

### Tech lags, while T-Notes flatten as strong JOLTS report & the Senate passing OBBB take the headlines

- **SNAPSHOT:** Equities mixed, Treasuries down, Crude up, Dollar flat
- **REAR VIEW:** US Senate passes Trump's OBBB, now goes to House; JOLTS jump to highest level since November 2024; ISM mfg. PMI tops expectations, but employment falls & prices paid rises; Trump floats 30% or 35% tariffs on Japan; EU reportedly seeks immediate relief from tariffs in key sectors as part of any trade deal with the US; Atlanta Fed GDPnow (Q2) revised lower; Powell doesn't rule out anything for the July meeting; Mixed mfg. PMIs out of Europe; In line EZ flash inflation; AZN CEO reportedly prefers a move to a US listing from the FTSE 100.
- **COMING UP:** **Data:** Australian Retail Sales, EU & Italian Unemployment Rate, US Challenger Layoffs, ADP National Employment, Canadian Manufacturing PMI. **Events:** NBP Policy Announcement. **Speakers:** ECB's de Guindos, Cipollone, Lane, Lagarde, BoE's Taylor. **Supply:** Australia, UK, Germany.

### MARKET WRAP

US indices were mixed on Tuesday as the tech-heavy NDX led the losses, with Technology and Communication Services the only sectors in the red amid weakness in mega-cap names. Meanwhile, the Russell 2000 and Dow Jones both saw gains in excess of a percent with a notable divergence between the US major indices. On the day, JOLTS was a very solid report and even above the top analyst forecast, while at the same time, the ISM Mfg. PMI saw a slight beat. Within ISM, it remained in contractionary territory, with prices remaining elevated, but employment slipping further into contractionary territory, beneath all analyst forecasts. Nonetheless, the focus was largely on the JOLTS report, as it shows that the labour market is not yet at a point of concern and that the Fed can hold for longer to ensure inflation returns to target. Elsewhere, a brief dovish reaction was seen as Fed Chair Powell spoke at Sintra and seemingly refused to rule out a cut in July, but it appeared he was simply avoiding the question as he did not want to pre-commit ahead of the next meeting. In Washington, Trump's bill passed the Senate, albeit with VP Vance casting the tie-breaking vote, given it was a 50-50 vote, and it will now be sent to the House Rules Committee before the House Floor. Elsewhere, the Dollar was ultimately flat in choppy trade as safe-haven FX outperformed and CAD lagged. T-Notes flattened after a strong aforementioned JOLTS report, while WTI and Brent saw slight gains, albeit in choppy trade, in light crude-specific newsflow, as participants await private inventory data after-hours. Looking ahead, Tesla (TSLA) Q2 delivery numbers are due on Wednesday, as well as ADP, followed by US jobs report and ISM Svs. PMI on Thursday given US Independence Day on Friday.

### US

**JOLTS:** The JOLTS for May jumped to 7.769mln from 7.395mln, above the expected 7.3mln and exceeded the top end of the forecast range of 7.50mln. Within the release, the Quits Rate rose to 2.1% from 2.0%, while the Vacancy Rate rose to 4.6% from 4.4%. Oxford Economics highlights that job openings rose, although the increase was narrowly based and hiring remains depressed, but that is less worrisome because layoffs remain low for now. On the internals, the Quits rate ticked higher, but it is still relatively low, highlighting that workers with jobs are more likely to stay put. OxEco adds, while the Fed is giving more weight to inflation in setting policy as it monitors the impact of tariffs, the Quits rate signals that wage growth is not a source of inflationary pressure. Overall, Oxford quips there was nothing in the JOLTS report to shift the Fed out of its wait-and-see mode, and thus expects the first rate cut in December, but the risk is growing that cut grows to 50bps.

**ISM MFG PMI:** The ISM Manufacturing PMI for June rose to 49.0 (exp. 48.8, prev. 48.5), albeit remaining in contractionary territory. Prices paid unexpectedly lifted to 69.7 (exp. 69.0, prev. 69.4), while New Orders and Employment fell to 46.4 (prev. 47.6) and 45.0 (exp. 47.0, prev. 46.8), respectively. Production lifted back into expansionary territory, while Inventories, New Export Orders, and Imports all rose but remained sub-50. Within the respondents' comments, tariffs remained front and centre and continued to highlight the uncertainty for businesses. Recapping a few, 1) "Business has notably slowed in last four to six weeks. Customers do not want to make commitments in the wake of massive tariff uncertainty." 2) "The tariff mess has utterly stopped sales globally and domestically. Everyone is on pause. Orders have collapsed." 3) "Tariffs continue to cause confusion and uncertainty for long-term procurement decisions. The situation remains too volatile to firmly put such plans into place." 4) "The word that best describes the current market outlook is 'uncertainty.' The erratic trade policy with on-again/off-again tariffs has led to price uncertainty for customers". Nonetheless, and looking to the US jobs report on Thursday (a day earlier due to US Independence Day), due to the Employment sub-index declining, Oxford Economics says it supports their expectations for manufacturing employment to record another decline in the June employment report due out Thursday.

**FED CHAIR POWELL** in a panel discussion at Sintra with BoJ's Ueda, BoE's Bailey, ECB's Lagarde, and BoK's Rhee, refused to rule out anything in regards to the July meeting, and said he can't say if July is too soon to cut rates, and wouldn't take any meeting off the table and repeated the data dependant approach. The Chair added US economy is in a pretty good position, and inflation has come down close to target, and the economy is healthy overall. On tariffs, note they've not seen any effect yet, but expect higher readings over the summer. Ahead, Powell noted a solid majority of FOMC participants think it will be appropriate to reduce rates later this year, something we have seen from most committee members, while Waller and Bowman remain the dovish outliers and have opened the door for a July reduction. Moreover, Powell echoed that rates are modestly restrictive at this level.

## FIXED INCOME

### T-NOTE FUTURES (U5) SETTLED 8+ TICKS LOWER AT 111-27+

**T-Notes flatten after a strong JOLTS report.** At settlement, 2-year +5.3bps at 3.775%, 3-year +5.6bps at 3.743%, 5-year +4.3bps at 3.837%, 7-year +3.5bps at 4.022%, 10-year +2.3bps at 4.250%, 20-year +0.8bps at 4.782%, 30-year +0.4bps at 4.779%.

**INFLATION BREAKEVENS:** 1-year BEI +0.1bps at 2.539%, 3-year BEI +2.3bps at 2.406%, 5-year BEI +1.8bps at 2.330%, 10-year BEI +0.9bps at 2.283%, 30-year BEI +0.2bps at 2.265%.

**THE DAY:** T-Notes saw two-way price action on Tuesday, grinding higher overnight and in the European morning to peak at 112-12+. T-Notes started selling off as the European session progressed, but some short-lived reprieve was seen when Fed Chair Powell refused to rule out a cut in July, which helped T-Notes hold above 112-00. However, it appeared he was simply avoiding the question as he did not want to pre-commit just four weeks before the next meeting. The upside sparked by the comments quickly faded, and more in the wake of the US JOLTS. JOLTS rose to 7.769mln from 7.395mln, well above the forecast 7.300mln and even above the top analyst forecast of 7.50mln. At the same time, the ISM Manufacturing PMI was released, which saw a slight beat, but it remained in contractionary territory, while prices remained elevated, but employment slipped further into contractionary territory, beneath all analyst forecasts. Nonetheless, the focus was largely on the JOLTS report, as it shows that the labour market is not yet at a point of concern and that the Fed can hold for longer to ensure inflation returns to target. T-Notes saw one-way trade lower to bottom out at 111-22+ before paring slightly into settlement. Attention on Wednesday lies on US Challenger Layoffs and ADP data before the NFP report on Thursday, as well as the ISM Services PMI before Independence Day on Friday. Note, regarding Trump's bill, the Senate passed the bill with VP Vance casting the tie-breaking vote, given it was a 50-50 vote. The bill will now be sent to the House Rules Committee before the House Floor, although Politico highlights that the Senate's Medicaid provider tax crackdown, which many House Republicans hate, is still in the latest version of the Senate bill.

### SUPPLY

#### Bills

- US sold USD 50bln of 6-week bills at a high rate of 4.340%, B/C 2.97xUS to sell USD 65bln (prev. 63bln) of 17-wk bills on July 2nd; USD 55bln (prev. 60bln) of 4-wk bills, USD 45bln (prev. 50bln) of 8-wk bills and USD 60bln (prev. 60bln) of 77-day CMBs on July 3rd; all to settle July 8th

#### STIRS/OPERATIONS:

- **Market Implied Fed Rate Cut Pricing: July 5bps (prev. 5bps), September 28bps (prev. 28bps), Oct 44bps (prev. 46bps), Dec 65bps (prev. 67bps).**
- NY Fed RRP op demand at USD 246bln (prev. 461bln) across 38 counterparties (prev. 62)
- EFR at 4.33% (prev. 4.33%), volumes at USD 79bln (prev. 122bln).
- SOFR at 4.45% (prev. 4.39%), volumes at USD 2.946tln (prev. 2.775tln).

## CRUDE

### WTI (Q5) SETTLED USD 0.34 HIGHER AT 65.45/BBL; BRENT (U5) SETTLED USD 0.37 HIGHER AT USD 67.11/BBL

**The crude complex saw slight gains, albeit in choppy trade, in light crude-specific newsflow, as broader risk sentiment likely supported.** Middle Eastern headlines arguably added a layer of support, as Iran stated there's no timeline for US negotiations, and Sky News Arabia reported that no breakthrough had been made in Gaza talks, with Israel considering increased pressure on Hamas. Elsewhere, US President Trump, on SPR, said they will fill it up when the market is right. As mentioned, energy headlines were sparse on Tuesday and as such attention turns to private inventory data after-hours (expectations below), before US jobs report on Thursday (a day early due to US Independence Day on Fri), and the OPEC+ meeting this weekend, where the group is expected to confirm a 411k BPD output increase. Private inventory expectations (bbls): Crude -1.8mln, Distillate -1.0mln, Gasoline -0.2mln. For the record, WTI traded between USD 64.67-65.98/bbl and Brent between USD 66.34-67.50/bbl.

## EQUITIES

**CLOSES:** SPX -0.11% at 6,198, NDX -0.89% at 22,478, DJI +0.91% at 44,495, RUT +0.94% at 2,195

**SECTORS:** Materials +2.28%, Health +1.39%, Energy +0.80%, Consumer Staples +0.76%, Real Estate +0.58%, Financials +0.54%, Utilities +0.34%, Industrials +0.30%, Consumer Discretionary +0.18%, Technology -1.13%, Communication Services -1.19%.

**EUROPEAN CLOSES:** DAX: -0.80 % at 23,717, FTSE 100: +0.28 % at 8,785, CAC 40: -0.04 % at 7,663, Euro Stoxx 50: -0.47 % at 5,279, AEX: -0.45 % at 909, IBEX 35: -0.03 % at 13,987, FTSE MIB: -0.58 % at 39,561, SMI: +0.22 % at 11,947, PSI: +1.85 % at 7,594.

- **Boeing (BA):** Appointed former **Lockheed Martin (LMT)** CFO Jay Malave as CFO, effective August 15th, replacing Brian West, who will stay on as adviser.
- **Tesla (TSLA):** Trump criticised EV mandates, stating that CEO Musk knew he opposed forcing electric car ownership despite supporting EVs. Elon Musk is upset he lost the EV mandate, but 'he could lose a lot more than that', Trump said. Meanwhile, Tesla's new car registrations in Italy fell 66.01% Y/Y in June
- **Packaging Corporation of America (PKG)** announced an agreement to purchase **Greif's (GEF)** Containerboard business for USD 1.8bln.
- **Hasbro (HAS):** Upgraded at Goldman to 'Buy' from 'Neutral'.
- **Broadcom (AVGO):** CEO sold 40k shares.

- **HP Enterprise (HPE):** Exec VP sold 30k shares at USD 20.5391/shr.
- **Apple (AAPL):** Analyst Ming-Chi Kuo says Apple is expected to enter mass production for a more affordable MacBook. Production is expected in late Q4 2025 or early Q1 2026.
- **AstraZeneca (AZN LN):** CEO Soriot has reportedly spoken privately of a preference to move the FTSE 100 listing to the US, via The Times citing sources; report adds he would likely face resistance from the board and UK government. Soriot is frustrated with restrictions on medicines by Nice and NHS rebate pricing.

## FX

**The Dollar Index** was ultimately little changed on Tuesday as risk sentiment chopped throughout the day. US data, Fed Chair Powell, and updates out of Capitol Hill were the highlights. The former had more influence over USD moves, with a better-than-expected JOLTS May reading helping the DXY's rebound off lows. Keeping on data, ISM Mfg. PMI topped expectations, S&P Global Mfg PMI was revised higher, while Construction Spending fell more than expected. Ultimately, the data resulted in a downward revision to Atlanta Fed's GDPnow (Q2) to 2.5% from 2.9%. On the Fed, Chair Powell's tone was in fitting with his testimonies to the House and Senate, namely, keeping an open mind into the July meeting, and said they went on hold when they saw the size of the tariffs. Trade updates were brought by Trump in the US afternoon, in which the President suggested Japan could pay 30 or 35% tariffs, after casting doubt over reaching a deal with Japan. The remarks sparked a modest risk-off reaction, with JPY seeing modest gains against USD.

**G10FX** was mixed following the appearances of Powell, BoJ's Ueda, BoE's Bailey, and ECB's Lagarde. Overall, the event rehashed familiar themes remarked by the central bank figures, leaving FX moves lacklustre through the event. From the BoJ, Ueda said the current rate (0.5%) is below neutral, while ECB Lagarde had no comment on the recent appreciation in the Euro, but highlighted that the FX rate is a reflection of the strength of their economy. Meanwhile, BoE's Bailey said it's too soon to see the effects of tariffs on prices, a prospect Powell expects to see over the summer in the US. The day ended with modest downside in EUR/USD to 1.1788, little change in Cable at 1.3739, and downside in USD/JPY to 143.60.

In Europe, Manufacturing PMIs were mixed; the eurozone, Switzerland, France, and Spain beat, while Italy missed, and Germany and the UK were in line; little reaction was seen across markets. Concerning inflation, the eurozone HICP (Jun) met the 2.0% and 2.4% expectations for the headline and core readings Y/Y, respectively. Other ECB members were more willing to weigh in on recent FX moves than President Lagarde, with VP de Guindos noting the speed of the FX move is more concerning than the actual level, and EUR/USD at 1.17 is perfectly acceptable, even 1.20 could be overlook, and any more would be "complicated".

Havens relatively outperformed major peers amid a cautious risk tone at times across markets on the day, with JPY also helped by a mostly stronger-than-expected BoJ Tankan survey overnight. From the SNB, Zanetti, similar to Schlegel, maintains the SNB view that negative rates are an option.

**EMFX:** Manufacturing PMI out of China was revised higher in June to 50.4, above the expected 49.0 (prev. 49.3), with the fastest pace of increase in output helping the prints rebound into expansionary territory; USD/CNH sits moderately higher at pixel time. Separately, Brazil's solicitor general said the government will file a lawsuit with the Supreme Court challenging Congress's move to overturn the IOF tax hike.

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