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US Market Wrap - 4th June 2025

Dollar hit and bonds bid after soft US data

- **SNAPSHOT:** Equities mixed, Treasuries up, Crude down, Dollar down
- **REAR VIEW:** Weak ISM Services PMI, but Prices and Employment rise; Dismal ADP report; Solid EZ PMIs; Constructive EU/US trade talks; CBO revises deficit estimate; Saudi reportedly wants more OPEC+ hikes; BoC leaves rates on hold; BoJ considers slowing pace of bond tapering next year; Crude stocks draw offset by large product builds; AAPL/BABA AI rollout in China delayed by trade war.
- **COMING UP:** **Data:** Australian Goods/Services Imports, Chinese Caixin Services PMI, German Industrial Orders, Swedish CPI, Italian Retail Sales, EZ Producer Prices, US Jobless Claims, Challenger Layoffs, US International Trade, Canadian Trade **Events:** ECB Policy Announcement; BoE DMP, Danish Holiday **Speakers:** ECB President Lagarde; BoE's Greene; Fed's Kugler, Harker, Schmid; BoC's Kozicki **Supply:** Japan, Spain, France **Earnings:** Broadcom, DocuSign, Wise, CMC Markets.

MARKET WRAP

Stocks were choppy throughout the day, but ultimately finished the day flat-to-slightly-higher, with outperformance in the Nasdaq, thanks to a solid showing in the Communication Sector, with strong gains in Meta (META), while Google (GOOGL) pared some of its prior day's weakness. Note, Apple (AAPL) saw slight losses after a downgrade at Needham (which ave no price target). Energy and Utilities were the laggards. T-notes were bid across the curve, with a flatter bias, as direction primarily was influenced by weak US data. The soft ADP and soft ISM Services PMI saw T-notes climb higher throughout the session. The data also led to dollar weakness while havens (JPY, CHF and XAU) were bid on increased economic fears in the US. Meanwhile, the CBO revised down its deficit impact estimate of Trump's 'big, beautiful' bill, which also gave Treasuries a helping hand on reduced fiscal pressures. Energy prices ultimately settled lower, paring the morning's geopolitically-induced upside on sourced reports from Bloomberg, which said that Saudi Arabia is pushing for more production hikes in August and potentially September too. Attention largely looks to Friday's key risk events, including the US NFP and Trump-Xi call.

GLOBAL

ISM SERVICES PMI: ISM Services for May unexpectedly fell into contractionary territory, as it printed 49.9 (exp. 52.0, prev. 51.6), while prices paid rose to 68.7 from 65.1, which signals businesses are seeing a rapid rise in costs as the full effect of tariffs takes hold. Business activity and new orders dropped to 50.0 (prev. 53.7) and 46.4 (prev. 52.3), respectively. Employment lifted back into expansionary territory as it came in at 46.4 from 49.0. Inventories, Backlog of orders, and new export orders all declined and remain beneath 50.0, with the former falling into that territory. Within the respondents' answers, as expected, tariffs were heavily mentioned and the comments indicate suppliers are mostly passing the tariffs on to customers rather than sharing the burden. Overall, Oxford Economics notes that after an initial surge in front-loaded demand, uncertainty is paralysing many businesses and halting new orders as customers navigate tariff policy. The consultancy adds, that while one month's reading doesn't make a trend, the report does support their forecast for slow growth and higher inflation throughout the year.

US ADP NATIONAL EMPLOYMENT: Ahead of the US payrolls report on Friday, ADP national employment was weak as the pace of hiring reached its lowest level since March 2023. The headline added just 37k private jobs for May, against the prior 60k and the expected 110k. Note, that the bottom end of the forecast range was 69k. Median change in annual pay remained at 4.5% for job stayers, while job changers ticked higher to 7.0% from 6.9% in April. ADP Chief Economist, Nela Richardson, said "After a strong start to the year, hiring is losing momentum. Pay growth, however, was little changed in May, holding at robust levels for both job-stayers and job-changers." For the record, after the report, US President Trump posted on Truth "ADP NUMBER OUT!!! "Too Late" Powell must now LOWER THE RATE. He is unbelievable!!! Europe has lowered NINE TIMES!". ADP release comes ahead of NFP on Friday, whereby the headline is currently seen at 130k (prev. 177k).

BOC: The Bank of Canada left rates on hold at 2.75%, the midpoint of the BoC's estimate of the neutral rate range (2.25-3.25%), disappointing those expecting a 25bps rate cut, although the majority had expected rates to be left unchanged. The BoC said it held the policy rate as it wanted to gain more information on US trade policy and its impacts. It noted that it was proceeding carefully. Governor Macklem highlighted that there was a clear consensus to hold as they await more information. The statement noted that the economy is expected to be considerably weaker in Q2 vs Q1 while noting that inflation has moved up and that recent surveys indicate households continue to expect that tariffs will raise prices, and many businesses say they intend to pass on the costs of higher tariffs. Looking ahead, the BoC continues to provide no guidance, noting it "will continue to assess the timing and strength of both the downward pressures on inflation from a weaker economy and the upward pressures on inflation from higher costs" – seemingly indicating that it is focused more on inflation. Looking ahead, money markets are currently split on whether the BoC will reduce rates in July, as markets await more information to assess how the BoC will react. Governor Macklem noted specifically that it will be looking at the next two CPI reports, adding that policymakers do not want to focus too closely on one month's data. Through the end of this year, 37bps of easing is priced by money markets, which fully discounts one rate cut, with a c. 50/50 probability of another.

FIXED INCOME

Soft data, CBO revisions and lower oil prices lift T-notes . At settlement, 2s -8.2bps at 3.875%, 3s -9.1bps at 3.834%, 5s -9.8bps at 3.930%, 7s -9.9bps at 4.134%, 10s -9.7bps at 4.363%, 20s -9.9bps at 4.892%, 30s -9.6bps at 4.887%

INFLATION BREAKEVENS: 5yr BEI -5.0bps at 2.344%, 10yr BEI -3.5bps at 2.304%, 30yr BEI -3.2bps at 2.287%

THE DAY: T-notes saw marginal selling pressure overnight ahead of key US data. T-notes started to come off lows in the wake of a BoJ sources report from Reuters, which said the central bank is considering slowing the pace of its JGB tapering, sending JGBs higher with T-notes tracking the move up. This panned ahead of the ADP data, which ultimately came in weak, beneath all analyst forecasts and reignited the bid in Treasuries, taking T-notes to highs of 110-27. The dovish ADP report raised labour market fears, but analysts at Pantheon Macroeconomics suggest that the data is "more noise than signal" given the poor correlation between ADP and the more widely watched NFP report due on Friday. Note, the weak ADP report saw US President Trump repeat his call for Fed Chair Powell to lower rates. The ISM report was also weak, with the headline slipping beneath the neutral 50.0 line to 49.9 from 51.6, despite expectations for a pickup to 52.0. The drop was led by a fall in New Orders to contractionary territory, and Business Activity to the 50.0 handle. However, employment rose to expansionary territory, and Prices Paid accelerated further. The market focused on the downbeat growth prospects, which saw T-notes push higher, keeping the bid supported into settlement. Upside may have also been supported by the CBO revision on how much Trump's bill will add to the deficit. The CBO said it will add about USD 2.4 trillion over 10 years, down from earlier USD 3.8 trillion. In the wake of the CBO update, the OMB Director also said it includes USD 1.7tn in savings, adding "this bill dramatically improves the fiscal picture". Also supporting upside may have also been the move lower in oil prices, particularly in the wake of reports suggesting that Saudi Arabia wants more super-size OPEC+ output hikes in a push for market share, according to Bloomberg, indicating that production may still increase further despite lower oil prices already, which may help tackle some parts of inflation.

SUPPLY:

Bills

US sold USD 61bln of 17-week bills at a high rate of 4.205%, B/C 3.13x

STIRS/OPERATIONS:

- Market Implied Fed Rate Cut Pricing: June 1bps (prev. 1bps), July 8bps (prev. 6bps), September 24bps (prev. 21bps), Dec 57bps (prev. 51bps).
- NY Fed RRP op demand at USD 169bln (prev. 153bln) across 45 counterparties (prev. 34)
- EFR at 4.33% (prev. 4.33%), volumes at USD 113bln (prev. 113bln).
- SOFR at 4.32% (prev. 4.35%), volumes at USD 2.71tln (prev. 2.77tln).

CRUDE

WTI (M5) SETTLES USD 0.56 LOWER AT 62.85/BBL; BRENT (Q5) SETTLES USD 0.77 LOWER AT 64.86/BBL

Crude prices settled in the red after Saudi source reports, paring earlier geopolitical-induced upside . In early trade, comments from the Iranian Supreme Leader that the US nuclear proposal is 100% against "the principle of our power" helped support crude prices briefly. This comes after the US proposed an interim step in Iran nuclear talks allowing some enrichment, according to the NY Times. Sticking with geopolitics, some upticks were seen following commentary from the Russian Foreign Ministry, which suggested: "We are concerned about rising tensions around Iran and slipping into full-scale confrontation; there should be a diplomatic solution; Russia is ready to assist in the search for solutions". Meanwhile, desks suggest the wildfires in Canada's Alberta region were also providing a boost to prices, albeit some of that supply risk is tempered for now amid rainfall in the region, but desks warn that the relief could be short-term due to forecasts of drier weather towards the back end of the week. Nonetheless, upside had panned in the wake of fresh OPEC source reports from Bloomberg, which suggested Saudi Arabia wants more super-size OPEC+ hikes in a push for more market share. Saudi wants to group to add at least 411k BPD in August, and potentially September, following the decision to hike by that amount in July. Note, the DoE report led to brief downside in crude due to strong builds in products despite a crude draw. WTI Jul resided in a USD 62.17-63.96/bbl range while Brent Aug sits in a USD 64.27-65.95/bbl band.

EQUITIES

- **CLOSES:** SPX +0.01% at 5,970, NDQ +0.27% at 21,722, DJI -0.22% at 42,427, RUT -0.21% at 2,098
- **SECTORS:** Communication Services +1.36%, Materials +0.35%, Real Estate +0.34%, Technology +0.23%, Health +0.22%, Industrials +0.09%, Consumer Discretionary -0.23%, Financials -0.56%, Consumer Staples -0.59%, Utilities -1.70%, Energy -1.89%
- **EUROPEAN CLOSES:** DAX: +0.80 % at 24,276, FTSE 100: +0.14 % at 8,799, CAC 40: +0.53 % at 7,805, Euro Stoxx 50: +0.55 % at 5,405, AEX: +0.40 % at 924, IBEX 35: -0.21 % at 14,090, FTSE MIB: -0.08 % at 40,044, SMI: +0.47 % at 12,293, PSI: -0.49 % at 7,420

STOCK SPECIFICS:

- **Apple (AAPL):** Downgraded at Needham on threats to near-term growth.
- **CrowdStrike (CRWD):** Weaker than expected next Qtr revenue outlook.
- **Hewlett Packard Enterprises (HPE):** EPS & rev. topped forecasts with solid guidance.
- **Lumentum (LITE):** Raised Q4 guidance.
- **Dollar Tree (DLTR):** Posted a dismal next Qtr profit outlook.

- **Wells Fargo (WFC)**: Federal Reserve said Co. no longer subject to 2018 asset cap over sales practices scandal.
- **Tesla (TSLA)**: China-made EV sales fell 15% Y/Y in May.
- **UnitedHealth (UNH)**: Lifted Quarterly dividend to USD 2.21/shr from 2.10/shr.
- **Meta (META)**: Reportedly courting Hollywood in search of exclusive content for a premium virtual-reality headset it plans to release next year, according to WSJ citing sources. Co. has spoken with **Disney (DIS)** and A24, and also smaller companies.
- **AT&T (T)**: Reportedly subject to a hack.
- **Apple (AAPL)** and **Alibaba's (BABA)** AI rollout in China has been delayed by US President Trump's trade war, via FT.
- **Airbus (EADSY)**: China weighs mega Airbus order.
- **Unity (U)**: CTO Steve Collins steps down after six months, via Tech Crunch.
- **Smartphones**: Counterpoint Research cut its 2025 global smartphone shipment growth forecast to 1.9% Y/Y from 4.2% Y/Y.

US FX WRAP

The Dollar was lower on Tuesday, primarily on soft US data. The ADP employment report missed expectations significantly, raising labour market concerns ahead of the NFP report due on Friday, albeit analysts remain sceptical about the correlation between the two data sets. The ISM Services PMI report was also weak, which led to further dollar selling, seeing the Dollar Index (via Rtrs) hit lows of 98.673 from an earlier peak of 99.396.

The Euro was firmer, also to the detriment of the Dollar, supported by encouraging PMIs released in the morning, seeing EUR/USD hit a peak of 1.1434 from a 1.1358 low. Attention on Thursday turns to the ECB rate decision, with a 25bps rate cut expected. Meanwhile, there was optimistic trade commentary from USTR Greer after meeting with EU Trade Chief Sefcovic. Both sides said talks are constructive and advancing quickly with the EU.

The Yen was firmer thanks to weakness in the Dollar, with havens generally outperforming today (Yen, Swissy, and Gold all up), supported by fears of an economic slowdown after the aforementioned ADP and PMI report. Before the release of the US data, USD/JPY saw slight weakness on a Reuters sources report that said the BoJ is considering slowing the pace of its bond tapering next year.

The Yuan (CNH) saw solid gains as the dollar tumbled, with traders turning their attention to the talks between US President Trump and Chinese President Xi, which are reportedly set to take place on Friday. Meanwhile, there has been a lot of focus on rare earths, with both European and US automakers struggling with a lack of rare earth exports from China, which appears to be using rare earths as a bargaining chip in trade talks. Note, Reuters sources also reported that China has introduced a national rare earth magnet tracking system, which requires exporters to list clients and sales volumes.

The CAD saw gains, primarily as a function of the weak greenback, with little reaction seen around the BoC rate decision. The BoC left rates on hold as the majority expected, although there was a risk of a cut. Nonetheless, Governor Macklem said they came to a clear consensus to leave rates on hold. The Central Bank also continued to avoid forward guidance in the face of ongoing uncertainties, but did repeat it "will continue to assess the timing and strength of both the downward pressures on inflation from a weaker economy and the upward pressures on inflation from higher costs." It also warned that Q2 growth will be significantly lower than Q1. Looking ahead, money markets are fully discounting one more cut, with a c. 50% probability of a second.

Antipodes also saw decent gains amid the Dollar downside while the currencies were buoyed throughout the European session on risk-on trade with momentum continuing through heading into APAC session, seeing the NZD reclaim 0.6000, while AUD briefly reclaimed 0.6500. AUD/NZD was flat despite softer than expected Aussie GDP overnight.

EMFX was mixed with gains in the MXN, CLP, while BRL was sold, and COP was flat. In LatAm, Mexico's Economy Minister announced plans to ask the US to exclude the country from higher metal tariffs, noting it will announce "measures" next week if no deal is made on US metal tariffs. In Brazil, Services PMI contracted for the second consecutive month, while Brazil also plans to cut tax breaks and curb education in its fiscal package. Meanwhile, the BCB sells USD 400mIn in a Dollar auction with a repurchase agreement. Elsewhere, in CEE, the NBP left rates on hold as expected. Czech CPI was hotter than expected (as were retail sales).

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