

newsquawk

US Market Wrap - 21st May 2025

US assets sold on tax bill fears and weak bond auction

- **SNAPSHOT:** Equities down, Treasuries down, Crude down, Dollar down
- **REAR VIEW:** Johnson comes to agreement with SALTers; House to vote on tax bill tonight; Weak 20yr bond auction; Israel reportedly mulling hitting Iran nuclear facilities; Bearish EIA data; Hot UK CPI; LVMH CEO calls on Europe to reach US trade deal; Weak TGT earnings
- **COMING UP:** **Data:** Australian, Japanese, EZ, UK, US PMIs, German Ifo, US Jobless Claims, Canadian Producer Prices, NZ Retail Sales **Events:** ECB Minutes **Speakers:** BoJ's Aashi; RBA's Hauser; BoE's Breeden, Dhingra, Pill; ECB's Elderson, de Guindos; Fed's Barkin, Williams; BoC's Gravelle **Supply:** Spain, France, US **Earnings:** BT, easyJet, Generali, Autodesk, Ross Stores, Analog Devices

MARKET WRAP

It was a "sell US" day on Wednesday with equities posting notable losses while Treasuries were sold across the curve, particularly in the long end to see the curve steepen. Amid a lack of data this week (aside from Flash PMIs on Thursday) the US focus has largely been on Trump's Tax bill. On which, an agreement has been made on the SALT deductions, although some Republican hardliners are still worried that not enough spending cuts are included in the bill. The CBO estimated the bill would add USD 2.3trln to deficits over the next decade, raising fiscal fears. The equity sell-off sharply accelerated in the wake of the 20-year bond auction, which saw a chunky 1.2bps tail and soft bid-to-cover, and led to weakness in Treasuries across the curve, the dollar and US equities. On the tax bill, House Speaker Johnson has said they will vote on the bill tonight, although the timing is TBC. In FX, the Dollar was the clear laggard with JPY outperforming despite higher UST yields. AUD saw mild upside vs. the Buck but retraced some of the post-RBA losses. However, the cyclical currencies (AUD, GBP, NZD) were relative underperformers, excluding the Dollar due to the weakness in US equities. Crude prices settled lower despite overnight strength on reports Israel is considering striking Iran's nuclear facilities, but a final decision has not been made - crude pared the strength and sold off throughout the session in the risk-off conditions while the EIA data also weighed. Gold was bid as the dollar, and stocks took a hit. Attention on Thursday looks to the Flash PMI report on Thursday, and any more tax bill updates.

FED

HAMMACK (2026 voter) said sentiment data about the economy has been concerning, and that if the Fed is challenged on inflation and unemployment it will be a difficult choice. Hammack added it will take more time to see how business decisions are influenced by trade policy, and echoed the known line that right now the best action for the Fed is to sit on its hands.

BOSTIC (2027 voter) does not expect a recession but unclear when households and firms will feel comfortable making long-run spending decisions. On the most high-profile questions, including trade policy, clarity seems to be moving further into the future.

FIXED INCOME

T-NOTE FUTURES (M5) SETTLE 22+ TICKS LOWER AT 109-16

T-Notes sold across the curve as we await tax bill updates; weak 20-year bond auction takes yields to highs . At settlement, 2s +3.5bps at 4.005%, 3s +5.1bps at 3.998%, 5s +7.9bps at 4.145%, 7s +9.6bps at 4.363%, 10s +10.6bps at 4.587%, 20s +12.2bps at 5.112%, 30s +11.3bps at 5.080%.

INFLATION BREAKEVENS: 5yr BEI +1.0bps at 2.437%, 10yr BEI +1.9bps at 2.363%, 30yr BEI +2.9bps at 2.332%.

THE DAY: T-Notes had been sold overnight and in the European morning ahead of the 20-year bond auction, but also as eyes are fixated on the progress in the House on Trump's tax bill. The House came to an agreement on the SALT issues (deduction cap lifted to USD 40k), although issues remain with those concerned with the increased expenditure. Trump does not want Medicaid to be touched, but others are calling for cuts to Medicaid and food stamps. Estimates of the bill currently suggest it will add USD 2.3trln to the deficit over 10 years, which is raising deficit fears while tax cuts and spending within the bill may also be inflationary, keeping pressure on Treasuries across the curve. The 10yr T-Note futures hit lows of 109-24+ ahead of the 20yr bond auction, and also Trump's meeting with the House Freedom Caucus Chair, House Speaker Johnson and House Majority Leader Scalise on the bill (set to take place at time of Treasury settlement). Johnson at the start of the meeting said they are going to vote on the tax bill today, but no time has been reported yet. The 20-year bond auction was weak, with a chunky tail and soft bid-to-cover. The weak auction may have been a result of uncertainty surrounding the current tax bill negotiations, while perhaps there were also fears after the weak 20-year JGB auction earlier in the week. The auction pushed yields to highs across the curve, while equities tumbled and the Dollar was sold - seemingly in a "sell US" trade. All eyes remain on the tax bill progress.

SUPPLY:

The US Treasury sold USD 16bln of 20-year bonds at a high yield of 5.047%, tailing the when issued by 1.2bps. The 1.2bps tail was larger than the six auction average of 0.4bps, and compared to the prior auction's 0.4bps stop-through. The bid-to-cover was also soft at 2.46x, beneath both the prior and average. However, the breakdown was not as woeful with indirect demand seeing a slight

decline, but was above the six auction average. Direct demand rose, but not as high as the six auction average. This left dealers with 16.9% of the auction, little changed from the prior, and slightly above the 15.7% average. Although the internals were not too bad, the chunky tail and soft bid-to-cover is noteworthy. US Treasury to sell USD 18bln of 10yr TIPS on May 22nd, to settle May 30th.

STIRS/OPERATIONS:

- Market Implied Fed Rate Cut Pricing: June 1bp (prev. 1bp), July 8bps (prev. 8bps), September 20bps (prev. 21bps), Dec 51bps (prev. 53bps).
- NY Fed RRP op demand at USD 163bln (prev. 136bln) across 41 counterparties (prev. 32).
- EFR at 4.33% (prev. 4.33%), volumes at USD 111bln (prev. 116bln).
- SOFR at 4.27% (prev. 4.29%), volumes at USD 2.554tln (prev. 2.570tln).

CRUDE

WTI (N5) SETTLES 0.46 LOWER AT 61.57/BBL; BRENT (N5) SETTLES USD 0.47 LOWER AT 64.91/BBL

The crude complex was initially buoyed by Iran/Israel headlines overnight but later pared strength as sentiment soured and weekly EIA data. Overnight, WTI and Brent spiked to session highs of USD 64.19/bbl and 66.63/bbl, respectively, after US officials cited by CNN noted new intelligence suggests Israel is preparing a possible strike on Iranian nuclear facilities, although it was not clear whether Israeli leaders have made a final decision. However, benchmarks pared from these levels throughout the US session in risk-off trade, and further weakened after bearish EIA data. Recapping, crude saw a surprise build, in fitting but not as large as last night's API metrics, while Gasoline and Distillate both saw unexpected builds and saw benchmarks ultimately fall to lows of USD 61.28/bbl and 64.65/bbl, respectively.

EQUITIES

- **CLOSES:** SPX -1.61% at 5,845, NDX -1.34% at 21,080, DJI -1.91% at 41,860, RUT -2.8% at 2,047.
- **SECTORS:** Real Estate -2.63%, Health -2.37%, Financials -2.05%, Consumer Discretionary -1.91%, Utilities -1.91%, Energy -1.80%, Technology -1.78%, Industrials -1.68%, Materials -1.24%, Consumer Staples -0.92%, Communication Services +0.67%
- **EUROPEAN CLOSES:** DAX: +0.34 % at 24,118, FTSE 100: +0.04 % at 8,785, CAC 40: -0.40 % at 7,910, Euro Stoxx 50: -0.05 % at 5,452, AEX: +0.24 % at 933, IBEX 35: -0.07 % at 14,313, FTSE MIB: +0.01 % at 40,527, SMI: -0.34 % at 12,378, PSI: -0.26 % at 7,358

EARNINGS

- **Target (TGT):** EPS, revenue & SSS missed with weak FY guide; does not say whether it will raise prices due to tariffs.
- **Toll Brothers (TOL):** EPS & revenue topped.
- **Palo Alto Networks (PANW):** Missed on GMs & remaining performance obligations; note, EPS & rev. beat with solid guidance.
- **Lowe's Companies (LOW):** Q1 metrics largely impressed.
- **Medtronic (MDT):** To separate its diabetes business into a standalone firm; in earnings, EPS & rev. beat alongside lifting its quarterly dividend by 1 cent.

STOCK SPECIFICS

- **Tesla (TSLA):** To deploy 1mln Nvidia (NVDA) GPUs.
- **UnitedHealth Group (UNH):** A Guardian investigation found the Co. secretly paid nursing homes to reduce hospital transfers for ailing residents, part of a series of cost-cutting efforts that has saved millions, but at times risked residents' health; UNH said the DoJ investigated these allegations and found significant factual inaccuracies in the investigation.
- **Nvidia (NVDA):** CEO said it is open to collaborating with Broadcom (AVGO) on NVLink Fusion.
- **Apple (AAPL):** CEO Cook met President Trump at the White House on Tuesday
- **Take-Two Interactive (TTWO):** Announced USD 1bln common stock offering, selling 4.75mln shares at \$225.00.
- **Super Micro Computer (SMCI):** CEO said it plans to expand its server production capacity in the US amid rapidly growing global AI demand
- **LVMH (MC FP):** Warns of continued luxury weakness amid China woes.

US FX WRAP

The **Dollar Index** was weaker on Wednesday, and whilst headline newsflow was quite sparse, amid a lack of US data and Fed speak, USD-denominated assets were seemingly hit after a poor US 20-year bond auction and on fears of the US tax bill. Highlighting this, DXY fell to lows of 99.333 in around 30 minutes after the auction, against earlier peaks of 99.971. Meanwhile, Trump's tax bill remains in key focus ahead of US flash PMIs on Thursday. ING notes markets' inclination to sell the dollar in the rallies should remain, and moves above 100.0-100.5 in DXY may prove short-lived.

G10 FX was firmer across the board against the Greenback, and largely prevailed off of aforementioned Dollar weakness, as opposed to much currency-specific newsflow. JPY was the outperformer, with USD/JPY hitting a trough of 143.29 against an earlier high of 144.59, with the only real headline of note being that Economy Minister Akazawa, who is the country's top tariff negotiator, is to visit the US for the third time on Friday and a fourth visit to the US this month is also a possibility. AUD clawed back some of the post-RBA losses, with AUD/USD hitting 0.6469, but unable to mount a serious test of 0.65 to the upside, while NZD/USD traded between a tight 0.5918-67 range.

GBP was the G10 'underperformer' but still saw strength despite a choppy reaction to UK CPI figures. Overall, it was hotter than expected with Y/Y CPI rising to 3.5% from 2.6% (exp. 3.3%) and the services component rising to 5.4% from 4.7% (exp. 4.8%). In wake of, Cable surged to a multi-year peak at 1.3468, however, the move ran out of steam given the negative connotations of a stagflationary outlook in the UK. Reacting to the data, ING noted that "services inflation...was driven by a big change in road tax and the timing of Easter. It should fall back from April's 5.4% figure to the 4.5% area this summer, keeping the Bank of England on track for quarterly rate cuts through this year and into 2026".

EMFX was mixed, with COP, MXN weaker, ZAR, CLP, TRY flat, and BRL, Yuan firmer. Nonetheless, the clear EM outperformed was the KRW, and saw notable strength after South Korean Finance Ministry (when questioned on the report of US demands for a stronger KRW) said currently in working-level talks on FX rates, but details are yet to be finalised. In LatAm, Mexican retail sales topped expectations, while in South Africa inflation was mixed - Headline was hotter than anticipated, but core cooler than Wall St. consensus, and retail sales missed. In the latest South Africa budget, it forecast the budget deficit to be a greater percentage of GDP than the last forecast in March, and also downgraded its GDP growth outlook. On global outlooks, JPM writes "We have nudged up outlooks in other parts of EM Asia and Latam but are waiting for the May flash PMIs this week to fine-tune our European forecast"

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