

### Stocks and bonds chop as Powell sticks to script

- **SNAPSHOT:** Equities mixed, Treasuries steepen, Crude up, Dollar down.
- **REAR VIEW:** Fed proposes changes to ease ESLR for large banks, Barr and Kugler to oppose changes; New Home Sale Units drop more than expected; Average 5yr note auction; Fed Schmid and Collins sit in Powell camp, contending policy is well positioned; Powell sticks to House script for Senate testimony; BoJ Tamura hawkish on rates; Bigger-than-expected EIA crude stock draw; AAPL set to offer app store changes to avoid EU fines; Shell rejects reports of talks to acquire BP.
- **COMING UP:** **Data:** German GfK Consumer Sentiment, US Durable Goods, GDP Final (Q1), PCE (Q1), Jobless Claims, National Activity Index, Advance Goods Trade Balance, Wholesale Inventories, Canadian Earnings. **Events:** Banxico Policy Announcement. **Speakers:** ECB's de Guindos, Schnabel, Lagarde; BoE's Bailey, Breeden; Fed's Daly, Barkin, Hammack, Barr, Kashkari. **Supply:** Japan, US. **Earnings:** Walgreens, Nike, H&M.

### MARKET WRAP

US indices were ultimately mixed as the Nasdaq 100 was the one major index to close with gains and was largely buoyed by gains in the mega-cap names, and highlighted by Tech and Communication two of the only sectors, as well as Health, in the green. Real Estate, Consumer Utilities, and Consumer Staples lagged as the latter was weighed on by weak General Mills guidance. For a change, Middle East updates cooled as the Israel/Iran ceasefire is seemingly holding, at least for now, although there have been some flare-ups between Iran-backed Houthis in Yemen and Israel. As such, WTI and Brent saw slight gains after two days of chunky losses. Trump in his NATO press conference said he would talk to Iran next week, may sign an agreement, and would ask for no nuclear, while he threatened to double tariffs on Spain over NATO spending. The Dollar was weaker as the haven-allure subsided, to the benefit of G10 FX (ex JPY, NOK). Treasuries were more-or-less flat in quiet trade despite an average US 5-year auction. There was a lack of tier 1 US data on Wednesday, ahead of a deluge of data on Thursday. Powell gave his second day of testimony, this time to the Senate, and largely echoed his comments from yesterday. Schmid and Collins, both 2025 voters, hit the wires and sit on the same side as Powell and the majority of FOMC committee members, continuing to leave Waller and Bowman as the dovish outliers in flaunting a July cut. Lastly, the Fed proposes changes to ease ESLR for large banks, but governors Barr, and Kugler are to oppose the proposed changes.

### US

**SCHMID (2025 voter)** said the central bank has time to study tariff effects on inflation before any rate decision and the resilience of the economy means the Fed has time to wait and see what happens before rate cuts. As such, Schmid joins the Powell approach, and numerous other Fed Committee members since the meeting (Hammack, Williams, Kashkari, Collins, Barr), continuing to leave Waller and Bowman as the dovish outliers.

**COLLINS (voter)** said monetary policy is well positioned and appropriate to lower rates later in the year, much depends on tariffs. Collins sees core PCE inflation above 3% by year-end due to tariffs, and expects to resume policy normalization later this year.

**NEW HOME SALES:** New home sales fell to 623k in May from 722k, beneath the expected 693k. Within the release, homes for sale in end-May were 9.8 months' worth (prev. 8.3). Oxford Economics notes that while builder incentives may prevent an even steeper decline in the headline, they see no real upside for sales in the months ahead given their forecast for mortgage rates to remain elevated and the labour market to soften. As such, OxEco says weak home sales in May and downward revisions to prior months underscore its outlook.

### FIXED INCOME

#### T-NOTE FUTURES (M5) SETTLED 1 TICK HIGHER AT 111-22

**T-Notes chop as Powell and Trump dominate the tape amid lack of US data.** At settlement, 2s -3.1bps at 3.910%, 3s -3.1bps at 3.862%, 5s -2.5bps at 3.964%, 7s -2.1bps at 4.156%, 10s -1.6bps at 4.379%, 20s -0.4bps at 4.904%, 30s -0.4bps at 4.892%

**INFLATION BREAKEVENS:** 5yr BEI +1.4bps at 2.379%, 10yr BEI +1.7bps at 2.330%, 30yr BEI +1.4bps at 2.302%.

**THE DAY:** T-Notes were rangebound overnight, and traded between c. 111-17+ and 111-21, before extending to session peaks of 111-24 in the European morning amid light headline newsflow. With the Iran/Israel ceasefire holding, for now, albeit with some concerns, market-moving news took a back seat with focus on Fed Chair Powell testifying to the Senate, following the House on Tuesday, and also US President Trump's NATO address. As US players entered for the day, T-Notes gradually sold off to hit lows of 111-11+, before then pared off the lows through the afternoon to match the earlier high, albeit with no clear driver. The solid 5yr auction provided a little momentum, as it showed above-average non-dealer buying, but ultimately Treasuries were little changed. Powell added little new and largely echoed his rhetoric on Tuesday, but did tout a press release on the SLR, which later came. Fed proposes changes to ease ESLR for large banks, but Governors Barr, Kugler to oppose proposed changes.

#### SUPPLY:

## Notes

### 5yr:

- US sold USD 70bln of 5yr Notes; tailed 0.5bps. The auction was okay, albeit with weaker demand highlighted by the tail of 0.5bps relative to the prior 0.4bps stop through and six-auction average of 0.5bps. Other components weren't as bad, with the B/C marginally declining to 2.36x from the prior and average 2.39x. The breakdown saw Direct demand almost double to 24.4% from 12.4%, now sitting above the average of 18.2%. Indirect demand fell to 65.7% from 78.4%, now below the average 70.5%, thus leaving Dealer demand slightly higher at 10.9% from 9.2%, but remaining below the 11.3% average.

### 2yr FRN:

- US sold USD 28bln 2yr FRN Note, with a High discount margin of 0.157%. The auction was notably poor, signalled by both the increase in the high discount margin to 0.157% from 0.144% and the Dealer take surging to 53.5% from 34.9%. The rise in Dealer take came via a drop in Direct demand to 0.9% (prev. 2%) and Indirect demand to 45.6% (prev. 63.1%). Additionally, B/C worsened to 2.79x from 2.95x.

### Bills:

US sold USD 63bln of 17-wk bills at a high rate of 4.195%, covered 3.13x.

### STIRS/OPERATIONS:

- **Market Implied Fed Rate Cut Pricing: July 6bps (prev. bps), September 28bps (prev. 25bps), Oct 44bps (prev. 41bps), Dec 63bps (prev. 60bps).**
- NY Fed RRP op demand at USD 211bln (prev. 187bln) across 35 counterparties (prev. 39)
- EFRR at 4.33% (prev. 4.33%), volumes at USD 115bln (prev. 115bln).
- SOFR at 4.30% (prev. 4.29%), volumes at USD 2.733tln (prev. 2.740tln).

## CRUDE

WTI (Q5) SETTLED USD 0.55 HIGHER AT USD 64.92/BBL; BRENT (Q5) SETTLED USD 0.54 HIGHER AT USD 67.68/BBL

The crude complex saw slight gains after two days of chunky losses as Middle East updates cooled. Overall, it was a lacklustre, albeit choppy, session for WTI and Brent, and they traded between USD 64.51-66.03/bbl and 67.32-68.78, respectively. Nonetheless, and making a change, geopolitical updates cooled in the past day, following the Iran-Israel ceasefire agreement, which is seemingly holding for the time being. However, it is worth noting that there have been some flare-ups between Iran-backed Houthis in Yemen and Israel – the latter intercepted a drone attack from Yemen, before it crossed into Israeli territory. Moreover, Trump in his NATO press conference said he will talk to Iran next week, may sign an agreement, and would ask for no nuclear. In energy newsflow, benchmarks saw a slight boost after crude, distillates, and gasoline all saw chunky draws, with the latter two even expecting slight builds. Lastly, in the M&A space, sources reported Shell is looking to acquire BP, but a spokesperson for the former swiftly came out and said that no talks are taking place.

## EQUITIES

CLOSES: SPX +0.00% at 6,092, NDX +0.21% at 22,238, DJI -0.25% at 42,982, RUT -1.16% at 2,136

SECTORS: Real Estate -2.46%, Consumer Staples -1.39%, Utilities -1.37%, Consumer Discretionary -1.13%, Industrials -0.93%, Materials -0.79%, Energy -0.43%, Financials -0.38%, Health +0.09%, Communication Services +0.51%, Technology +1.18%.

EUROPEAN CLOSES: DAX: -0.57 % at 23,508, FTSE 100: -0.46 % at 8,719, CAC 40: -0.76 % at 7,558, Euro Stoxx 50: -0.87 % at 5,251, AEX: -0.73 % at 918, IBEX 35: -1.54 % at 13,819, FTSE MIB: -0.39 % at 39,319, SMI: -1.06 % at 11,862, PSI: -0.77 % at 7,395.

### STOCK SPECIFICS:

- **Apple (AAPL):** Set to offer app store changes to avoid additional EU fines, according to Bloomberg. The move follows the EUR 500mln fine in April over digital law; EU Gave June 26th deadline to comply with DMA rules.
- **FedEx (FDX):** Q1 adj. EPS guidance below exp., citing tariff uncertainty & weak demand.
- **Tesla (TSLA):** EU sales fell 40.5% Y/Y to 8,729 vehicles in May.
- **General Mills (GIS):** Revenue light with weak FY adj. EPS growth.
- **Yum! Brands (YUM):** Upgraded at JPM to 'Overweight' from 'Neutral'.
- **BYD (BYDDY):** Cut vehicle production by at least one-third at four factories in China.
- Senator Hawley criticises **Tyson Foods (TSN)**, calling it a 'monopolist'.
- EU antitrust regulators to investigate Mars' USD 36bln **Kellanova (K)** deal. Kellanova now expects merger with Mars to close towards end of 2025; Kellanova and Mars remain optimistic that investigation will be positively resolved and antitrust approval from European Commission will be obtained.
- KDDI and **Hewlett Packard Enterprise (HPE)** to launch AI data centre by early 2026.

## FX

The Dollar Index saw a third consecutive day of losses with the buck weakening against most major peers. Major developments for the buck were light, with Fed's Powell testimony to the Senate largely reiterating his testimony towards the House. Powell called

interest rates slightly restrictive, after calling them modestly restrictive in front of the House, implying that said terms are interchangeable. Elsewhere, the Fed proposed changes to the ESLR for large banks as expected, albeit with the details were not and it is to face opposition from governors, Barr and Kugler. Also from the Fed, Schmid (2025 voter) and Collins (voter) hit the wires, remarking similar to Powell that the Fed is well-positioned and has time to assess the inflationary impact from tariffs before adjusting rates. On trade, Switzerland expects US tariffs to stay at 10% after July 9th, and reports suggest progress on trade deals made from the White House, including Japan, South Korea, and Vietnam.

**G10FX** largely strengthened against the buck with JPY and NOK weakening to varying degrees. Upside was led by the NZD, EUR, and GBP, while a softer-than-expected weighted CPI report likely capped upside in AUD/USD. Given the absence of European data, the focus in Europe was on the NATO summit, where Trump gave a press conference. Trump rebuked Spain for refusing to meet the NATO defence spending target of 5% of GDP, saying he will make them pay twice as much when commenting on a trade deal. Ultimately, EUR benefited from broad USD weakness and lower crude prices, putting EUR/USD at session highs of 1.1659 into the US evening, while NZD/USD now sits above its 21 DMA of 0.6012 and Cable hit fresh yearly highs of 1.3668 at pixel time.

**JPY** was the clear G10 laggard and erased some of its strength seen on Tuesday, as USD/JPY hit a peak of 145.94 against an earlier low of 144.62. Overnight, USD/JPY initially saw downside after hawkish remarks from BoJ board member Tamura – he noted if upward price risks heighten, the BoJ may face a situation where it needs to raise rates decisively even if uncertainty is high, and he also doesn't see 0.5% as a barrier for BoJ rate hikes. However, the strength seen in the Yen reversed through the US session as the pair currently hovers around 145.20.

**EMFX** was mixed against the Greenback. COP, MXN firmed, ZAR, Yuan, CLP were flat, while TRY, BRL weakened. BRL was one of the laggards, and came after the country posted a narrower-than-anticipated current account deficit in May, but the gap widened Y/Y as a shrinking trade surplus continued to weigh on the external balance. Out of CEE, CNB held rates at 3.5%, as expected, in a unanimous decision. On Thursday, Banxico is due, whereby the central bank is expected to cut by 50bps to 8%.

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