US Market Wrap - 11th June 2025

Stocks chop to soft CPI and geopolitical tensions

- **SNAPSHOT**: Equities down, Treasuries up, Crude up, Dollar down
- **REAR VIEW**: US CPI soft on all metrics; Trump says deal with China is done, tariffs on China total 55%, while China has 10% on US; Trump less confident about Iran deal; US embassy in Iraq prepares for evacuation as security risks rise, personnel in Kuwait and Bahrain also can depart; Lutnick says US won't give China their best chips; Decent US 10yr note auction; Bigger-than-expected EIA crude draw; UK spending review broadly in line with expectations; US & Mexico near deal to cut steel duties and cap imports.
- **COMING UP**: **Data:** UK GDP Estimate, US Initial Jobless Claims, PPI. **Events:** MOFCOM Regular Press Conference. **Speakers:** ECB's Schnabel, de Guindos, Elderson. **Supply:** Italy, US. **Earnings:** Adobe, Carnival.

MARKET WRAP

There were three key main events on Wednesday. US CPI was cooler than expected, US/China agreed on a deal, while Middle East concerns escalated. The US CPI came in softer than analyst expectations in May, despite the imposition of tariffs in April, showing that consumer prices are still not being greatly affected by US President Trump's tariffs so far. PPI will be viewed tomorrow to see how producer prices are faring. In response to the report, stocks caught a bid while the Dollar was sold and T-notes rallied. Stocks failed to hold onto gains by the close, with equities closing in the red due to downside in US trade sparked by the increased Middle East tensions, which saw crude prices rally. Several reports indicated some form of evacuation of US personnel from the Iraq embassy, and also an authorized departure of nonessential personnel and family members from Bahrain and Kuwait, sparking fears of a potential upcoming military action on Iran, albeit this is yet to be confirmed. Geopolitical analysts appear to have a mixed view, with some warning it could reflect a major threat (like an Israeli strike on Iran if nuclear talks fail), or others suggest perhaps it is a negotiating tactic ahead of talks on Sunday. Nonetheless, the heightened risk pressured stocks but led to a strong upside in Crude, while Gold and T-notes also moved higher. On US/China, the talks in London concluded and the US maintained its current tariffs on China that were implemented after the meeting in Geneva, while China agreed to export rare earths to the US. However, the deal still needs to be signed off on by both US President Trump and China President Xi. In FX, the dollar was sold on the CPI report while the Euro and Pound outperformed, but Antipodes lagged.

US

US CPI: Overall, CPI was soft. The headline rose by 0.081%, beneath the 0.2% forecast and down from the prior 0.221%. The Y/Y print rose to 2.4% from 2.3%, but it was beneath the 2.5% forecast. The core prints were also soft, rising 0.13% M/M, down from the 0.237% prior, beneath the 0.3% forecast. The report welcomes the Fed's fight against inflation and shows that any tariff impact is yet to be felt. However, the Fed's beige book saw that contacts who expect to pass on prices to customers expect to do so over the next three months. Therefore, more data is likely needed to assess the full tariff impact. Nonetheless, the fact that prices are not largely accelerating as tariffs are implemented may help the Fed spot the tariff-related price increases, and it can then assess whether to look through them or not. However, many have argued against doing this, aside from Governor Waller, who argues the tariff-related price increase should be viewed as a one-time event. Attention will turn to the PPI data on Thursday to see how much prices for firms have increased in the wake of tariffs. The PPI will likely be impacted by tariffs first, before CPI. Regarding the implications for the Fed's preferred gauge of inflation, Core PCE, Pantheon Macroeconomics expect it at 0.2% after the CPI report but notes it may be updated after PPI. In regards to the Fed, there was a brief dovish reaction to money market pricing, which went back to fully pricing in two rate cuts this year.

FIXED INCOME

T-NOTE FUTURES (U5) SETTLED 15+ TICKS HIGHER AT 110-22

Treasuries bull steepened after soft US CPI. At settlement, 2s -6.5bps at 3.947%, 3s -6.9bps at 3.910%, 5s -7.0bps at 4.014%, 7s -6.7bps at 4.204%, 10s -5.8bps at 4.416%, 20s -3.9bps at 4.925%, 30s -2.8bps at 4.911%.

INFLATION BREAKEVENS: 5yr BEI -2.6bps at 2.313%, 10yr BEI -1.7bps at 2.277%, 30yr BEI -0.4bps at 2.269%.

THE DAY: T-notes traded with a downside bias overnight ahead of the US CPI report and the 10yr auction. T-notes hit a low of 109-28 before excelling higher to a peak of 110-21 in the aftermath of the report. Recapping, CPI was softer than expectations for both the headline and core, but the headline ticked up slightly to 2.4% from 2.3%, but not as much as expected, while core Y/Y rose 2.8%, maintaining the pace in April. There was a dovish reaction in money market pricing, which at pixel time prices two 25bps rate cuts. However, the uncertainty ahead on whether tariffs will boost inflation in the months ahead remains. T-notes rallied across the curve but predominantly in the long end with 10 and 30-year supply limiting the upside on the longer end of the curve. On trade, the US/China talks concluded in which an agreement was made to maintain the current Geneva tariffs on China, and China will export rare earths to the US, 30% + the 25% tariffs already in place. Meanwhile, reports from Bloomberg highlighted how Hong Kong pensions intend to cut USTs if the US loses its AAA grade. The 10-year T-note auction was sold but pretty much in line with recent averages, which helped push 10-year yields lower in the wake of the auction with T-notes breaching the post-CPI highs. Upside was also extended as geopolitical fears escalated in late trade after the US reportedly withdrew personnel from Iraq, Bahrain and Kuwait as tensions rise in the region.

SUPPLY:

Notes/Bonds

- The US Treasury sold USD 39bln of 10yr notes at a high yield of 4.421%, a slightly higher yield than the prior 4.342%, with the auction stopping through the when issued by 0.7bps. The stop-through shows there continued to be strong demand for the US 10yr, but the stop-through was not as strong as the six-auction average of 0.9bps, or the prior stop-through of 1.2bps. The bid-to-cover was also below the prior and average, so although a solid auction, it was not as strong as recent averages or the prior. The breakdown was all very much in line. Direct demand of 20.5% was little changed vs the prior 19.9% but better than the average 16.1%, while indirect demand was little changed at 70.56%, vs the prior 71.2% and 71.6% average. This left dealers with a below-average 8.96% (prev. 8.9%, average 12.3%).
- The US Treasury to sell 22bln of 30yr bonds on June 12th; settle June 16th.

Bills

- US Treasury sold USD 60bln of 17wk bills at a high rate of 4.220%, B/C 2.96x.
- US to sell USD 65bln 4wk bills and USD 55bln 8wk bills on June 12th; to settle on June 17th.

STIRS/OPERATIONS:

- **Market Implied Fed Rate Cut Pricing: June 0bps (prev. 0bps), July 5bps (prev. 4bps), September 20bps (prev. 16bps), Dec 50bps (prev. 44bps).**
- NY Fed RRP op demand at 205bln (prev. 183bln) across 46 counterparties (prev. 31)
- EFFR at 4.33% (prev. 4.33%), volumes at USD 114bln (prev. 118bln).
- SOFR at 4.29% (prev. 4.29%), volumes at USD 2.643tln (prev. 2.667tln).

CRUDE

WTI (N5) SETTLED USD 3.17 HIGHER AT 68.15/BBL; BRENT (Q5) SETTLED USD 2.90 HIGHER AT 69.77/BBL

Crude prices rally as tensions in the Middle East escalate. Prices were temporarily weighed in the US morning as optimism was voiced by the Iranian Foreign Minister, "As we resume talks on Sunday, it is clear that an agreement that can ensure the continued peaceful nature of Iran's nuclear program is within reach—and could be achieved rapidly". Thereafter, upside was the theme for the remainder of the day amid a couple of developments. US President Trump, in an NYP interview, noted he's less confident about the Iran deal. New highs were then found in the afternoon on sources in Iraq and the US, that the US embassy in Iraq is preparing for an ordered evacuation due to heightened security risks in the region. WTI and Brent hit highs of USD 68.37/bbl and 69.97/bbl, respectively. Meanwhile, the AP reported the US State Department is authorising the departure of non-essential personnel from Bahrain and Kuwait, with Reuters citing heightened regional tensions behind the move. On energy, the EIA weekly inventory unveiled larger crude stocks than expected of 3.644mln, surpassing the crude draw of 0.4mln in Tuesday's Private Inventory report. Prices saw little movement upon the release. In Canada, Alberta Premier Smith said they are working to present a route to PM Carney for a potential new crude pipeline from Alberta to the Port of Prince Rupert, adding 1mln bpd to production. Note, US CPI came in soft, likely adding support for the crude complex given the USD weakened as bets over more Fed rate cuts increased slightly.

EQUITIES

CLOSES: SPX -0.27% at 6,022, NDX -0.37% at 21,861, DJI unch at 42,866 , RUT -0.38% at 2,148

SECTORS: Consumer Discretionary -1.02%, Materials -0.98%, Communication Services -0.58%, Real Estate -0.55%, Consumer Staples -0.38%, Technology -0.28%, Financials -0.14%, Industrials +0.03%, Health +0.04%, Utilities +0.05%, Energy +1.49%.

EUROPEAN CLOSES: DAX: -0.05 % at 23,976, FTSE 100: +0.13 % at 8,864, CAC 40: -0.36 % at 7,776, Euro Stoxx 50: -0.37 % at 5,395, AEX: -0.33 % at 936, IBEX 35: -0.59 % at 14,137, FTSE MIB: -0.07 % at 40,180, SMI: -0.11 % at 12,339, PSI: -0.21 % at 7,479.

STOCK SPECIFICS

- **Tesla (TSLA):** CEO Musk announced a June 22nd launch for robotaxi service in Austin; Musk regrets some posts on Trump last week.
- **Lockheed Martin (LMT):** US Air Force halved its F-35 fighter jet request to Congress.
- **Chewy (CHWY):** FY25 revenue view disappointed.
- **Quantum stocks (QUBT, IONQ, RGTI):** NVIDIA CEO Huang said there is an inflection point happening in quantum computing.
- **General Motors (GM):** Plans to invest USD 4bln over two years in US plants to boost production.
- **Gamestop (GME):** Q1 revenue missed.
- **Etsy (ETSY):** Announced proposed private offering of USD 650mln of convertible senior notes.
- **GitLab (GTLB):** FY26 revenue outlook fell short of expectations.
- **J.M. Smucker (SJM):** Upgraded to 'Buy' from 'Hold' at Jefferies.
- **Dave & Buster's Entertainment (PLAY):** Q1 Adj. EPS & revenue beat.
- **General Motors (GM):** CFO expects Q2 to show the highest tariff impact.
- **Caterpillar (CAT):** Increased dividend to USD 1.51/shr (prev. USD 1.41/shr).
- **Bank of America (BAC):** CEO said investment banking is not where the Co. wants it to be this quarter but is having great conversation prospects. The CEO expects market revenue to increase by mid-to-high single digits in Q2, investment banking

fees to reach USD 1.2bln in Q2, and NII to increase in Q2.
- **AbbVie (ABBV):** US FDA approves expanded indication for Abbvie's (ABBV) Mavyret, as the first and only treatment for people with acute hepatitis C virus.
- **CoreWeave (CRWV)** to benefit from **Google's (GOOGL)** cloud deal with OpenAI, according to Reuters citing sources

FX

USD came under pressure against major peers on lower-than-expected CPI in May. On headline and core (m/m & y/y), soft figures were seen, resulting in Fed rate cut bets increasing, and a narrowing rate differential against peers weighing on USD. The federal budget posted a slightly narrower deficit than expected, sparking little reaction in FX and bonds. Geopolitics was a key driver of the day's risk sentiment, as tensions in the Middle East went higher, with reports that the US embassy in Iraq and other personnel in Bahrain and Kuwait are evacuating due to heightened security risks. The move sparked risk-off across markets, leaving crude prices surging, equities sold, gold bid, and USD gaining versus higher-beta peers, albeit less favoured than Havens. On trade, US President Trump said a deal with China is done, subject to his and Xi's approval, with China to get a total 55% tariff and the US to receive a 10% tariff. Ahead, US PPI is of focus to gain a better gauge of the May PCE report, while initial claims will be watched given the recent move higher.

EUR, GBP, CHF, and **JPY** all saw decent gains against the USD amid the less attractive yield on US-denominated fixed assets. Despite the dollar bid against Antipodes on geopolitical tensions, EUR and GBP held onto their gains comfortably. Ex-US, newsflow was really quiet, with G10 FX moves were largely a function of US dynamics and geopolitics. In the UK, the spending review was broadly in line with expectations; GBP and Gilts saw no move. Oxford Economics said the review leaves the impression of being a stopgap, rather than a durable plan, and they still expect the government will need to implement relatively large tax rises in the autumn budget. Cable now resides at ~ 1.3540, while EUR/USD sits at ~1.1480 as ECB speak remains the highlight in newsflow, albeit little new was said.

Havens were helped by the soft US CPI and aforementioned geopol developments before paring somewhat, with USD/JPY now at ~144.50, USD/CHF at ~ 0.8200, and gold up to ~3,345/oz. From the BoJ, Governor Ueda said he told those in the monthly economic report that domestic financial conditions remain accommodative. Going forward, the BoJ will continue to scrutinise market moves and their economic impact.

EMs saw decent gains off the back of USD weakness, with LatAm and CEEs doing well. In Colombia, they are weighing issuing an additional USD 2.4bln in external bonds to cover a large fiscal deficit in 2025, and USD 1bln from commercial banks to cover needs. In NBH minutes, the decision to hold rates at 6.5% was unanimous, with members agreeing that a change to forward guidance was not required.