

### Stocks slide and crude flies as Middle East tensions mount

- **SNAPSHOT:** Equities down, Treasuries up, Crude up, Dollar up
- **REAR VIEW:** Trump reportedly is seriously considering attacking Iran, held meeting with advisers; US Retail Sales fall more than expected; US Industrial Production, mfg output, NAHB all miss expectations; Mixed Import/Export prices; Trump says everyone should immediately evacuate Tehran; BoJ hold rates as expected, Tamura dissents on taper plan; BoJ's Ueda says they judged that downside risks are bigger for the economy and prices; Ishiba and Trump fail to reach tariff agreement; Trump says EU is not yet offering a fair deal; Germany's ZEW indicator tops forecasts; AMD & MSFT announce strategic multi-year partnership.
- **COMING UP: Data:** Japanese Trade, UK CPI, US Building Permits, Housing Starts, Jobless Claims. **Events:** Fed, Riksbank & BCB Policy Announcements. **Speakers:** ECB's Nagel, Elderson, Lane, de Guindos, Panetta, BoC's Macklem; Fed Chair Powell. **Supply:** Australia, Germany, US.

### MARKET WRAP

It was another session dominated by geopolitics, with tensions rising over fears the US is getting ready to join Israel in striking Iranian nuclear facilities. Reports via CNN said that US President Trump's desire to handle the conflict diplomatically is waning and that Trump is growing increasingly warm to using US military assets to strike Iranian nuclear facilities. Trump has had a meeting with his National Security Council, presumably on the next course of action, with a press briefing expected on the matter. The rising Middle East tensions, and feared US inclusion, saw equities slide while T-notes and the Dollar caught a bid, as Crude rallied. Aside from geopolitics, US data saw a mixed Retail Sales report, which missed on the headline, but the Control measure beat. Import prices were unchanged in May, above the expected -0.2%, but Export Prices tumbled. Both Industrial Production and Manufacturing Output were disappointed, and the NAHB Housing Market index slipped. There was a brief reaction to the Retail Sales headline miss, but it swiftly pared with the focus staying put on geopolitics. Elsewhere in FX, the Dollar and Havens outperformed while BoJ took focus overnight. The BoJ left rates on hold as expected at 0.5%, while the BoJ announced it will reduce the amount of monthly JGB purchases by JPY 200bn per quarter from April next year. Attention on Wednesday turns to the FOMC and updated SEPs, but the focus largely remains on geopolitics, particularly on whether the US gets involved.

### US

**RETAIL SALES:** US Retail Sales declined by 0.9%, a steeper drop than analysts forecast of -0.7% for May (prev. 0.1%, rev. -0.1%). The biggest decline was seen in sales of motor vehicle & parts dealers (-3.5%), followed by building material & garden equipment suppliers (-2.7%), and then gasoline stations (-2%). On the flip side, miscellaneous (+2.9%) and non-store retail (+0.9%) grew in May. Ex-autos unexpectedly dropped by 0.3% (exp. +0.1%, prev. +0.1%) with ex-gas/autos declining by 0.1% (prev. 0.2, rev. 0.1%). Retail Control, which excludes building materials, food services, gas & autos, topped expectations, rising 0.4% (exp. 0.3%, prev. -0.2%, rev. -0.1%). Following the report, Oxford Economics calculated that real consumer spending contracted in May, but "strength in previous months means spending is still on track to rise by 2% annualised in Q2". Additionally, the firm notes their nowcast for consumption data, which incorporates retail sales and other data for Q2 GDP, suggests personal spending was unchanged in May.

**NAHB HOUSING MARKET INDEX:** The NAHB housing market index fell to 32.0 in June from 34.0, and below the expected 36.0. Current single-family home sales fell to 35 from 37, while indices of home sales over the next six months and prospective buyers dipped to 40 (prev. 42) and 21 (prev. 23), respectively. NAHB noted that 90% of the builder responses to the May survey were received prior to the US-China truce, which rolled back tariffs on Chinese imports to 30% for 90 days. However, Oxford Economics notes for homebuilders, the subsequent doubling of steel and aluminium tariffs to 50% at the start of June may have more than outweighed the benefit of lower tariffs on Chinese imports.

**IMPORT/EXPORT PRICES:** US Import Prices were unchanged in May, slowing from the prior growth of 0.1%, but above the expected -0.2% print. Export Prices tumbled 0.9%, well beneath the -0.2% forecast and down from the prior 0.1%. Regarding imports, higher prices for nonfuel imports offset lower prices for fuel imports in May. While for export prices, lower prices for nonagricultural exports more than offset higher prices for agricultural exports. Summarising the data, Oxford Economics writes, "Headline import prices were unchanged due to continued declines in global commodity prices. This overshadows a significant rise in import prices excluding food and fuel since March, though much of this may have been linked to the now waning front-loading of imports."

**US INDUSTRIAL PRODUCTION:** US Industrial Production in May declined by 0.2%, below the expected +0.1% print and down from the prior revised +0.1%. Manufacturing output rose by 0.1%, beneath the 0.2% forecast, with the prior revised down by 1 tenth to -0.5%. Manufacturing output was driven by a gain of 4.9% in the index for motor vehicles and parts; the index for manufacturing excluding motor vehicles and parts fell 0.3%. The index for mining increased 0.1%, and the index for utilities decreased 2.9%. Capacity Utilisation fell to 77.4% despite expectations for it to remain at 77.7%. Pantheon Macroeconomics writes, "The pick-up in manufacturing output in the first quarter has run out of steam more recently, but demand from businesses is still holding up well....Nonetheless, most business surveys suggest that the slightly declining trend in manufacturing output seen in 2023 and 2024 will re-emerge soon."

### FIXED INCOME

## T-NOTE FUTURES (U5) SETTLED 11+ TICKS HIGHER AT 110-27

**T-notes catch bid on fears of the US joining Israel in Iran strikes.** At settlement, 2s -2.1bps at 3.948%, 3s -3.7bps at 3.894%, 5s -5.0bps at 3.986%, 7s -5.7bps at 4.172%, 10s -6.3bps at 4.391%, 20s -6.8bps at 4.904%, 30s -6.3bps at 4.892%

**INFLATION BREAKEVENS:** 5yr BEI +2.2bps at 2.359%, 10yr BEI +1.0bps at 2.312%, 30yr BEI +0.1bps at 2.294%.

**THE DAY:** T-notes pared Monday's downside with a flight-to-quality supporting T-notes on fears of the US joining the attack on Iran. T-notes trended higher overnight and in the morning to peak at 111-00 in response to the US Retail Sales headline miss, although the move swiftly pared as the Control measure beat expectations. T-notes fell back to 110-16 before pushing higher in the US session as several reports suggest that Trump is warming to the idea of joining Israel in striking Iranian nuclear facilities. The escalation saw oil prices rally, likely capping the upside in T-notes on the inflationary impacts of higher oil prices on the US economy. Elsewhere, Import Prices were unchanged in May while Export Prices tumbled more than expected. Industrial Production and Manufacturing Output missed expectations. Business inventories were in line with forecasts, while the NAHB Housing Market Index slipped. The fresh data prints saw the Atlanta Fed GDP Now model revise its Q2 25 GDP estimate to 3.5% from 3.8%. Meanwhile, the US Treasury sold USD 23bln of 5yr TIPS, which saw very strong results. Elsewhere, the Fed announced an open meeting to discuss the proposed revisions to the SLR standards next Wednesday (June 25th at 19:00BST/14:00EDT). Attention largely lies on geopolitics, particularly if the US also strikes Iran, but also the FOMC and dot plots due on Wednesday.

### SUPPLY:

#### Note/Bonds

- US sold USD 23bln of 5yr TIPS at a high yield of 1.650%, stopping through the when issued by 1bp, a huge improvement on the prior 2.2bps tail. The bid-to-cover was also strong, rising above the prior and average. Direct demand rose but was in line with recent averages, but indirect demand jumped above averages, seeing dealers take home a below-average 6.55% of the auction. Overall, this indicates a strong TIPS auction, supported by strong indirect demand.

#### Bills

- US sold 56bln of 6-wk bills at a high rate of 4.180%, B/C 2.78x.
- US to sell USD 65bln in 4wk bills, USD 55bln in 8wk bills and USD 60bln in 17wk bills on June 18th; all to settle June 24th.

#### STIRS/OPERATIONS

- **Market Implied Fed Rate Cut Pricing: June 0bps (prev. 0bps), July 4bps (prev. 3bps), September 18bps (prev. 17bps), Dec 45bps (prev. 47bps).**
- NY Fed RRP op demand at USD 169bln (prev. 141bln) across 37 counterparties (prev. 26)
- EFR at 4.33% (prev. 4.33%), volumes at USD 101bln (prev. 110bln).
- SOFR at 4.32% (prev. 4.28%), volumes at USD 2.697tln (prev. 2.644tln).

## CRUDE

### WTI (Q5) SETTLED USD 3.02 HIGHER AT 73.27/BBL; BRENT (Q5) SETTLED USD 3.22 HIGHER AT 76.45/BBL

**Oil was buoyed as it continued to profit off the escalating Middle East tensions with fears the US will join in.** As expected, Israel/Iran headlines dominated the tape, once again, and while the updates are endless, one of the key headlines was in the US morning and what participants are awaiting updates on, was a Politico report that US President Trump will convene his closest military advisers in the Situation Room "this morning". Since then, and as headlines continued to roll in, some of the more notable ones have been a distinct change in tune from President Trump. On Truth he has started to refer to "We", highlighted by the fact he said, "We now have complete and total control of the skies over Iran", and "We know exactly where the so-called "Supreme Leader" is hiding. He is an easy target, but is safe there - We are not going to take him out (kill!), at least not for now." Later, Fox reported that US strikes on Iranian targets is on the table. Participants will be attentive to any reporting around Iran's Fordow nuclear facility - A facility which has been a key target of Israel, and the US, for multiple years, but it is protected due to the facility being buried in a mountain and, as such, is thought to only be reachable by US Air Force bunker-busters (GBU-57A/B MOP). WTI and Brent saw highs of USD 73.54/bbl and 76.80/bbl, respectively. The highs were seen in the wake of CNN reporting that Trump's desire to handle the conflict diplomatically is waning, and he is growing increasingly warm to using US military assets to strike Iranian nuclear facilities.

Ahead, as well as any geopolitical updates, traders will watch the weekly private inventory data after-hours, whereby expectations are (bbls): Crude -0.6mln, Distillate -0.1mln, Gasoline +0.2mln.

## EQUITIES

**CLOSES:** SPX -0.84% at 5,983, NDX -1.00% at 21,719, DJI -0.70% at 42,216, RUT -1.04% at 2,102

**SECTORS:** Health -1.64%, Consumer Discretionary -1.55%, Materials -1.01%, Utilities -0.81%, Consumer Staples -0.79%, Industrials -0.75%, Communication Services -0.73%, Technology -0.72%, Financials -0.61%, Real Estate -0.41%, Energy +1.03%.

**EUROPEAN CLOSES:** DAX: -1.03% at 23,455, FTSE 100: -0.46% at 8,834, CAC 40: -0.76% at 7,684, Euro Stoxx 50: -0.98% at 5,287, AEX: -0.46% at 921, IBEX 35: -1.41% at 13,912, FTSE MIB: -1.36% at 39,387, SMI: -0.62% at 12,016, PSI: -1.31% at 7,447.

#### STOCK SPECIFICS:

- **Jabil (JBL):** EPS and revenue beat with solid guidance as it raised FY guidance.
- **Verve Therapeutics (VERV):** To be acquired by Eli Lilly (LLY) for a total potential consideration of up to USD 13.50/shr in cash.

- **Lennar (LEN)**: Revenue beat expectations.
- **Roku (ROKU)**: Upgraded at Loop Capital with BofA raising by PT USD 10.
- **Solar Names (TAN), Sunrun (RUN), Enphase Energy (ENPH), SolarEdge Tech (SEDG), First Solar (FSLR)**: Senate panel proposed a full phase-out of solar & wind energy tax credits by 2028.
- **T-Mobile (TMUS)**: Reports Softbank has trimmed its stake in Co. to help pay for its AI plans.
- **NVIDIA (NVDA)**: To reportedly attend the China supply-chain expo in July for the first time.
- **Amazon (AMZN)**: AWS says it does not know of any new customer announcements, via CNBC. Reminder, AMD surged on Monday amid rumours of a possible GPU win from AWS, according to CNBC's Faber. However, AMD and Microsoft's (MSFT) Xbox later announced a partnership.
- **Pharma** - US President Trump admin reportedly to consider a crackdown on pharma ads, according to Bloomberg.
- **Boeing (BA)** - India Aviation Regulator says DCGA raised concerns regarding recent maintenance-related issues reported by Air India; recent surveillance conducted on the Boeing (BA) 787 fleet did not reveal any major safety concerns.
- **Lennar (LEN)**: Sees Q3 adj. EPS between USD 2.00-2.20 (exp. 2.78).

## FX

The USD was broadly firmer against peers in a likely haven bid on Tuesday due to an increasing expectation of US involvement in the attack on Iran with Israel. Specifically, US President Trump posted on Truth Social, "We now have complete and total control of the skies over Iran". Additionally, Axios reported that Trump is seriously considering attacking Iran and is holding a crucial meeting with advisers. Aside from geopolitics, US data showed mixed signals. Retail Sales missed on the headline and ex-autos component, albeit, Retail Control, which offers a better gauge of core retail spending, topped expectations. Meanwhile, Import Prices were above forecasts but Export Prices tumbled, Industrial Production fell short, and the NAHB Housing Market Index unexpectedly fell to its lowest reading since December 2022. Ultimately, data took the back foot, with the risk-off trade across markets benefiting the USD despite the lower US Treasury yield environment. On Wednesday, the focus while remaining on the geopolitical perspective, will also turn to the FOMC (exp. rates held, eyes on the 2025 dot plot) and Chair Powell's commentary thereafter.

**G10FX** was entirely in the red, faltering in the flight to safety trade. As mentioned, the risk-averse sentiment benefited the dollar and USTs while JPY and CHF outperformed relatively. GBP, Antipodes, and EUR saw the biggest weakness. Concerning EUR, US President Trump said the EU is not yet offering a fair deal, while Pharma tariffs are coming soon. Meanwhile, Germany's ZEW indicator surged in June to 47.5, above the expected 35.0, in the wake of continued improvement in confidence and recent growth in investment and consumer demand. EUR/USD saw little reaction and traded as a function of USD, trading at ~1.1480 at pixel time. Separately on Japan, Trump said there is a chance of a deal with Japan, but they are "tough"; the remarks followed gradual Yen weakness amid Fuji TV reports that Japanese PM Ishiba and Trump didn't reach an agreement, but confirmed they are to continue talks.

**JPY** succumbed to USD strength with the hawkish reaction towards the BoJ meeting proving to be fleeting. The BoJ maintained its rate at 0.5% as expected in a unanimous vote. As telegraphed, the BoJ is to reduce the amount of monthly JGB purchases by ~USD 200bln each quarter from April 2026 onward; the decision was in an 8-1 vote, with Tamura the dissenter. Tamura argued that the BoJ should let long-term rates be determined by the market and its participants. Afterwards, BoJ's Ueda's remark in the Press Conference, "they judged that downside risks are bigger for the economy and prices," sparked JPY weakness, lifting USD/JPY higher. Now into the US evening, USD/JPY sits at ~ 145.30.

**EMs-ex COP** were entirely in the red on the risk-off environment, with COP managing an unchanged performance with the currency supported by rising oil prices. CEEs and ZAR were amongst those hit the hardest. On PLN, ING notes they don't expect any immediate impact on fiscal or general government policy, and after last week's successful confidence vote, "we don't see much reason for PLN to remain at weaker levels".

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