US Market Wrap - 29th May 2025

Stocks and yields pare overnight gains as US appeals tariff ban

- **SNAPSHOT**: Equities up, Treasuries up, Crude down, Dollar down
- **REAR VIEW**: CIT blocks Trump's 'Liberation Day' tariffs, Trump admin appeals ruling; US Appeals court temporarily reinstates Trump tariffs during appeal; US stops exporting aircraft engine tech and chip software to China; Hassett says three trade deals are basically done, confident in the success of tariff ruling appeal; US GDP 2nd est (Q1) revised higher, consumer spending and sales revised lower; US Initial and Continued claims top expectations; EIA crude stocks post surprise draw; SARB cuts by 25bps as expected
- **COMING UP**: **Data:** Japanese Tokyo CPI, Retail Sales, Unemployment Rate, German Import Prices, Retail Sales, Spanish, German, Italian Inflation, US PCE (Apr), Canadian GDP. **Events:** S&P Credit Review on France, DBRS on Germany & Spain. **Speakers**: Fed's Logan, Bostic, Daly. **Supply:** Australia, Japan.

MARKET WRAP

Overnight, sentiment was buoyed by strong Nvidia (NVDA) earnings and the US Court of International Trade ruling that Trump's tariffs are illegal and he overstepped his authority. However, sentiment started to sour in the European morning with US equity futures ultimately bottoming out just after the opening bell before paring marginally into the close, with equities finishing the day slightly firmer. Sectors were predominantly firmer with outperformance in Utilities and Health Care. Meanwhile, Communication Services underperformed in the red. Bonds were sold overnight on the court updates but swiftly pared in US trade in response to remarks from WH Trade Adviser Navarro and NEC Director Hassett sounding rather optimistic on appealing the court ban on tariffs. Note, in late trade, the appeals court temporarily halted the ruling against Trump tariffs as it needs time to consider filings. All eyes will be on whether or not the appeal is successful. Meanwhile, the US data extended the bond upside. Jobless Claims rose, with both Q1 Core PCE Prices and Consumer Spending being revised lower in the 2nd estimate of GDP, with the headline GDP revised up slightly to -0.2% from -0.3%. In FX, the Dollar underperformed on the rulings, official commentary and data, while the Euro and Yen outperformed with UST yields lower across the curve. Attention on Friday turns to US PCE, and Fed speak from Logan, Bostic and Daly.

US

GDP: US Q1 GDP 2nd estimate was an overall mixed report, as the headline was revised higher to -0.2% from -0.3%, with expectations for it to be left unchanged, albeit still remaining in contractionary territory. The deflator was left unrevised at 3.7%, in line with consensus, while core PCE price inched lower to 3.4% (prev. & exp. 3.5%) and PCE prices remained at 3.6%. Consumer spending and sales both got revised lower to 1.2% (prev. 1.8%) and -2.9% (prev. -2.5%), respectively. Of course, since the advance estimates there have been significant policy developments in the US which matter more for the outlook, and Oxford Economics notes the modest upward revision was primarily driven by an even larger inventory build that helps resolve some of the measurement issues noted in the minutes of the May meeting of the FOMC. The consultancy adds, that while the Q1 figure is still messy due to the front-loading of imports ahead of the reciprocal tariff announcement in April, a better measure of underlying demand for domestically produced goods and services was shown to be softer than previously believed. Ahead, as corporate profit margins ticked lower but remained elevated, OxEco states it is one of the reasons they have held off from adopting a recession in the baseline.

JOBLESS CLAIMS: Initial Jobless Claims, for the week ending 24th May, rose to 240k from 226k, above the 230k forecast, although the 4wk average was little changed at 230.75k from 231k. Continued Claims, for the week ending 17th May (coincides with NFP survey window) rose to 1.919mln from 1.893mln, above the 1.894mln forecast - the rise in continued claims continues to show that those out of work may be struggling to find new work. Analysts recommend looking at the 4-week average of the Continued Claims for a better read, which rose marginally to 1.89mln from 1.888mln. With the move higher in claims, Oxford Economics suggest that the data does hint at some loosening in the labour market conditions, but they will not read too much into one week of data.

US PENDING HOME SALES: US Pending Sales fell 6.3% in April, a much steeper decline than the expected 1% (prev. 5.5%). The move left the index at 71.3 from 76.1. All four US regions experienced month-over-month losses in transactions. NAR Chief Economist Lawrence Yun said, "Despite an increase in housing inventory, we are not seeing higher home sales. Lower mortgage rates are essential to bring home buyers back into the housing market". Oxford Economics notes they look for existing home sales to track below 4mn for the balance of the year. They add, an increase in the supply of homes for sale and moderating home price growth may put a floor under home sales, but "elevated mortgage rates, which are again approaching 7%, have worsened ongoing affordability challenges".

FIXED INCOME

T-NOTE FUTURES (U5) SETTLED 14 TICKS HIGHER AT 110-22

T-notes pare overnight weakness as WH sounds optimistic it can appeal the court tariff decision, while dovish data accelerated the bid. At settlement, 2s -4.5bps at 3.947%, 3s -5.1bps at 3.912%, 5s -5.3bps at 4.009%, 7s -5.9bps at 4.206%, 10s -4.7bps at 4.432%, 20s -5.2bps at 4.944%, 30s -5.1bps at 4.927%

INFLATION BREAKEVENS: 5yr BEI -1.6bps at 2.395%, 10yr BEI -0.7bps at 2.326%, 30yr BEI -0.6bps at 2.296%.

THE DAY: T-notes sold off overnight in response to the federal court blocking US President Trump from imposing tariffs on trading partners. The move was largely risk-on with equity futures rallying while havens were sold, which saw T-notes hit a low of 109-26. The move started to rebound once US players got in, with T-notes rallying in the wake of the US data, which saw an upward revision to Q1 GDP, although consumer spending saw a notable revision lower while Core PCE prices eased marginally. Also, Initial Jobless Claims spiked to 240k from 226k, above the 230k forecast. Meanwhile, Continued Claims advanced further to 1.919mln from the revised down 1.893mln. Rising jobless claims, softer consumer spending and softer PCE prices largely led the bid in T-notes in the wake of the data. Also, around the time of the data, commentary from Navarro and Hassett seemed to help the bid as they sounded optimistic about the US appealing the court's decision on tariffs. The 7-year auction was very strong with a whopping 2.2bps stop-through, which led to a brief spike in T-note futures to session highs, before paring slightly into settlement. Attention will turn to Friday's April PCE report for a more up-to-date gauge on the Fed's preferred gauge of inflation, primer available here.

SUPPLY:

Notes

- US sold USD USD 44bln of 7yr notes. Overall, a very strong auction with a chunky stop-through of 2.2bps, much better than the six-auction average of a 0.8bps stop-through and prior tail of 0.2bps. The Bid-to-Cover 2.69x was above the prior 2.55x and the average 2.64x. The breakdown saw direct demand slip to 23.64% from 25.4%, but above the six-auction average of 21.4%. However, indirect demand surged to 71.52% from 59.3%, above the 67.6% average. This left dealers with just 4.85% of the auction, a huge improvement when compared to the 11% average and prior 15.3%.

Bills

- US sold USD 65bln of 8-week bills at a high rate of 4.225%; B/C 3.07x.
- US sold USD 75bln of 4-week bills at a high rate of 4.215%; B/C 2.92x.
- US to sell USD 76bln of 13-week bills and USD 68bln of 26-week bills on June 2nd; US to sell USD 60bln (prev. USD 70bln) of 6-week bills on June 3rd.

STIRS/OPERATIONS:

Market Implied Fed Rate Cut Pricing: June 1bps (prev. 1bps), July 7bps (prev. 6bps), September 20bps (prev. 17bps), Dec 50bps (prev. 45bps). NY Fed RRP op demand at USD 166bln (prev. 173bln) across 34 counterparties (prev. 36) EFFR at 4.33% (prev. 4.33%), volumes at USD 108bln (prev. 115bln). SOFR at 4.33% (prev. 4.31%), volumes at USD 2.605tln (prev. 2.655tln).

CRUDE

WTI (N5) SETTLED USD 0.90 LOWER AT 60.94/BBL; BRENT (Q5) SETTLED USD 0.97 LOWER AT 63.35/BBL

The crude complex saw weakness, and edged lower through the duration of the session in line with the deteriorating risk sentiment. While energy-specific newsflow was sparse, there was plenty of macro news to stew over, such as solid NVIDIA earnings, court ruling on Trump’s Liberation Day tariffs, US data, and remarks from Hassett & Navarro. On the day, WTI and Brent saw peaks of USD 63.07/bbl and 65.60/bbl, respectively, amid the court ruling before reversing the strength as US officials downplayed the impact of the decision, to hit eventual lows of USD 60.55/bbl and 63.11/bbl. Elsewhere, Iran Nuances noted that Iranian sources dismissed US claims of an imminent nuclear deal, and Iranian sources familiar with Iran-US negotiations said Iran’s most important concerns and demands regarding the lifting of sanctions have not yet been clearly addressed by the US. For the record, in the weekly EIA data, which was delayed a day on account of Memorial Day, saw a surprise draw in crude, in fitting with private inventory numbers, while Distillates also saw an unexpected draw and Gasoline drew more than the St. consensus. Note, little reaction was seen across benchmarks to the data.

EQUITIES

CLOSES: SPX +0.40% at 5,912, NDX +0.21% at 21,364, DJI +0.28% at 21,216, RUT +0.34% at 2,075

SECTORS: Communication Services -0.35%, Industrials +0.08%, Consumer Discretionary +0.21%, Consumer Staples +0.27%, Materials +0.31%, Financials +0.49%, Technology +0.59%, Energy +0.67%, Utilities +0.69%, Health +0.74%, Real Estate +0.95%.

EUROPEAN CLOSES: DAX: -0.29 % at 23,968, FTSE 100: -0.06 % at 8,721, CAC 40: -0.11 % at 7,780, Euro Stoxx 50: -0.13 % at 5,371, AEX: -0.02 % at 924, IBEX 35: +0.29 % at 14,141, FTSE MIB: -0.36 % at 39,983, SMI: -1.04 % at 12,197, PSI: +0.20 % at 7,376.

STOCK SPECIFICS:

- **NVIDIA (NVDA):** Q1 sales & profit beat, shrugging off soft guidance & China curbs.
- **Salesforce (CRM):** Despite initially seeing gains post-earnings as EPS & revenue beat alongside strong next quarter & FY guidance; RBC Capital downgraded the stock on execution risk post Informatica deal.
- **Synopsys (SNPS):** EPS & revenue topped & raised FY profit view; Note, shares were hit into earnings on reports Trump admin told US Cos. that offer software used to design semi’s to stop selling their services to Chinese groups.
- **HP (HPQ):** Missed on earnings & issued soft guidance due to the added costs from tariffs.
- **Nordson (NDSN):** Top & bottom line beat with better than expected next quarter profit view.
- **Chevron (CVX):** Plans to cut nearly 800 jobs in the Permian Basin.
- **Best Buy (BBY):** Revenue & SSS missed.
- **Kohl's (KSS):** All major Q1 metrics surpassed St. consensus.
- **Boeing (BA):** CEO said will be in a dynamic environment for a while until there are unilateral agreements in place; confirmed rapid progress towards achieving 737 production rate of 38 aircraft per month. Wants to hit a rate of 47/month for 737 by the end of the year.

- **United Airlines (UAL):** CEO said there has been a big drop in leisure demand bookings over the past months and a drop in load factor will impact the bottom line.

FX

The Dollar Index has nearly pared all gains earlier in the week as the Court of International Trade (CIT) blocked US President Trump's "Liberation Day" tariffs, adding to already high levels of uncertainty over the direction of US trade policy. As it stands, the administration has filed an appeal, and if to no avail, will go to the Supreme Court, a prospect BBG reports that the US may go down on Friday to keep tariffs intact. The US appeals court has since reinstated the relevant tariffs for the duration of the appeal. However, the CIT ruling doesn't affect steel/aluminium tariffs, auto tariffs and other sectoral tariffs. While the CIT block offered short-lived risk-on sentiment to US equities, the Dollar initially caught a bid on the ruling, but swiftly pared amid the shifting trade dynamic, now bringing into question how much of an upper hand the US will have in current trade negotiations with partners. Moreover, the decision as it stands restricts avenues the US administration can impose tariffs, resulting in a likely shift of imposed tariffs under other trade laws and acts. Namely, Section 232 (national security), Section 301 (unfair trade practices), Section 122 (balance of payments), and Section 338 (retaliatory tariffs). Note, the path of Section 232 (national security), would require an investigation, e.g. from the Commerce Department, which would also have to consult with the Secretary of Defence, an investigation that must be completed in 270 days, a much lengthier process than the IEEPA route that Trump has taken with Liberation Day tariffs. Note, pending Section 232 investigations at the moment include copper, pharma, critical minerals, and other products. CEA Chair Hassett is confident in the appeal being successful and noted that three trade deals are basically done. Aside from trade, US GDP (Q1) was revised slightly higher in the 2nd reading, but some components showed softening, particularly Consumer Spending and Sales. A narrowing rate differential vs peers also weighed on the buck, with T-notes bid on said data and a rise in both initial and continued claims.

G10FX was entirely in the green on the block of some of Trump's tariffs, with gains picking up amid US officials (Hassett & Navarro) sounding indifferent to the CIT ruling and the aforementioned US data, which sparked US Treasury upside. EUR outperformed in typical fashion amid the high-end trade uncertainty, with desks attributing past EUR upside on said days as a liquid alternative to the USD. Highlighting this was the rally in EUR/GBP, where EUR was favoured more than GBP despite the latter's closer and more favourable ties with the US on trade. EUR/USD jumped above its 21 DMA (1.1272) and 10 DMA (1.1304) to ~ 1.380 while EUR/GBP lies between its 100 DMA of 0.8412 and 21 DMA of 0.8437. The outcome of talks between the EU Trade Commissioner and US counterparts still awaits. Elsewhere, havens saw decent gains with Japan's Finance Minister Kato overnight noting they will monitor financial market moves, including the super-long bond trade, and they can deepen discussions with US Treasury Secretary Bessent about a basic understanding of FX policy; did not discuss FX levels at all in the previous discussion with Bessent.

ZAR: In Africa, SARB cut the repo rate by 25bps as expected to 7.25%, a move 15/23 participants surveyed had expected (8 looked for a hold). No change was made to the inflation objective, but members in the meeting touched on the subject, considering a 3% inflation target, marking the low end of the target range (4.5% is the baseline). The MPC would like to see inflation expectations move lower, towards the bottom end of their target range. Across 2025 and 2026, GDP, CPI, and Core CPI projections were all slashed; USD/ZAR now resides around 17.80.