

## Stocks close at record highs despite Trump's Canada Trade Talk Termination

- **SNAPSHOT:** Equities up, Treasuries down, Crude flat/up, Dollar flat
- **REAR VIEW:** US-Canada trade talks collapse, Trump to announce tariff on Canada in next seven days; Trump says July 9th trade deal deadline date is not set; Core PCE hotter than expected, Headline as expected, while Personal Income falls for first time since September 2021; EU & US confident they will reach a tariff deal by July 9th; OPEC+ set to weigh another super-sized oil output increase; Bessent says US could have balance of its important trade deals done; Atlanta Fed GDPnow (Q2) revised down; Fed's Kashkari expects two rate cuts in 2025, possibly first cut in September; Senate to vote on Trump's bill on Saturday; Hotter-than-expected French & Spanish CPI; MSFT next-gen Maia AI chip reportedly delayed by at least 6 months.
- **COMING UP: Data:** Chinese NBS PMIs, German Import Prices, Retail Sales, UK GDP, German CPI, Italian CPI, US Chicago PMI. **Speakers:** ECB's de Guindos, Lagarde; Fed's Bostic, Goolsbee.
- **WEEK AHEAD:** Highlights include US NFP, ISMs, EZ CPI, Japanese Tankan, China PMIs and Swiss CPI. [Click here for the full report.](#)

## MARKET WRAP

Stocks pared from record highs seen during US trade as US President Trump terminated trade discussions with Canada over their Digital Services Tax on US tech. This saw stocks trim earlier gains, but still finished the Friday session in the green. Sectors were mixed, with Consumer Discretionary outperforming while Energy lagged. Upside in discretionary was led by Nike (NKE) after earnings and revenue guidance topped expectations, and signalled a plan to reduce exposure to China amid the trade tensions. Crude prices settled flat/up, but well off the earlier peaks on reports that OPEC+ are set to consider another 411k BPD in August, matching the production increase announced for July. Elsewhere, T-notes were choppy but ultimately bear steepened amid US data, the aforementioned trade update and OPEC+ sources, while attention turns to the Senate, who look set to vote on Trump's bill on Saturday. On US data, headline PCE numbers were in line, but the core metrics were slightly hotter than expected, bolstering the "wait-and-see" approach the majority of the Fed are taking, other than Governors Waller and Bowman. Fed's Kashkari spoke, he still sees two cuts this year, with the first possibly seen in September, but they could pause after the first cut if tariff effects appear later. The Final UoM saw little revisions to sentiment, while the 1yr and 5yr inflation expectations were revised down a touch. In FX, the CAD was a clear laggard given the Trump trade talk termination, while the Dollar was flat with weakness also seen in AUD, with marginal outperformance in the Euro. Attention next week lies on Canada's response to Trump, Trump's tariff figure to be announced on Canada, US NFP and ISM PMIs ahead of Independence Day.

## US

**PCE:** Core PCE rose by 0.2%, above the 0.1% forecast and accelerating from the prior 0.1%. Note, unrounded Core PCE rose by 0.1788% vs the prior 0.1159%. The Y/Y print rose to 2.7%, above the 2.6% forecast, while the prior was revised up to 2.6% from 2.5%. The headline numbers were in line, rising 0.1% M/M, matching the prior pace, with the Y/Y rising 2.3% Y/Y, accelerating from the upwardly revised 2.2% (initially 2.1%). The hotter-than-expected Core PCE print is worth watching as it is the Fed's preferred gauge of inflation, and it clearly is remaining sticky above the Fed's 2% target around these levels. There are concerns ahead that the impacts of tariffs will start to boost price pressures. Fed Chair Powell said they would expect to see meaningful tariff inflation effects in June, July, and August; If they don't see that, that would lead to cutting earlier. Some on the Fed, namely Governor Waller and Bowman, have suggested cutting rates as early as July. However, this view is not shared among others on the FOMC (at least from those whom we have heard from). However, given sticky inflation above the Fed's target, and no sign of a deteriorating labour market yet, the Fed will likely continue to argue for a wait-and-see approach, vs the dovish argument for acting now as tariffs are set to result in a one-time price increase and thus should be looked through. Meanwhile, WSJ's Timriaos highlights how goods prices are no longer helping and have started to contribute to inflation, as measured on a 12-month basis. Elsewhere in the report, Personal Income fell 0.4%, beneath the expected 0.3% rise, with prior revised down to 0.7% from 0.8%. Consumption (adj.) fell by 0.1%, beneath the +0.1% forecast. Real consumption fell by 0.3%, down from the prior 0.1% gain.

**UOM:** Final UoM for June saw sentiment little changed, moving slightly higher to 60.7 from 60.5, vs the consensus for an unchanged print. Expectations tilted slightly lower to 58.1 from 58.4, while conditions lifted to 64.8 from 63.7. Inflation expectations ticked lower across both time horizons, with the 1yr printing 5.0% (prev. 5.1%) and the 5yr 4.0% (prev. 4.1%). Within the report, it notes consumer views are still broadly consistent with an economic slowdown and an increase in inflation to come. Consumers continue to be concerned about the potential impact of tariffs, but at this time they do not appear to be connecting developments in the Middle East with the economy.

**KASHKARI (2026 voter)** continues to expect two rate cuts in 2025, with possible first cut in September, and if the Fed cuts in September and tariff effect shows up later, the Fed could pause rate cuts. The Minneapolis President added official data so far reveals only modest impact of tariffs on prices, activity and labour market, and more time is needed to determine if effects of trade war are delayed, or if it will be smaller than thought. Kashkari added that emphasis must be on actual inflation and real economic data without committing to an easier policy path in case tariff effects are delayed. Overall, and while Kashkari has already spoken this week, he continued to toe a very similar line to Chair Powell and the wider majority of Committee members, continuing to leave

Waller and Bowman as the dovish outliers, who have been touting a July reduction.

## FIXED INCOME

### T-NOTE FUTURES (U5) SETTLES 6+ TICKS LOWER AT 111-26

T-notes chop to US data and trade escalation as Senate looks to vote on Trump's bill this weekend.

**THE DAY:** T-notes saw choppy trade in a tight range on Friday, with the curve ultimately bear steepening. T-notes sold off in the European morning before hitting a low in wake of the US PCE data. The data saw Core metrics hotter than expected, which saw T-notes ultimately hit a low of 111-22+. However, T-notes then started to pare with some chop seen in wake of the Final UoM survey for June, which saw little revision to the headline sentiment, but the 1 and 5-year inflation expectations eased. T-notes went on to hit a peak of 112-02 before paring in late US trade back to the earlier lows. Downside followed US-Canada trade escalation after Trump announced that he is terminating trade discussions with Canada due to their Digital Services Tax on US tech co.'s. This sparked risk off in equities, with Treasuries selling modestly after into settlement, perhaps on the inflationary narrative associated with increased US tariffs on Canada. Meanwhile, the Senate is reportedly looking to vote on Trump's bill on Saturday, while officials remain optimistic it can be on Trump's desk by Independence Day.

### SUPPLY

#### Bills

- US to sell USD 71bln (prev. 68bln) of 26-week bills and USD 79bln (prev. 76bln) of 13-week bills on June 30th; and USD 50bln (prev. 55bln) of 6-week bills on July 1st; all to settle July 3rd.

### STIRS/OPERATIONS:

- **Market Implied Fed Rate Cut Pricing: July 5bps (prev. 5bps), September 28bps (prev. 30bps), Oct 45bps (prev. 46bps), Dec 65bps (prev. 66bps).**
- NY Fed RRP op demand at USD 252bln (prev. 211bln) across 41 counterparties (prev. 38)
- EFR at 4.33% (prev. 4.33%), volumes at USD 124bln (prev. 128bln).
- SOFR at 4.40% (prev. 4.36%), volumes at USD 2.802tln (prev. 2.772tln).

## CRUDE

### WTI (Q5) SETTLED USD 0.28 HIGHER AT 65.52/BBL; BRENT (U5) SETTLED USD 0.11 HIGHER AT 66.80/BBL

The crude complex ended the day slightly up but the week with chunky losses, Friday's focus was almost solely on OPEC+ sources and trade updates. Through the European session and US morning oil was rangebound, highlighted by the high-to-low being less than a USD 1. However, WTI and Brent plunged to lows of USD 64.80/bbl and 66.12/bbl, respectively, as Bloomberg sources reported that OPEC+ is set to weigh another super-sized oil output increase. Note, this would follow the 411k BPD production increase agreed at the last meeting for July. The OPEC+ source reports took oil prices into the red however a post on Truth from US President Trump announcing he is terminating trade talks with Canada, took Crude back into the green. Elsewhere, US data saw little reaction despite slightly hotter than expected Core PCE, while Middle Eastern updates were slim, but Trump warned he would be willing to bomb Iran again if they were to continue enrichment. In the weekly Baker Hughes rig count saw gas and oil rigs cut for the ninth consecutive week, oil -6 at 432, nat gas -2 at 109, with the the total -7 at 547.

## EQUITIES

**CLOSES:** SPX +0.52% at 6,173, NDX +0.39% at 22,534, DJI +1.00% at 43,819, RUT +0.02% at 2,173

**SECTORS:** Consumer Discretionary +1.78%, Communication Services +1.55%, Industrials +1.01%, Consumer Staples +0.62%, Real Estate +0.44%, Financials +0.33%, Utilities +0.26%, Technology +0.10%, Materials +0.02%, Health -0.16%, Energy -0.50%.

**EUROPEAN CLOSES:** DAX: +1.78 % at 24,050, FTSE 100: +0.73 % at 8,799, CAC 40: +1.78 % at 7,692, Euro Stoxx 50: +1.62 % at 5,329, AEX: +1.04 % at 920, IBEX 35: +1.05 % at 13,966, FTSE MIB: +0.97 % at 39,732, SMI: +0.75 % at 11,974, PSI: +1.24 % at 7,524.

### STOCK SPECIFICS:

- **Nike (NKE)** results signalled sales slump is bottoming out and CEO's turnaround strategy gained investor support following an upbeat earnings call.
- **Concentrix (CNXC)** missed on adj. EBITDA and profit, with next quarter adj. operating income and EPS midpoint guidance disappointing.
- **Toyota Motor (TM)** global sales hit a third consecutive monthly record driven by strong hybrid demand in the US, Japan, and China.
- **Estee Lauder (EL)** was upgraded at HSBC to 'Buy' from 'Hold'.
- **Blackstone (BX)** acquired another USD 2bln in CRE loans from Atlantic Union.
- **UnitedHealth (UNH)** appointed a new CEO to run health services division, Optum Health.
- **Microsoft's (MSFT)** next-generation Maia AI chip has reportedly been delayed to 2026 from 2025, according to The Information.
- **Meta (META)** seeks USD 29bln from private credit giants to fund AI data centres, FT reports; Meta is hoping to raise USD 3bln of equity from them and then a further USD 26bln of debt. Elsewhere, EU mulls actions against the co.

## FX

**The Dollar Index** snapped its four-day losing streak as US President Trump's resumed tariff threat on Canada sparked FX risk off. The main update was via Truth Social, where Trump announced the termination of trade talks with Canada, effective immediately, citing Canada's announced Digital Services Tax on US tech companies. Additionally, Trump put Canada in the basket of difficult traders with the EU, adding, they will let Canada know the size of the tariff they will impose on them in the next seven days. FX was generally risk off, with higher-beta FX losing ground, while the EUR outperformed in its typical response to headlines surrounding Trump-related tariff announcements. Separately, the PCE report for May showcased stickier-than-expected Core inflation, as expected headline inflation, and an unexpected weakening in personal income. Downside was seen at the time in the Dollar before paring shortly thereafter. Following May's PCE and a series of US data on Thursday, Atlanta Fed GDPnow (Q2) was revised down to 2.9% from 3.4%

**G10 FX** was entirely flat or in the red vs the greenback. EUR initially was firmer in the aftermath of recent reports that the EU is considering lowering tariffs on US imports, aiming to win US President Trump's favour. Bloomberg reported the EU and US are confident they will reach a deal by the July 9th deadline. Data out of Europe saw French and Spanish Prelim CPI hotter than expected, resulting in pressure on Bunds at the time. As mentioned, EUR relatively outperformed, alongside the CHF, with EUR/USD at ~ 1.1700 and USD/CHF at ~ 0.8000 into the weekend.

**CAD** was the G10FX underperformer, immediately weakening from Trump's revived discord against Canada and their approach to trade with the US. In the short time that followed, USD/CAD rose to 1.3759 from 1.3681. Over the weekend, the main focus for USD/CAD will be on Canada's response and the tariff figure that Trump has in mind to impose on Canada. Carney has since said he will act in the best interests of Canadians.

**EMFX:** In China, the PBoC committee held its Q2 meeting, noting it will enhance interest rate guidance, and that it is attentive to changes in the long-term within the bond market, and is to keep the Yuan basically stable, at a balanced and reasonable level; USD/CNH finished the day modestly firmer. The Colombian central bank held rates at 9.25% as expected, backed by a majority of seven board members. Elsewhere, the calendar was generally thin for EM's with trade in the US afternoon dictated by Trump's trade announcement on Canada, resulting in EM risk off. CLP, COP TRY led EM weakness while HUF, PLN, and CZK saw relative outperformance.

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