US Market Wrap - 22nd May 2025

Markets chop on House passage of Trump tax bill, Fed speak and US data

- **SNAPSHOT**: Equities flat, Treasuries up, Crude down, Dollar up
- **REAR VIEW**: US House passes tax/spending reconciliation bill; S&P Global Flash US PMIs top expectations; US initial claims little changed; Fed's Waller hopeful to cut in H2 if tariffs come down to 10% by July; OPEC+ members reportedly discuss on another output hike in July, no final agreement reached; EZ and Germany Composite PMI's contract; A few ECB members would've felt comfortable with a 50bps rate cut in April; BoJ's Noguchi says BoJ should not move on rates when there is a lack of clarity on economic outlook; GOOGL faces DoJ antitrust probe over AI tech; CMS rolls out aggressive strategy to enhance and accelerate Medicare advantage audits.
- **COMING UP**: **Data:** Japanese CPI, Germany GDP, UK Retail Sales, EZ Negotiated Wage Rates, Canadian Retail Sales. **Speakers:** ECB's Lane, Schnabel; BoE's Pill; Fed's Musalem, Cook. **Supply:** Australia.

MARKET WRAP

Markets were very choppy on Thursday, with initial weakness in both stocks and bonds in response to the House passing Trump's tax bill, sending it to the Senate. However, markets pared the earlier losses and more, perhaps on a "sell the rumour, buy the fact" play, but also as the bill still has to be passed in the Senate. The upside in stocks was led by the Nasdaq, while sectors were ultimately mixed - Consumer Discretionary, Communication and Tech outperformed, while Utilities, Health and Energy lagged. However, in the final minutes of trade, stocks pared all of the earlier comeback to finish flat. Meanwhile, US data saw the S&P Global Flash PMI above expectations but accompanied by hawkish inflation commentary. Meanwhile, Initial Claims were little changed, but Continued Claims rose above all forecasts. Existing home sales fell slightly more than expected. Fed speak saw Governor Waller on Fox, where he was open to rate cuts in the second half of the year if tariffs can come down to 10% by July. Oil prices were sold on Bloomberg source reports OPEC is considering raising oil production again, although crude settled off lows with geopolitics limiting the downside. There were more reports that Israel is considering striking Iran in the event of no nuclear deal with the US, while the Iranian Foreign Minister continues to stress if the US wants to end Iranian uranium enrichment, then there will be no deal. In FX, the Dollar was bid, but the Pound outperformed after the services PMI beat offset the manufacturing miss, seeing the composite rise.

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WALLER spoke on Fox News, and he was quizzed about the weak 20-year bond auction on Wednesday, and whether there is a scenario the Fed would step in. Waller said the Fed can not buy bonds in the primary auction, and noted that markets want more fiscal discipline, noting markets are going to demand a greater premium for higher deficits. On rates, Waller said to "wait and see", but if tariffs can come down closer to 10% by July, then they are in good shape for H2, and the Fed will be in a better position to lower rates. On tariffs, he is much more optimistic relative to last month and is very hopeful that the current path the administration is on is a good one. He noted firms are pausing, but not cancelling their plans. He also continues to believe tariffs will be a one-time price increase and that the standard central bank playbook is to look through the one-time price impact.

FLASH PMI: The S&P Global Flash PMIs in May topped expectations, with Manufacturing unexpectedly rising to 52.3 from 50.2 and services jumping to 52.3 from 50.8 in March (exp. 50.8), leaving the composite index higher at 52.1 (prev. 50.6). The strongest expansion was in business activity growth in the service sector, which rebounded off a 17-month low but remains below the 2024 average. That said, exports of services (incl. foreign spending in the US) fell at the sharpest rate since early 2020, and excluding the pandemic, it was the largest fall since the comparable data was available in late 2014. The breakdown saw sentiment buoyed in part by reduced trade woes after the pause on additional tariffs and improved economic growth prospects. Employment fell slightly in May, largely due to concerns over future demand and worries over rising costs and labour shortages. For prices, the average charged for goods and services rose at a rate not seen since August 2022, overwhelmingly linked to tariffs. Chief Business Economist Williamson at S&P Global said both sentiment and output growth remain relatively subdued, and some of the upturn in May can be linked to companies and their customers seeking to front-run further possible tariff-related issues, most notably the potential for future tariff hikes after the 90-day pause lapses in July. "In particular, concerns over tariff-related supply shortages and price rises led to the largest accumulation of input inventories recorded since survey data were first available 18 years ago".

EXISTING HOME SALES: Existing home sales fell 0.5% in April to 4.0mln from 4.02mln, and beneath the expected 4.1mln. The inventory ratio was 4.4mths worth, from March's 4.0mths worth. Within the release, NAR Chief Economist Lawrence Yun said "Home sales have been at 75% of normal or pre-pandemic activity for the past three years, even with seven million jobs added to the economy. Pent-up housing demand continues to grow, though not realized. Any meaningful decline in mortgage rates will help release this demand." Ahead, Oxford Economics expect sales to fall further in the months ahead, with activity weighed down by softening economic growth and affordability constraints worsened by rising mortgage rates.

JOBLESS CLAIMS: Initial Jobless Claims, for the week that coincides with the NFP survey period, fell slightly to 227k from 229k, beneath the 230k forecast. The unadjusted data declined by 3.6k to 202k, while seasonal factors expected a 1.1k decrease. The 4-week average rose by 1k to 231.5k. Continued claims, however, rose to 1.903mln from 1.867mln, rising above all analyst forecasts, which suggests those who are out of work are struggling to return. The rise in continued claims above 1.9mln is the highest since the week of April 19th, only the second time it has been above that level over the whole year - if this stays this high it may be of note, but analysts will be waiting to see if it is a trend or just a one-off increase. Oxford Economics highlights that "Continued claims tend to follow an up-and-down pattern, so the four-week moving average is more relevant." The 4-week average rose to 1.888mln from 1.87mln, the highest since November 2021, but it does include the spike higher from April 19th, which will not be included in next week's average calculation.

FIXED INCOME

T-NOTE FUTURES (M5) SETTLED 10+ TICKS HIGHER AT 109-26+

T-notes reverse recent weakness despite the House passing Trump's tax bill, sending it to the Senate. At settlement, 2s -2.1bps at 3.996%, 3s -3.5bps at 3.977%, 5s -5.0bps at 4.107%, 7s -5.6bps at 4.318%, 10s -5.2bps at 4.545%, 20s -4.4bps at 5.062%, 30s -3.7bps at 5.052%

INFLATION BREAKEVENS: 5yr BEI +0.1bps at 2.432%, 10yr BEI -0.5bps at 2.352%, 30yr BEI +1.2bps at 2.324%.

THE DAY: T-notes had pared some of the prior day's losses after the dismal 20-year bond auction, while the House looked set to pass Trump's Tax bill. T-notes had risen gradually overnight and in the European morning to hit a peak of 109-23 before selling resumed on the official House passing of the tax bill. Attention then turned to Fed speak, US data and the 10-year TIPS auction. Fed speak saw Governor Waller indicate rate cuts could be seen in the second half of the year, but he exclaimed how the market is looking for more fiscal discipline in the wake of the tax bill, and when quizzed on the matter, Waller said the Fed would not buy bonds in primary auctions. The data showed initial jobless claims were little changed, but continued claims spiked higher, although analysts at Oxford Economics highlight it is best to look at the 4-week average for continued claims. The S&P Global Flash PMI data in the US was stronger than forecasts for both services and manufacturing, while commentary within was quite cautious about higher prices. There was marginal downside on the PMI data back to the overnight lows of 109-13.

However, T-notes saw an aggressive turnaround-pushing to fresh highs ahead of settlement with yield settling lower across the curve, but primarily in the belly and 10 year. There was little fresh news behind the move, but perhaps in a "sell the rumour buy the fact" play in regards to the tax bill. It is worth noting that the Tax bill, although passed in the House, still needs to pass the Senate, and the OMB Director suggested that Trump wants the bill on his desk to sign by July 4th, indicating there may still be a ways to go to get the bill enacted.

SUPPLY:

- US Treasury sold USD 18bln of 10yr TIPS at a high yield of 2.220%, coming in on the screws (0bps tail), which shows a better sign of demand than the prior tail of 0.5bps and six auction average of 1.4bps. The bid-to-cover was more in line at 2.36x (prev. 2.35x, six auction average 2.39x). The breakdown saw a drop below average in direct demand to 16.7%, but indirect demand rose above recent averages to 71.39%, which left dealers with a slightly above-average take of 11.9%.
- US to sell USD 69bln of 2yr notes on May 27th, USD 70bln of 5yr notes on May 28th, and USD 44bln of 7yr notes on May 29th; all to settle June 2nd.
- To sell USD 70bln of 6-wk bills, USD 76bln of 13-wk bills, and USD 68 bln of 26-wk bills on May 27th and all to settle May 29th; to sell USD 28bln of reopened 2yr FRN on May 28th and to settle May 30th.

STIRS/OPERATIONS:

- NY Fed's Perli spoke, noting that the Fed's standing repo facility usage exists to support Fed policy and that the standing repo facility will be more important in future. He reiterated the Fed will soon launch morning standing repo operations. On repo markets, he is seeing some 'early' signs of pressure in repo markets but it is not a source of concern.
- Market Implied Fed Rate Cut Pricing: June 1bps (prev. 1bp), July 8bps (prev. 8bps), September 20bps (prev. 20bps), Dec 51bps (prev. 51bps)
- NY Fed RRP op demand at USD 173bln (prev. 163bln) across 37 counterparties (prev. 41)
- EFFR at 4.33% (prev. 4.33%), volumes at USD 118bln (prev. 111bln).
- SOFR at 4.26% (prev. 4.27%), volumes at USD 2.517tln (prev. 2.554tln).

CRUDE

WTI (N5) SETTLED USD 0.37 LOWER AT USD 61.20/BBL; BRENT (N5) SETTLEd USD 0.47 LOWER AT USD 64.44/BBL

The crude complex was lower and remained pressured through the session after OPEC sources. On this, in the EZ morning BBG sources noted that OPEC+ members are reportedly discussing whether to agree to another output hike of 411k BPD in July, and that it is one of the options being discussed, but no agreement has been reached yet. As a result, this weighed on benchmarks for the duration of the session, and settled well in the red. Elsewhere in notable newsflow, Iran Foreign Minister, in a letter to UN Chief, stated any Israeli attack on Iran's nuclear facilities will be considered as US involvement. This followed overnight reports in Walla, that Israel is preparing to carry out a swift attack on Iran's nuclear facilities if nuclear talks between the US and Iran fail, according to sources. WTI and Brent traded between USD 60.25-61.75/bbl and 63.54-65.03/bbl, respectively.

EQUITIES

CLOSES: SPX -0.04% at 5,842, NDX +0.15% at 21,112, DJI unch at 41,859, RUT -0.05% at 2,046

SECTORS: Utilities -1.41%, Health -0.76%, Energy -0.44%, Consumer Staples -0.41%, Real Estate -0.41%, Financials -0.11%, Materials -0.07%, Industrials unch, Technology +0.12%, Communication Services +0.32%, Consumer Discretionary +0.56%.

EUROPEAN CLOSES: DAX: -0.47 % at 24,008, FTSE 100: -0.54 % at 8,739, CAC 40: -0.58 % at 7,864, Euro Stoxx 50: -0.60 % at 5,422, AEX: -0.69 % at 927, IBEX 35: -0.30 % at 14,265, FTSE MIB: -0.73 % at 40,257, SMI: -0.79 % at 12,278, PSI: +0.25 % at 7,376.

STOCK SPECIFICS:

- **Snowflake (SNOW):** EPS & revenue beat; raised FY25 product revenue view.
- **Navitas Semiconductor (NVTS):** Will partner with **Nvidia (NVDA)** on its next-gen 800 V HVDC architecture for Kyber rack-scale systems
- **AT&T (T):** Will acquire **Lumen Technologies (LUMN)** consumer fibre business for USD 5.75bln in cash; deal will help Cos cut USD 4.8bln debt.
- **Nike (NKE):** Will raise prices next week, increasing adult apparel and equipment by USD 2-10
- **Urban Outfitters (URBN):** Q1 results beat estimates, driven by a sales rebound at its stores
- **Humana (HUM), CVS Health (CVS), UnitedHealth (UNH):** CMS expands Medicare Advantage audits
- **Walmart (WMT):** Plans to cut ~1.5k jobs as part of a restructuring to simplify operations
- **Google (GOOGL):** Faces DoJ antitrust probe over AI technology, according to Bloomberg.
- **Intel (INTC):** Said new Xeon 6 processors are available today with one of three currently servicing as host CPU for **Nvidia (NVDA)** DGX B300.
- **American Airlines (AAL):** CFO said international demand trends continue to be strong, via Wolfe Research conference.
- Pershing Square executive said the fund established a new position in **Amazon (AMZN),** sold out of **Canadian Pacific Kansas City (CP).**
- **Apple (AAPL):** Reportedly aiming to debut smart glasses by end of 2026, according to Bloomberg.
- **Manchester United (MANU):** Lost against Tottenham in the Europa League final, missing out on both the winner's prize and place in the Champions League next season.

FX

The Dollar was buoyed by a better-than-expected S&P Global Flash PMI report, which saw manufacturing and services rise further into expansionary territory. That said, the Chief Economist at S&P Global noted some of the upturns in May can be linked to companies and their customers seeking to front-run further possible tariff-related issues. Separately, initial claims were modestly lower w/w. The main focus, however, was on US fiscal policy and the G7 meeting, with the former seeing the US tax bill passed through the House, with approval now required from Senate Committees before heading to the Senate. Amid the passing of the Tax bill, Treasuries and stocks were initially weighed on due to deficit concerns, but the moves had later pared. Fed's Waller also gave an interview to Fox News, where he said markets are looking for greater fiscal discipline, and noted the Fed cannot buy bonds in primary auctions when asked about stepping in the wake of the weak 20-year bond auction. Concerning the G7 meetings, Japan's Finance Minister Kato said he agreed with US Treasury Secretary Bessent that the FX rate should be set by markets, while the EU Trade Commissioner Dombrovskis said G7 ministers put forth a proposal on the next EU package of EU sanctions on Russia oil price cap adjustments.

G10FX was entirely in the red on USD strength as positive US data offered room for a Dollar relief after three straight days of weakness. May PMIs out of Europe were the highlight regarding data. Recapping, Germany's Composite fell into contractionary territory amid a drop in services and mfg, France's composite was unchanged as a rise in mfg offset the drop in services. EZ comp fell, mfg rose but services fell, and the UK comp rose slightly with services growing while mfg continued to contract. From the ECB, Nagel said the current rate level is not restrictive, while Vujcic expects to get close to the 2% inflation target at the end of 2025 and to reach it in early 2026. Additionally, ECB Minutes unveiled a few members would have felt comfortable with a 50bps rate cut at the April meeting (cut by 25bps). EUR/USD ended the day lower at ~ 1.1280, with EUR/GBP dropping below its 100 DMA (0.8408).

Overnight, BoJ's Noguchi spoke, noting they should not move on rates when there is a lack of clarity on the economic outlook. This adds to the growing conversation over whether the BoJ has room to continue with the hiking cycle, especially since the May meeting noted the uncertainty surrounding the economy, and prices remain high. Additionally, the board member said he doesn't think it's appropriate to recklessly intervene to correct bond yield moves. USD/JPY came off session highs due to the reversal in Treasury downside, but remains just above 144.00. On the BoE, Barclays expects no interest rate cut in June (prev. saw 25bps cut); and a 25bps cut in August and November (2025) and in Feb '26, taking the benchmark rate to 3.5%

EMFX: In Brazil, the BRL had a volatile session, seeing strengths originally on reports that the government is to announce plans for an IOF tax increase and spending containment. Strength later pared, with the government confirming said plans, but seeing the need to block BRL 10.6bln in spending to meet the 2025 cap and a BRL 20.7bln freeze in spending to meet its 2025 fiscal target. 2025 forecasts saw the net revenue and primary spending both above the budget bill forecasts. Downside in EMs was generally seen elsewhere, MXN was the notable outperformer ahead of the economy minister's visit to Washington tomorrow, in which steel/aluminium tariffs will be discussed, alongside tariffs related to fentanyl/immigration. In CEE, the CBRT Governor said the outlook shows the tight stance in policy should continue, but rate cuts could occur if the main trend of inflation is within the forecast path.