

Stocks hit as Musk and Trump feud escalates

- **SNAPSHOT:** Equities down, Treasuries down, Crude up, Dollar flat
- **REAR VIEW:** Trump/Musk feud escalates; Trump/Xi hold phone call; Fed's Kugler and Schmid not prepared to look through tariff price increases; ECB cut as expected, Lagarde says policy is in a good position; Trump/Merz meet; Initial Claims rise, Continued Claims fall; Labour Costs revised up, Productivity revised down; Trade deficit narrows more than expected.
- **COMING UP: Data:** Japan All Household Spending, German Industrial Output, Trade Balance, French Trade Balance, EZ Employment, GDP, Retail Sales, US NFP, Canadian Jobs **Events:** RBI Policy Announcement, Bundesbank Semi-Annual Forecasts **Speakers:** ECB President Lagarde, BoE's Pill **Supply:** Australia

MARKET WRAP

Stocks ended the day lower with risk sentiment hit as Elon Musk and US President Trump bickered back and forth over the spending bill, while Musk went on to state the US President has not released the Epstein files, as he is in the files himself. Note, the fighting between the two hit Tesla (TSLA) stock, seeing it close lower by c. 15%. Sectors were lower predominantly lower with chunky underperformance in Consumer Discretionary on the aforementioned Tesla losses. Communication Services outperformed. Aside from the Musk/Trump drama, Trump held a phone call with China President Xi, where both noted their respective high-level teams would be meeting, and both Trump and Xi invited each other to their respective countries, while also ironing out issues and complexities on the rare earths agreement. Fed speak leant hawkish with both Kugler and Schmid stating a preference to not just look through the tariff-related price increases. Across the pond, the ECB cut rates as expected by 25bps, while Lagarde said policy is in a good position and they are now getting towards the end of the monetary policy cycle. Later, ECB sources suggested there was a visible majority for holding in July but some argued for a longer pause. US Data was mixed, Initial Jobless Claims rose further, Continued Claims eased but remained above 1.9mln, while the International Trade data confirmed the plummet in imports seen in the advance report, which has positive implications for GDP. Meanwhile, the Unit Labour Costs saw a chunky rise while Productivity saw a notable decline, which has a stagflation implication. Meanwhile, Challenger Layoffs of 93.8k were not as large as the 105k in April. Heading into APAC trade T-notes bull flattened while haven currencies lagged with antipodes marginally outperforming. Crude prices settled in the black albeit off highs while gold was sold and silver was bid. Attention on Friday turns to the NFP report.

CENTRAL BANKS

ECB: As expected, the ECB cut rates by 25bps and made little in the way of changes to its opening statement, which reiterated that the ECB will not pre-commit to a particular policy path. Furthermore, policy will be made via a data-dependent and meeting-by-meeting approach. Of greater interest were the accompanying macro projections, which saw the 2025 inflation forecast lowered to 2.0% from 2.3% and 2026 reduced notably below the ECB's 2% target to 1.6% from 1.9%. From a growth perspective, forecasts were little changed with a mild downgrade to 2026 GDP. At the follow-up press conference, President Lagarde's opening remarks carried little of interest. However, during the follow-up Q&A, Lagarde confirmed there was one dissenter to today's decision (this will likely have been Holzmann given his opposition to a June or July cut in the run-up to the announcement). The bulk of the price action was seen after Lagarde noted that the current level of rates means the ECB is "well-positioned" to navigate the current uncertainties, suggesting that ECB could be at the end of its cutting cycle. Lagarde followed this up by noting the ECB getting towards the end of its current cycle but was not confirming a pause. Another perceived hawkish takeaway came after Lagarde appeared to downplay the 2026 inflation forecast cut, pinning it on energy effects and the recent appreciation of the EUR. Overall, the decision to cut was as expected, however, Lagarde appeared to be a bit more explicit than anticipated in guiding markets towards a potential pause. Market pricing has moved in a slightly hawkish direction with the next 25bps cut not fully priced until December (vs. October pre-release) and 26bps of loosening seen by year-end (vs. 31bps pre-release). In wake of the meeting, Bloomberg sources reported that ECB officials expect rate cuts to be paused at the July meeting, and Reuters reported a visible majority expressed preference for holding in July, but some argued for a longer pause.

KUGLER: Fed Governor Kugler expressed continued support for holding the policy rate at its current level if upside inflation risks persist, emphasising that monetary policy is well-positioned to adjust to macroeconomic changes. She views inflation as the primary risk at this stage, with tariffs already having an effect and expected to further lift inflation through 2025. She warned that inflation impacts from tariffs may not be one-off and will likely precede other effects. Kugler sees greater upside risk to inflation alongside potential downside risks to employment and output. While the labour market remains resilient and stable, Kugler noted that trade and policy changes could raise unemployment and pull employment away from the Fed's objectives. Declining net immigration could tighten the labour market, with possible sector-specific impacts emerging by year-end—particularly in construction, agriculture, leisure and hospitality, health, and food processing. She noted economic activity is still growing, but more moderately than in H2 '24. The April income and spending data points to slight moderation, while front-loaded imports make it harder to assess current strength. Kugler expects a reversal of the import surge could signal higher price pressures in the coming months. Nontraditional indicators suggest early signs of slowing, while WARN notices and layoff mentions in the Beige Book have both increased. Core services inflation remains elevated, and core goods disinflation has reversed. She believes the Trump tax bill may be net stimulative, potentially adding to demand and price pressures. She noted that rising deficits could eventually impact yields and the neutral rate if they begin to structurally affect financing conditions. Kugler assesses the current policy stance as between "moderately" and "modestly" restrictive and reiterated that, in light of tariff effects, the Fed should hold rates steady for now.

SCHMID (2025 Voter): The Kansas City Fed President expressed discomfort with a "look-through" approach to tariff-driven inflation, stressing the need for policy to remain nimble in balancing the Fed's dual mandate. He emphasised the importance of maintaining the Fed's credibility on inflation and indicated a readiness to respond as necessary. Schmid is optimistic that economic activity can be sustained but acknowledged that the inflationary impact of tariffs is likely to emerge in the coming months. He noted that both the extent of tariff-driven price increases and their potential drag on growth and employment remain uncertain.

FED'S HARKER (2026 voter): The Philadelphia Fed President said amid uncertainty, the Fed must wait and see on next policy steps. He added it is entirely possible the Fed may face climbing inflation and unemployment at the same time. Harker added there is still no idea how shifting economic policies will affect the economy. Harker reiterated the familiar line that hard data has remained robust, and that thus far the job market has been mostly stable – note, May's job report is on Friday. Ahead, the Philly Fed President noted the economy faces many different possible paths.

US DATA

TRADE: The International Trade data for April saw the deficit narrow to USD 61.6bln from the prior deficit of USD 138.3bln, a larger improvement than the expected deficit of USD 70.0bln. Within the data, exports rose by USD 8.3bln, while imports tumbled by USD 68.4bln, being the primary driver for the deficit reduction. However, the drop in imports is due to the unwinding of frontloading imports ahead of the April 2nd tariffs. Imports of services have been little changed due to Trump not implementing tariffs on services yet, but imports of goods in Q1 rose to an average of USD 335bln per month over January-March, up from the 2024 average of 274.6bln. However, with imports now paring that front-loading, April Goods imports were more in line with the 2024 average of 277.9bln. The surge in imports throughout Q1 is what hit Q1 growth, as imports are a subtraction in the GDP calculation, therefore, the drop in imports now will likely lead to stronger GDP numbers. The Atlanta Fed GDPNow estimate is currently tracking growth of 3.8%, down from the prior 4.6% estimate.

JOBLESS CLAIMS: Initial jobless claims (w/e 31st May) rose to 247k from 239k, and above the expected 247k, seeing the 4wk average rise to 235k from 230.5k. Continued claims (w/e 24th May) printed 1.904mln (exp. 1.910mln, prev. 1.907mln). For the headline, seasonal factors had expected a decrease of 10,505 (or -5.0%) W/W. The trend for the headline has been ticking up for the last couple of weeks and seems to be hovering around the 240k mark at present, as opposed to the 225k level prior to this. On the data set, Oxford Economics note that seasonal quirks may have contributed to the latest rise in initial jobless claims, but they can't dismiss the possibility that the claims data are signalling weakening labour market conditions against a backdrop of higher tariffs and heightened policy uncertainty.

UNIT LABOUR COSTS: The Q1 Unit Labour Costs were revised higher to 6.6% from the expected, and prior, 5.7%. Meanwhile, productivity was revised down to -1.5% from the prior, and expected, -0.8% as output declined by 0.2% and hours worked increased by 1.3%. The report notes this is the first decline in productivity since Q2 2022. Downbeat productivity and increased labour costs could support the stagflation theme, with lower productivity slowing growth and higher labour costs boosting inflation. Albeit, slower productivity could hamper growth, particularly with a feared economic downturn ahead due to Trump's trade policies. Prices are also expected to be boosted by tariffs, although in terms of labour market inflation, the Fed does not believe it is currently a source of inflation. Note, that analysts at Oxford Economics write, "The noticeably larger-than-anticipated downward revision to Q1 productivity should be taken with a grain of salt as the data are volatile from quarter to quarter and even year to year."

FIXED INCOME

T-NOTE FUTURES (U5) SETTLE 10 TICKS LOWER AT 110-25+

T-Notes peaked in wake of mixed data but sold off after Trump/Xi readouts, hawkish Fed speak and as Musk criticises Trump's bill . At settlement, 2s +5.6bps at 3.933%, 3s +6.3bps at 3.903%, 5s +6.2bps at 3.996%, 7s +5.1bps at 4.186%, 10s +3.2bps at 4.397%, 20s +0.8bps at 4.901%, 30s -0.4bps at 4.884%.

INFLATION BREAKEVENS: 5yr BEI -0.4bps at 2.335%, 10yr BEI -1.0bps at 2.291%, 30yr BEI -1.3bps at 2.274%.

THE DAY: T-Notes meandered overnight before catching a bid in the European morning which accelerated as US players arrived. T-Notes hit peaks of 111-14+ after the US data and initial reports of a Trump/Xi phone call. The US data was mixed, Initial Jobless Claims rose further, Continued Claims eased but remained above 1.9mln, while the International Trade data confirmed the plummet in imports seen in the advance report, which has positive implications for GDP. Meanwhile, the Unit Labour Costs saw a chunky rise while Productivity saw a notable decline, which has a stagflation implication. Meanwhile, Challenger Layoffs of 93.8k were not as large as the 105k in April. T-Notes swiftly pared the initial spike higher and trended lower into settlement. There was a bout of risk-on in the wake of the Trump/Xi readouts, where both noted their respective high-level teams will be meeting, and both Trump and Xi invited each other to their respective countries, while also ironing out issues and complexities on the rare earths agreement. Elsewhere, US President Trump and Elon Musk were critical of each other, with Musk calling for more spending cuts as the "Big Beautiful Bill" does not lower expenditures enough, potentially weighing on T-Notes as fiscal concerns rise again. Meanwhile, Fed speak generally leant hawkish with both Kugler and Schmid stating they are cautious against looking through tariff-related price increases, at odds with dovish Governor Waller. All eyes turn to the US NFP on Friday.

SUPPLY:

Bills

- US sold USD 65bln of 4-wk bills at 4.170%, covered 3.26x; sells USD 55bln of 8-wk bills at 4.225%, covered 3.38x
- US to sell USD 68bln of 26wk bills on June 9th, USD 76bln on June 9th; USD 55bln of 6wk bills (prev. USD 60bln) and USD 48bln of 52wk bills on June 10th; all to settle June 12th.

Notes

- US Treasury to sell USD 58bln of 3yr notes on June 10th, USD 39bln of 10yr notes on June 11th and USD 22bln of 30yr bonds

on June 12th (as expected); all to settle June 16th

STIRS/OPERATIONS:

- Market Implied Fed Rate Cut Pricing: June 0bps (prev. 1bps), July 89bps (prev. 8bps), September 23bps (prev. 24bps), Dec 54bps (prev. 57bps).
- NY Fed RRP op demand at USD 169bln (prev. 153bln) across 45 counterparties (prev. 34)
- EFFF at 4.33% (prev. 4.33%), volumes at USD 114bln (prev. 120bln).
- SOFR at 4.28% (prev. 4.32 %), volumes at USD 2.625tn (prev. 2.711tn).

CRUDE

WTI (N5) SETTLES USD 0.52 HIGHER AT 63.37/BBL; BRENT (Q5) SETTLES USD 0.48 HIGHER AT 65.43/BBL

The crude complex was firmer, albeit settling way off Trump/Xi-induced peaks. WTI and Brent hit highs of USD 63.98/bbl and 65.85/bbl, respectively, taking a leg higher on initial reports from Chinese state media that US President Trump and Chinese President Xi "hold a call". This was later confirmed, and Trump said it was a very good call, the conversation was focused almost entirely on trade, and respective teams will be meeting shortly at a location to be determined. However, benchmarks did recoil from highs in the US afternoon on seemingly on the first readout of talks, which came from the Chinese side, and noted the two countries agreed to start a new round of talks "ASAP" and they should strive for a win-win outcome. Trump soon followed with his post on Truth, mentioned above. In addition to this, the souring risk sentiment in the US also weighed on energy with the Trump/Musk relationship continuing to worsen. Note, according to FBN, Trump said when he sees the moment where the war will not stop.. he will be very tough on Russia, and added he could also be tough on Ukraine, but also Russia. The President does not think that Russia/Ukraine will sign a deal. Ahead, participants await US jobs report on Friday as well as the Baker Hughes rig count, while Fed goes into blackout at the end of Friday.

EQUITIES

- **CLOSES:** SPX -0.53% at 5,939, NDX -0.80% at 21,547, DJI -0.25% at 42,320, RUT -0.05% at 2,097.
- **SECTORS:** Consumer Discretionary -2.47%, Consumer Staples -1.20%, Materials -0.57%, Technology -0.40%, Financials -0.26%, Energy -0.16%, Utilities -0.16%, Industrials -0.09%, Health -0.08%, Real Estate -0.07%, Communication Services +0.06%
- **EUROPEAN CLOSES:** Euro Stoxx 50 +0.03% at 5,407, DAX +0.20% at 24,324, FTSE 100 +0.11% at 8,811, CAC 40 -0.18% at 7,790, AEX +0.16% at 926, IBEX 35 +0.73% at 14,204, FTSE MIB +0.74% at 40,379, SMI +0.21% at 12,324, PSI +0.02% at 7,422.

STOCK SPECIFICS:

- **Tesla (TSLA):** Shares saw significant downside as the souring of the relationship between Trump and Musk continued to escalate. Trump said the [US] bill is incredible and said Musk is upset because they took away EV mandate. There was plenty of back and forth, but the latest update was Musk accusing Trump of being in the Epstein files.
- **MongoDB (MDB):** EPS, revenue beat and raised share buyback programme by USD 800mln; Solid next quarter and raised FY outlook.
- **Verint Systems (VRNT):** Top and bottom-line beat.
- **PVH Corp (PVH):** Lowered next quarter profit view and cut FY outlook.
- **Procter & Gamble (PG):** To cut 7k jobs & expects non-core charge of USD 1.0-1.6bln.
- **Apple (AAPL):** Lost a US appeals court bid to pause a judge's order requiring it to allow more App Store competition.
- **Citi (C):** Will cut 3,500 tech jobs in China by Q4
- **Nvidia (NVDA):** Director Mark Stevens has sold over 1mln shares this week. In other news, Nvidia's biggest Chinese rival Huawei struggles to win at home, according to The Information; Big Chinese tech firms have not yet made big orders for Huawei chips and tests showing Huawei chips overheat.
- **Brown Forman (BF.B):** Missed on top and bottom line alongside downbeat commentary.

US FX WRAP

The Dollar was ultimately little changed on Thursday, but did print a fresh session low of 98.351 during the ECB press conference (more below) as President Lagarde suggested that the ECB is "in a good position" and highlighted that there was one dissenter to the 25bps cut. Prior to this, the Buck did see upside on the reports that Xi-Trump had a call, but was also weighed on by US data. Recapping, US international trade showed a shallower deficit than expected, but initial jobless claims rose more than expected, and Q1 unit labour costs were revised notably higher, outside the forecast range, and productivity was revised down. Elsewhere, there was Fed speak from Kashkari, Kugler, Schmid, and Harker, while Trump and Musk continued their bitter fallout, which did weigh on risk sentiment, with the latest instalment seeing Musk claim that Trump is in the Epstein files.

Safe-havens (JPY, CHF) were the distinct G10 underperformers and the only ones seeing losses against the Dollar, with the Yen underperforming highlighted by USD/JPY hitting a high of 143.97. Losses for the havens began in the EZ morning alongside a pick up in European equities, which then continued through the session, particularly after the aforementioned Xinhua report on the Trump-Xi phone call.

AUD, NZD, EUR, GBP, and CAD all saw similar gains, aside from the EUR, with little currency-specific newsflow. Cable hit a peak of 1.3616, while AUD/USD and NZD/USD topped out at 0.6537 and 0.6080, respectively. BoC Deputy Governor Kozicki was on the wires and garnered little reaction in the Loonie, but she did note the BoC is more likely to be lowering the interest rate if inflationary

pressures are contained, but the economy is a lot softer. USD/CAD traded between a tight 1.3635-83 range.

For the **EUR**, the ECB decided to cut rates by 25bps, as expected, albeit with one dissenter, but more focus was on the projections, whereby the 2025/2026 inflation forecasts were lowered, whilst 2025 growth projections were left unchanged. The move in the Euro came in the press conference, when Lagarde suggested that the ECB is "in a good position" and highlighted that there was one dissenter to the 25bps cut. In reaction, a hawkish reaction was seen with EUR/USD hitting a peak of 1.1494, a level it now sits notably off. Away from the central bank, German Chancellor Merz and Trump had a meeting whereby the initial readout from the European counterpart noted it was a very good discussion and feels he can talk with Trump very well.

The main news out of **Scandinavia** was the cooler-than-expected Swedish inflation series, which did spark some very modest pressure in the SEK.

EMFX saw broad-based gains, excluding the Turkish Lira. For the Yuan, and aside from the heavily mentioned Xi-Trump call, Chinese Caixin PMIs overnight largely impressed with Services rising slightly more than anticipated. Meanwhile, the ZAR firmed in the wake of better-than-forecasted current account data but was off highs as gold prices pared. Finally, LatAm FX currencies saw multi-year highs as a languishing Dollar continued to provide a tailwind to them amid Trump's tariff actions lingering in the backdrop. Ahead, RBI overnight is the highlight where the central bank is widely expected to cut the Repurchase Rate by 25bps to 5.75%.

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