovish RBA overnight, which cut rates by 25bps as expected but also discussed a 50bps rate cut.

FED

MUSALEM (2025 voter): Monetary policy is currently well-positioned. A balanced response to higher inflation, and unemployment is feasible if inflation expectations stay anchored. However, if inflation expectations become de-anchored, Fed policy should prioritize price stability. Musalem noted how the US economy has underlying strength, the labour market is stable, and inflation has eased but it still remains above the 2% goal. The St Louis Fed President said that economic policy uncertainty is unusually high, noting that even after the May 12th de-escalation, tariffs are likely to lead to labour market softening and higher prices. He did suggest that tariffs are just as likely to have a temporary effect on inflation as a persistent effect on inflation. He added that if trade tensions are durably de-escalated, inflation could head back to target, the labour market will remain resilient, and current monetary policy would remain appropriate. Nonetheless, Musalem noted how he is hearing that businesses and households are holding back from decisions amid uncertainty. Suggesting that if decisions have been somewhat paused, he would expect it to affect the economic outlook. Musalem also warned the impact of uncertainty on economic activity tends to be pretty meaningful.

HAMMACK (2025 voter): The Cleveland Fed President warned the traditional approach to economic projections with a baseline scenario may not be the best way to think about the outlook right now. Instead, she provided three tariff scenarios. Scenario 1): Tariffs have a one-off price effect, but economic growth takes a hit from policy uncertainty. This might come alongside a "tremendous amount of uncertainty that weighs on economic activity," with growth declining and the labour market falling off. In that situation, the Fed would want to be attentive to the employment side of the mandate and potentially ease policy, and potentially very quickly. Scenario 2): The labour market holds up, but tariffs are inflationary. She warns that price pressures from tariffs become sticky, because of the way the tariffs have been rolled out. Scenario 3): The most likely case, is a stagflationary outcome where the economy slows alongside higher inflation. "We're going to have to have good insights and a good understanding of how much we're missing each side of the mandate and how long those misses persist — and then we can decide what the right course of action is."

BOSTIC (2027 voter): Current US tariff level is still high enough that it's difficult to assess what will happen and adding even more uncertainty would cause further delays in policy changes as the Fed seeks more clarity. The Atlanta Fed President noted consumer balance sheets are not as strong as they were three or four years ago, and some are back to pre-pandemic levels or maybe even weaker. Bostic noted that there is a lot that is unknown about how consumers will respond to another round of inflation; households may be more price-sensitive now. He hears from an increasing number of businesses that they can no longer delay responding to tariffs through changes in either prices or employment. Ahead, Bostic said the US economy is going to see a slowdown in activity, but how it plays out by sector and nationally is hard to say. For the Fed, it needs to be more certain about the outlook to be comfortable about how monetary policy should shift.

FIXED INCOME

T-NOTE FUTURES (M5) SETTLED 2 TICKS HIGHER AT 111-06+

T-notes steepen with focus on Trump tax bill updates. At settlement, 2s -1.0bps at 3.973%, 3s -1.4bps at 3.950%, 5s -1.1bps at 4.070%, 7s -0.8bps at 4.267%, 10s +0.8bps at 4.483%, 20s +2.2bps at 4.990%, 30s +2.5bps at 4.967%

INFLATION BREAKEVENS: 5yr BEI -0.0bps at 2.427%, 10yr BEI -0.2bps at 2.354%, 30yr BEI +0.3bps at 2.319%.

THE DAY: T-notes traded sideways overnight, although some downside was seen in the wake of the very weak JGB 20-year sale, however, this had more than pared as London opened, with upside tracking EGBs and Gilts. The upside was short-lived, with the downside stemming once US trade was underway. Weakness was likely led by several corporate issuers, including Siemens (SIEGY), Texas Instruments (TXN) and McKesson (MCK). Also weighing to the downside was commentary from US President Trump, pushing his agenda for the tax cut bill. T-notes fell to hit lows of 109-28+ from the morning peaks of 110-14+. However, T-notes pared back above 110-00 thereafter, likely supported by commentary from the US House Freedom Caucus Chair, noting they are a long way away, according to WSJ's Beavers on X. Harris said he does not think Trump convinced enough people that the bill is adequate the way it is. However, he does believe they can get there, albeit maybe not by tomorrow. Note, there was also an interesting article in Bloomberg that Hong Kong pension fund managers are sounding the alarm of potential forced selling of US Treasury holdings following Moody's downgrading US' rating, according to sources. The report noted how the Hong Kong Investment Fund Association (HKFIA) has recommended that an exception to the maximum 10% holding rule be made for US Treasuries, to allow funds to invest above the limit even if the US is rated one notch below AAA.

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; to settle May 22nd.
- US Treasury sold USD 74bln of 6wk bills at high rate of 4.235%, B/C 2.97x

STIRS/OPERATIONS:

- **Market Implied Fed Rate Cut Pricing: June 1bp (prev. 2bps), July 8bps (prev. 9bps), September 21bps (prev. 23bps), Dec 53bps (prev. 53bps).**
- NY Fed RRP op demand at USD 136bln (prev. 180bln) across 32 counterparties (prev. 39).
- EFR at 4.33% (prev. 4.33%), volumes at USD 116bln (prev. 117bln).
- SOFR at 4.29% (prev. 4.30%), volumes at USD 2.570tln (prev. 2.617tln).

CRUDE

WTI (M5) SETTLED USD 0.13 LOWER BY 62.56/BBL; BRENT (N5) SETTLED USD 0.16 LOWER AT 65.38/BBL

The crude complex was choppy, but settled little changed, as the initial Iran-induced upside faded. On this, WTI and Brent hit highs of USD 62.63/bbl and 66.00/bbl, respectively, after Mehr News reported that Iranian Supreme Leader Khamenei said "I don't think nuclear talks with the US will be successful". Nonetheless, benchmarks pared this move throughout the afternoon and hit lows of USD 61.48/bbl and 64.85/bbl, with nothing headline-specific driving the move. Focus has been on US President Trump at Capitol Hill on the tax bill, in a lack of US data. Elsewhere, US Secretary of State Rubio replied to Iran and said "coming to a nuclear agreement [with Iran] will not be easy", while the US is set to extend Chevron's (CVX) Venezuela waiver by another 60 days. Ahead, the focus will be on private inventory metrics after-hours, whereby current expectations are (bbls): Crude -1.3mln, Distillates -1.4mln, Gasoline -0.5mln.

EQUITIES

CLOSES: SPX -0.39% at 5,940, NDX -0.37% at 21,367, DJI -0.27% at 42,677, RUT +0.05% at 2,106

SECTORS: Energy -0.99%, Communication Services -0.77%, Consumer Discretionary -0.59%, Financials -0.55%, Real Estate -0.55%, Technology -0.45%, Industrials -0.37%, Materials -0.18%, Consumer Staples +0.24%, Health +0.27%, Utilities +0.29%.

EUROPEAN CLOSES: DAX: +0.34 % at 24,017, FTSE 100: +0.94 % at 8,781, CAC 40: +0.75 % at 7,942, Euro Stoxx 50: +0.54 % at 5,457, AEX: +0.16 % at 931, IBEX 35: +1.59 % at 14,323, FTSE MIB: +0.89 % at 40,522, SMI: +0.51 % at 12,420, PSI: +1.75 % at 7,377

STOCK SPECIFICS:

- **Home Depot (HD):** Revenue beat & will not be raising prices due to tariffs; reaffirmed FY forecasts.
- **Equinor (EQNR):** Trump administration has lifted a month-old stop-work order on Cos. New York offshore wind farm project.
- **Cigna Group (CI):** Expects to reaffirm 2025 adj. income view of at least USD 29.60/shr.
- **Intel (INTC):** Explores sale of networking and edge unit.
- **Nike (NKE):** Laid off some workers in shake-up of its tech division.
- **General Motors (GM):** Said it's to stop exports to China.
- **Alphabet (GOOGL):** Self-driving unit Waymo received approval from California to expand its robotaxi operations.
- **Vertex Pharmaceuticals (VRTX):** Authorised USD 4bln stock repurchase programme.
- **Kroger (KR):** Upgraded to 'Hold' from 'Sell' at Melius Research. The firm cites share gains from widespread pharmacy closures, limited exposure to tariffs, and consistent free cash flow generation to support ongoing investment and share repurchases.

- **MongoDB (MDB):** Downgraded at Loop Capital to 'Hold' from 'Buy'. The firm notes the most recent industry checks indicate that MongoDB's Atlas platform "continues to show lacklustre market adoption".
- **Apple (AAPL)** - To open AI models to developers in a bid to spur new apps, the plan will let developers tap into large language models; will unveil the new strategy at WWDC event on 9th June, according to Bloomberg.
- Credit Rating stocks (**EFX, FICO, TRU**) were weighed on by remarks from the FHFA Director Pulte that they are actively looking at changing from a tri-merge credit score to a bi-merge credit score.
- **Tesla (TSLA):** CEO Musk sticks to launch timeline by end of June for Robotaxi in Austin, Texas, via CNBC interview. Will be at 1,000 Robotaxis within a few months. By the end of next year, expects to see hundreds of thousands of self-driving Tesla's if not millions; to launch a service similar to Uber, and AirBnB for owners to rent out self-driving vehicles; no need for the Co. to buy **Uber (UBER)**.
- **Alphabet (GOOGL):** CEO announced AI first video communications platform called Google Beam; will be in partnership with HP and available starting later this year. Also, announced a USD 249.99/monthly AI Ultra subscription for AI Power users; 'AI Ultra' subscription includes 30 terabytes of storage, ad-free YouTube, and early feature access. On AI, an update to Gemini 2.5 flash coming in June.

FX

The Dollar weakness at the start of trade extended amid a week that is set to be void of tier-1 US data. As such, focus remains on trade and the US fiscal subjects, where trade updates included Japan mulling the acceptance of US tariff reduction, not an exemption, according to Kyodo. Meanwhile, India is discussing a US trade deal, expecting to reach an interim agreement before July. Concerning fiscal policy, US President Trump told House Republicans to lay off Medicaid with the US House Freedom Caucus Chair Harris believing they can get the bill there, but "maybe not by tomorrow", via WSJ. Over the next two days, meetings between G7 finance ministers and central bank governors are to continue, where participants are attentive to potential remarks on FX policies.

G10 FX largely strengthened on the day. Gains were led by the CHF, EUR, and JPY. For the Euro, the highlight was on trade, whereby the EU is reportedly considering imposing a EUR 2 handling fee on small packages ordered online, primarily from China, the FT reported. EUR/USD climbed to around its 21 DMA of 1.1284 while EUR/GBP rose to ~ 0.8430. In Japan, the 20yr JGB had a terrible auction, experiencing the weakest B/C since 2021 and the largest tail since 1987. That said, USD/JPY was little moved by the results. Now the Yen's focus shifts to Friday for the April CPI release, and the outcome from the Japanese tariff negotiator's third visit to the US, as well as talks at the G7 finance ministers meeting this week regarding currencies.

AUD was hit amid the dovish RBA repricing of easing in 2025 after Governor Bullock's remarks. The RBA cut rates as expected by 25bps, but market expectations shifted for the future policy path, once Bullock said a 50bps rate cut was discussed and that he does not endorse market pricing. At the time of the latter remark, pricing had 55bps of cuts by year-end but now has shifted to 94bps. Separately, BoE's Pill commented on his hawkish dissent to maintain rates rather than cut in May. The Chief Economist cited a concern that the pace of withdrawal of monetary policy restriction since last summer (quarterly cuts of 25bps) is too rapid given the balance of risks to price stability, but noted it's in line with his preference for "cautious and gradual cuts".

EMFX: Performance was mixed, where ZAR and CEEs gained, while TRY, CLP, and BRL underperformed. In China, the 1- and 5yr LPRs were cut by 10bps as expected to 3.00% and 3.50% respectively. Elsewhere, the CBRT bought USD 5bln of foreign currency last week, with a net reserve increase of USD 2.3bln, according to Reuters citing sources. At ING, they note that the Latam region "seems to have avoided the worst of the US tariffs and the relatively high implied yields available are proving attractive. The same can be said of the high return, high risk TRY and ZAR".

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