US Market Wrap - 18th June 2025

Markets see two-way action as Fed, Trump, and Middle East all dominate the tape

- **SNAPSHOT**: Equities flat/up, Treasuries flat, Crude higher, Dollar higher
- **REAR VIEW**: Fed holds rates as expected, dot plot leans hawkish; Fed Chair Powell signals no rush to ease in short term; Trump to meet on Israel-Iran & to decide at the last minute; Trump says Iran wants to meet, and he "may do that"; Israel says they destroyed the HQ of Iran's internal security; US initial claims continue to hover around 245k & continued claims fall less than expected; US Building Permits & Housing Starts fall more than anticipated; Bank regulators plan proposal to decrease SLR for largest banks; Riksbank cuts by 25bps, as expected.
- **COMING UP**: **Holiday:** On Thursday 19th June, on account of the Juneteenth Holiday, the Desk will shut at 18:00BST/13:00EDT and re-open the same day for the beginning of Asia-Pac coverage at 22:00BST/17:00EDT. **Data:** Australian Jobs. **Events:** BoE, SNB, Norges Bank, CBRT. **Speakers:** ECB's Lagarde, Nagel, de Guindos, SNB's Jordan, Norges Bank's Bache. **Suppy:** Japan, Spain, France.

MARKET WRAP

US indices ended the day with marginal gains, albeit with outperformance in the Russell, while geopolitics, Fed, and Trump dominated the tape. The FOMC left rates unchanged, as expected, and left the 2025 dot plot unchanged, which saw stocks and Treasuries gain and the Dollar sell off. However, moves had started to pare as the hawkish composition of the 2025 dot plot was digested, while the 2026 and 2027 dots were revised up. Meanwhile, inflation projections were revised up, growth forecasts were revised down and unemployment forecasts were revised higher, likely to incoporate the expected impact of tariffs. The Committee said the uncertainty about the outlook has "diminished further but remains elevated", a change from the prior "increased further", and it also removed the line that "risks of higher unemployment and higher inflation have risen". In Powell's presser, he largely echoed familiar remarks in that a patient and wait-and-see approach is appropriate, and that they would learn more over the summer to make smarter decisions, weighing on T-notes, stocks and supporting the Dollar. However, Trump managed to steal the limelight through the Fed and saw pronounced downside in the crude complex and upside in indices as he said he may meet with Iran, albeit anything can happen and no final decision has been made. Prior to this, oil was very choppy amid a deluge of Middle East updates - benchmarks saw peaks after Times of Israel said Defence Minister Katz said Israeli Air Force fighter jets just "destroyed the headquarters of the Iranian regime's internal security, the main arm of the Iranian dictator's oppression", but then pared the gains, and much more, as President Trump was speaking with focus on lines that Iran wants to negotiate, nothing is too late and that Iran has reached out to the US. Elsewhere, sectors were largely in the red with only Tech, Utilities, and Real Estate in the green as Energy and Communications lagged. Treasuries in the end were largely flat, while the Dollar saw marginal gains - Antipodeans were the G10 outperformers, while Swissy was the distinct laggard. US data saw Initial Jobless claims at 245k, in line with expectations, while housing data disappointed. In the US it is a market holiday on Thursday due to Juneteenth, while SNB, Norges, and BoE rate decisions are the highlights.

US

FOMC REVIEW: The Federal Reserve left rates unchanged at 4.25-4.5%, as was widely expected, with the 2025 dot plot left unchanged at 3.9%, which signals 50bps of cuts this year, although the 2026 dot plot was revised higher to 3.6% from 3.4% and 2027 was revised up to 3.4% from 3.1%. However, there was some discourse over the number of cuts seen this year. Seven members see no cuts this year, vs. four in March, while two see 25bps cuts, down from four in March, eight see 50bps (prev. nine), and two see 75bps of easing (unchanged from March). Highlighting the close proximity for the median dot, 9 members see FFR above median, 10 members see FFR at median or below. GDP forecasts were cut for both 2025 and 2026 to 1.4% (prev. 1.7%) and 1.6% (exp. 1.8%), respectively, while unemployment rate forecasts ticked higher across all time horizons ex. long-run. Headline and Core PCE inflation dots were also notably lifted with the 2025-end headline rate seen at 3.0% (prev. 2.7%) and 2026 at 2.4% (prev. 2.2%). In regards to the statement, the Committee said the uncertainty about the outlook has "diminished further but remains elevated", a change from the prior "increased further", and it also removed the stagflation warning line that "risks of higher unemployment and higher inflation have risen". Stagflation risks remain given inflation forecasts were revised up, with growth forecasts revised down.

FED CHAIR POWELL SUMMARY: Fed Chair Powell largely echoed familiar remarks in that a patient and wait-and-see approach is appropriate. He also toed the usual line post SEPs that projections are subject to uncertainty, and are not a set plan. He recommended focusing on the near-term projections due to the difficulty of providing longer-term forecasts. Looking ahead, Fed Chair Powell said the time will come when they have more confidence, but he cannot say exactly when that will be. He stressed that as long as they have the kind of labour market they have, and inflation is coming down, the right thing to do is hold rates. Powell expects to learn a great deal more over the summer, adding they will make smarter decisions if they wait a "couple of months". Powell noted inflation has been favourable over the last three months, but he expects to see more tariff impacts in the coming months and expects businesses to pass on costs to consumers, again stressing this is why the Fed need to be patient. Powell said they have to keep rates high to get inflation all the way down, and he described policy as "modestly restrictive", noting it is not very restrictive. Powell in May said "policy is sort of modestly or moderately restrictive".

JOBLESS CLAIMS: Initial Jobless Claims for the week ending 14th June fell 5k W/W to 245k in line with expectations, while the 4wk average rose by 4.75k to 245.5k - The highest level for the average since August 19th, 2023. The unadjusted Initial Claims fell by

10k to 236k, while seasonal factors had expected a decrease of 6k. Continued Claims, for the week ending 7th June, fell by 6k to 1.945mln, above the 1.932mln forecast. The 4-week average rose 13k to 1.926mln, the highest level since November 20th, 2021. The unadjusted Continued Claims fell by 5.7k to 1.82mln, while seasonal factors expected no change. With Claims remaining around the 240k-250k mark over the last month, it likely shows a slight softening in the US labour market. On the data, Oxford Economics writes, "Despite the slight decline in initial jobless claims in the week ending June 14, both initial and continuing unemployment claims are trending higher, consistent with a gradual softening in labor market conditions."

BUILDING PERMITS/HOUSING STARTS: Building Permits fell by 2.0% to 1.393mln from 1.422mln, beneath the 1.428mln forecast. Housing Starts fell by 9.8% to 1.256mln from 1.392mln, beneath the 1.357mln forecast and even below the most pessimistic forecast of 1.3mln. Despite the big drop in Starts, analysts at Pantheon Macroeconomics highlight that the data is exceptionally volatile and thus take little signal from the report, with the drop mainly attributed to a 30% fall in multi-family starts, which will probably unwind over the next month or two. However, the desk highlights that Building Permits, which are less volatile, were also notably weak, hitting the lowest level since June 2020.

FIXED INCOME

T-NOTE FUTURES SETTLED 1+ TICKS LOWER AT 110-25+

T-notes catch a bid on SLR reports but fade as Fed Chair Powell pushes back on near-term rate cuts. 2s -1.3bps at 3.937%, 3s -0.8bps at 3.889%, 5s -0.3bps at 3.984%, 7s -0.1bps at 4.172%, 10s -0.2bps at 4.389%, 20s -0.1bps at 4.903%, 30s -0.2bps at 4.890%.

INFLATION BREAKEVENS: 5yr BEI +0.0bps at 2.360%, 10yr BEI -0.2bps at 2.312%, 30yr BEI -0.8bps at 2.288%.

THE DAY: T-notes were bid across the curve on Wednesday ahead of the FOMC, with reports over the night that US regulators are planning to propose decreasing the Supplemental Leverage Ratio for the largest banks, which would allow banks to buy more Treasuries (more below). Also supporting the upside was the downside in crude prices, with the US yet to strike Iran, while Iran has reportedly reached out for negotiations. Regarding data, Initial Jobless Claims fell in line with expectations, while the volatile Housing Starts tumbled and Building Permits also missed. The focus of the day, aside from geopolitics, was largely on the Fed. The Fed left rates on hold as expected while the 2025 dot plot was maintained to see two 25bps rate cuts in 2025, albeit there was a hawkish shift in the composition, and the 2026 and 2027 dots were revised higher. The statement saw the Fed note uncertainty has diminished, but remains elevated, while it removed language that the Committee "judges that the risks of higher unemployment and higher inflation have risen". The initial reaction was dovish, with the 2025 dot plot median being maintained, before moves then pared. T-notes then pushed lower throughout the press conference as Powell continued to push back on near-term rate action, stressing a patient approach and that they will learn more over the Summer about the impact of Trump's policies.

SLR: Bloomberg reported overnight that the top US bank regulators plan to reduce a key capital buffer by up to 1.5% for the biggest lenders, after concerns that it constrained their trading in the Treasuries market. They will be focusing on the enhanced Supplemental Leverage Ratio, which applies to the largest US banks, including JPM, GS, and MS. Sources said the proposal would lower the eSLR to a range of 3.5-4.5%, down from the current 5%. Note, there have been building expectations that regulators may adjust the SLR to allow banks to buy more Treasuries amid liquidity concerns. Meanwhile, the Trump administration has also been calling for lower rates, but the Fed has been reluctant to lower rates due to uncertainty. Allowing banks to buy more Treasuries would theoretically help the government in its bid to lower yields, which would help reduce the government's interest payments on its debt. However, some hold concerns about the effectiveness of the SLR changes. The FT highlights that earlier this month, the US Office of Information and Regulatory Affairs published a notice on its website stating that it had received a new rule proposal from the FDIC. Bank of America notes that, judging by the title of the proposal, they expect it to look very similar to what the Fed, Treasury, and OCC proposed in 2018 and "continue to believe lowering eSLR will not increase bank demand for USTs, given that banks already freely swap from reserves to USTs without generating SLR capital consumption". However, on the flipside, Barclays in a previous note has suggested a relaxation of the SLR could lead to strong demand for Treasuries and an improvement in liquidity. The bank suggested removing the SLR entirely could free up USD 6tln of lending capacity in US banks, while a modest reduction would spur banks to buy as much as USD 500bln of Treasuries.

SUPPLY:

Note/Bonds

- US Treasury to sell USD 69bln of 2yr notes on 24th June, USD 70bln of 5yr notes on 25th June, and USD 44bln of 7yr notes on 26th June; all to settle 30th June
- US Treasury to sell USD 28bln of 2yr FRNs on 27th June; to settle June 27th.

Bills

- US sold US USD 65bln 4-week bills at a high rate of 4.060%, B/C 3.15x; sold USD 55bln 8-week bills at a high rate of 4.470%, B/C 2.70x.
- US sold USD 60bln of 17-week bills at a high rate of 4.235%, B/C 2.88x.
- US Treasury to sell USD 76bln of 13-week bills and USD 68bln of 26-week bills on June 23rd, and USD 55bln of 6-week bills on June 24th; to settle June 26th.

STIRS/OPERATIONS

- **Market Implied Fed Rate Cut Pricing: July 3bps (prev. 4bps), September 19bps (prev. 18bps), Oct 32bps (prev. 30bps), Dec 48bps (prev. 45bps).**
- NY Fed RRP op demand at USD 205bln (prev. 169bln) across 40 counterparties (prev. 37).
- EFFR at 4.33% (prev. 4.33%), volumes at USD 104bln (prev. 101bln).

- SOFR at 4.31% (prev. 4.32%), volumes at USD 2.692tln (prev. 2.697tln).

CRUDE

WTI (Q5) SETTLED USD 0.30 HIGHER AT USD 75.14/BBL; BRENT SETTLED USD 0.25 HIGHER AT USD 76.70/BBL

The crude complex was choppy on Wednesday amid a deluge of Middle East updates, but ultimately settled higher. Peak choppiness and updates were seen just after the US cash open, as benchmarks hit peaks of USD 74.27 /bbl and 77.44/bbl, respectively, after Times of Israel said Defence Minister Katz said Israeli Air Force fighter jets just "destroyed the headquarters of the Iranian regime's internal security, the main arm of the Iranian dictator's oppression". Thereafter, WTI and Brent pared the gains, and much more, to hit lows of USD 71.33/bbl and 74.41 as President Trump was speaking with focus on lines that Iran wants to negotiate, nothing is too late and that Iran has reached out to the US. Further weakness was seen as Trump said they have not given an indication that the US will provide more help. As such, participants await any escalation and whether to see the US does get involved in the conflict, or stay out of it. Elsewhere, in the weekly EIA data, crude stocks saw a massive draw, in fitting with the private metrics last night, while gasoline saw a slightly shallower build than anticipated, with distillates a marginally larger than expected build. For the record, in wake of the Fed meeting where rates were unchanged as expected, prices saw little change.

EQUITIES

CLOSES: SPX -0.03% at 5,981, NDX unch at 21,720, DJI -0.10% at 42,172, RUT +0.52% at 2,113

SECTORS: Energy -0.68%, Communication Services -0.67%, Materials -0.33%, Industrials -0.25%, Consumer Discretionary -0.18%, Health -0.18%, Consumer Staples -0.10%, Financials +0.01%, Real Estate +0.14%, Utilities +0.25%, Technology +0.36%.

EUROPEAN CLOSES: DAX: -0.39 % at 23,343, FTSE 100: +0.11 % at 8,843, CAC 40: -0.36 % at 7,656, Euro Stoxx 50: -0.36 % at 5,269, AEX: -0.38 % at 917, IBEX 35: +0.08 % at 13,923, FTSE MIB: +0.08 % at 39,419, SMI: -0.44 % at 11,954, PSI: -0.79 % at 7,389.

STOCK SPECIFICS

- **Nucor Corporation (NUE):** Announced strong Q2 EPS guidance.
- **Steel Dynamics (STLD):** Weak Q2 profit outlook.
- **Hasbro (HAS)**: Cuts 3% of total workforce amid higher tariff costs.
- **Analog Devices (ADI):** Upgraded at Cantor & names it top pick in group; says it is "best-in-class" analog Co.
- **Marvell Technologies (MRVL):** Positive analyst comments following AI event.
- **Zoetis (ZTS):** Downgraded at Stifel to 'Hold' from 'Buy'.
- **Korn Ferry (KFY):** EPS, revenue, and next quarter guidance topped expectations.
- **Kellanova (K)** - EU antitrust regulators to open full-scale investigation into USD 36bln Mars bid for Kellanova, according to Reuters sources; EU regulators concerned about Mars' high market share in some products in some EU countries.
- **Google's (GOOGL)** Waymo seeks NYC Permit to test robotaxis with human supervision.
- **Nike (NKE):** Delayed launch for new brand with Kim Kardashian's Skims, via Bloomberg.
- **Microsoft (MSFT):** Planning thousands more job cuts aimed at sales people, Bloomberg reports.

FX

The Dollar was firmer following Fed Chair Powell's press conference, while US President Trump kept markets uncertain over the US involvement in the Israel-Iran conflict. The Fed statement saw a dovish shift in language concerning the short term, with the committee viewing uncertainty about the economic outlook as having diminished but remaining elevated (prev said. had increased further). Meanwhile, the 2025 dot plot was left unchanged to imply two more rate cuts in 2025. However, the composition saw a hawkish shift (nine members see FFR above the median), while the 2026 and 2027 dots were revised up. Afterwards, Fed Chair Powell pushed back on any dovish interpretation of policy in the short term, noting they'd have to keep rates high to get inflation all the way down, and said they will learn more over the summer when they can make smarter decisions. Powell also said that policy is modestly restrictive and not very restrictive. Aside from the Fed, geopolitics continues to fill the headlines, with crude prices chopping on two main developments, namely Israel destroying the Iranian regime's internal security HQ (via Times of Israel) and remarks from Trump. US President Trump refrained from detailing his next steps and on Iran said they want to meet, and he "may do that", but also said anything can happen. Separately, US data pointed to a stickiness in claims, with initial claims falling to 245k, bringing the 4wk average up to the same level, while continued claims fell less than expected. Housing data disappointed.

G10 FX was split on Wednesday, with GBP, CAD, and CHF in the red, while Antipodes and JPY outperformed in the green. In the UK, headline CPI Y/Y was either in line or hotter-than-expected relative to analysts' expectations, while the Service figure was on the cool side. BoE pricing was largely unchanged, with the first cut still priced by September. Cable saw initial upside, before later succumbing to USD strength; Cable now sits ~1.3400. On trade, the UK government expects tariff arrangements with the US on cars and aerospace to come into force by the end of the month. On Thursday, the BoE is expected to hold rates, sticking to its current quarterly pace of rate cuts after cutting in May. Meanwhile, the SNB is expected to cut by 25bps from 0.25%, while the Norges Bank is expected to cut rates by 25bps.

SEK was broadly weaker against peers following a dovish Riksbank cut. The decision was as expected. The central bank noted that the economic recovery that began last year has lost momentum, and inflation is expected to be somewhat lower than in the previous forecast. Moreover, the "rate path entails some probability of another rate cut in 2025. EUR/SEK and NOK/SEK rose to ~11.01, and 0.9670, respectively.

- Click here for the BoE Newsquawk preview.
- Click here for the SNB Newsquawk preview.

- Click here for the Norges Bank Newsquawk preview.

EM: In Chile, the central bank maintained the benchmark interest rate at 5.00% as expected in a unanimous decision; USD/CLP was modestly lower. From the CNB, Kubicek said they may have to refrain from lowering interest rates any further. For Thursday, the CBRT is the highlight where expectations are for rates to remain on hold.