

### Trump trade letters spark risk-off trade

- **SNAPSHOT:** Equities down, Treasuries down, Crude up, Dollar up
- **REAR VIEW:** Trump delivers trade letters to 7 countries with new tariff levels & range from 25-40%; Awaiting more Trump tariff letters; Trump threatens additional 10% tariff on countries who align with BRICS anti-American policies; Bessent said if no trade deal is reached with partners who have received letters, they will revert to April 2nd tariffs, effective August 1st; OPEC+ hikes output more than expected; OPEC+ reportedly likely to approve another output increase of around 550k BPD in September; TSLA CEO Musk announces new US political party, weighing on stock.
- **COMING UP: Data:** German Trade, US NY Fed SCE, NFIB Business Optimism. **Events:** RBA Cash Rate, EIA STEO. **Speakers:** RBA's Bullock, ECB's Nagel, de Guindos. **Supply:** Japan, Netherlands, UK, Germany, US.
- **WEEK AHEAD:** Highlights include Trump trade deadlines, FOMC Minutes, OPEC+, RBA, RBNZ, UK GDP and Canada jobs. [Click here for the full report.](#)
- **CENTRAL BANK WEEKLY:** Previewing FOMC Minutes, RBA, RBNZ, and BoK. [Click here for the full report.](#)

### MARKET WRAP

US stocks finished the day in a sea of red (SPX -0.8%, NDX -0.8%, RUT -1.6%) amid the continued trade tensions with the US and its trading partners. As it stands, the trade uncertainty is to remain, with US President Trump to sign an EO to extend the July 9th trade deadline to August 1st. US Treasury Secretary Bessent said if no trade deal is reached with partners who have received letters, they will revert to April 2nd tariffs, effective August 1st. Currently, it's known that the US has sent trade letters to Japan, South Korea, Kazakhstan, Laos, South African, Malaysia, and Myanmar, with tariffs levels on said countries ranging from 25-40%, albeit the tariff levels on the countries announced are pretty much less than or equal to the tariffs announced on "Liberation Day". Similar to Vietnam, the US is to impose tariffs on transhipped goods from said Asian countries while responding to any higher tariff retaliation measure with an additional tariff equal to what was announced today. Meanwhile, Trump threatened that countries that align with the anti-American policies of BRICS will be charged with an additional 10% tariff. Sectors closed mostly in the red, with losses led in Consumer Discretionary, Energy, and Materials, while Utilities solely outperformed in the green. Weighing on Discretionary was downside in Tesla (TSLA, -6.8%) after Musk maintained his stance against Trump, after launching the "America Party". Following the trade announcements via Trump on Truth Social, immediate risk-off was seen across equities, with the Dollar and Treasuries gaining. The T-Note upside proved short-lived, with the downtrend in the curve remaining while Dollar strength held. In crude, prices rallied higher as the higher-than-expected Saudi OSPs increase outweighed the larger-than-expected OPEC+ hike over the weekend, and Reuters sources report that a likely similar output hike is seen in September.

### FIXED INCOME

#### T-NOTE FUTURES (U5) SETTLED 9+ TICKS LOWER AT 110-29+

**T-Notes steepen ahead of supply, Trump trade letters and FOMC Minutes this week.** At settlement, 2-year +2.1bps at 3.903%, 3-year +2.3bps at 3.863%, 5-year +3.2bps at 3.966%, 7-year +4.6bps at 4.165%, 10-year +5.5bps at 4.395%, 20-year +7.1bps at 4.932%, 30-year +7.6bps at 4.932%.

**INFLATION BREAKEVENS:** 1-year BEI +9.0bps at 2.707%, 3-year BEI +3.8bps at 2.509%, 5-year BEI +3.2bps at 2.420%, 10-year BEI +2.4bps at 2.349%, 30-year BEI +2.0bps at 2.309%.

**THE DAY:** T-Notes sold off throughout the session ahead of supply this week but also ahead of Trump's July 9th tariff deadline, with the President sending out letters today. T-Notes hit intraday lows of 110-30 before Trump revealed the letters sent to Japan and South Korea. Both nations are subject to 25% tariff rates and also tariffs on transhipping. The announcement sparked risk-off trade and saw T-Notes pick up from the lows with focus on any more tariff announcements due later in the week. It is worth noting that both of these tariffs are very similar to the April 2nd Liberation day tariffs (Japan 24%, South Korea 25%), which will take effect from August 1st. Slightly later, Trump also revealed the letters sent to Malaysia (25% vs. Liberation Day 24%), Kazakhstan (25% vs. prev. 27%), South Africa (30% vs. prev. 30%), Laos (40% vs. prev. 48%), and Myanmar (40%, vs. prev. 44%). Note, little reaction was seen in Treasuries but did slide to lows into settlement

Elsewhere, Trump took aim at the BRICS, noting any country that sides with them will face an extra 10% tariff. Meanwhile, Reuters sources reported that the EU will not be receiving a letter from the President and White House Press Secretary Leavitt said Trump will sign an EO later today, delaying the tariff deadline to August 1st from July 9th. There was no Fed speak or key data to digest on Monday, with focus remaining on trade, supply and also the FOMC Minutes on Wednesday. Note, a NY- and SF-Fed paper was released, titled "The Zero Lower Bound Remains a Medium-Term Risk", with NY Fed President Williams a co-author of the paper, and concludes "Compared with the past decade, current data show that expected levels of future interest rates are high. Nevertheless, ZLB risk remains significant over the medium to long term, similar to levels observed in 2018, due to recent elevated uncertainty."

#### SUPPLY

#### Notes

- US to sell USD 58bln 3yr notes on July 8th, to settle on July 10th; to sell USD 39bln 10yr notes on July 9th, to settle on July 15th; to sell USD 22bln 30yr notes on July 10th, to settle on July 15th.

## Bills

- Note, the bill auction was delayed with the competitive closing time pushed back to 19:30BST/14:30EDT due to an earlier technical issue.
- US sold USD 87bln of 3-mnth bills at 4.255%, covered 2.75x.
- US sold USD 77bln of 6-mnth bills at 4.145%, covered 3.00x.
- US to sell USD 50bln of 52wk bills (prev. 48bln) and USD 50bln of 6wk bills on July 8th (unch.); to settle on July 10th

## STIRS/OPERATIONS:

- **Market Implied Fed Rate Cut Pricing: July 1bp (prev. 1bp), September 17bps (prev. 18bps), Oct 32bps (prev. 34bps), Dec 50bps (prev. 51bps).**
- NY Fed RRP Op demand at USD 218bln (prev. 215bln on July 3rd) across 37 counterparties (prev. 37)
- EFR at 4.33% (prev. 4.33%), volumes at USD 129bln (prev. 129bln) on July 3rd.
- SOFR at 4.35% (prev. 4.40%), volumes at USD 2.846tln (prev. 2.882tln) on July 3rd.

## CRUDE

**WTI (Q5) SETTLED USD 0.93 HIGHER AT 67.93/BBL; BRENT (U5) SETTLED USD 1.28 AT 69.58/BBL**

The crude complex was firmer to start the week, despite the bearish OPEC+ news, as Saudi OSPs and tariff updates supported. WTI and Brent began the week on the back foot and hit early lows of USD 65.40/bbl and 67.22, respectively, after the weekend's OPEC+ 8 agreement to increase supply in August by 548k BPD, against the 411k addition in July. In wake of that, benchmarks picked up, paring the initial losses, and largely due to the higher-than-expected Saudi OSPs. Note, the energy space saw a quick bout of weakness, albeit swiftly pared, on a Reuters source report that OPEC+ will "likely" approve another c. 550k BPD move in September. Later on in the US afternoon, WTI and Brent saw strength after US President Trump announced the tariff rate on Japan and South Korea. There on out, WTI and Brent rose, and settled at fresh session highs, as Trump announced further tariff rates, this time on South Africa, Kazakhstan, Laos, Malaysia, and Myanmar.

## EQUITIES

**CLOSES:** SPX -0.79% at 6,230, NDX -0.79% at 22,686, DJI -0.94% at 44,406, RUT -1.55% at 2,214

**SECTORS:** Consumer Discretionary -1.26%, Materials -1.04%, Energy -1.00%, Financials -0.95%, Health -0.87%, Communication Services -0.89%, Real Estate -0.81%, Technology -0.81%, Industrials -0.34%, Utilities +0.17%, Consumer Staples +0.11%.

**EUROPEAN CLOSES:** Euro Stoxx 50 +1.03% at 5,343, Dax 40 +1.06% at 24,041, FTSE 100 -0.19% at 8,807, CAC 40 +0.35% at 7,723, FTSE MIB +0.74% at 39,914, IBEX 35 +0.62% at 14,059, PSI -0.57% at 7,733, SMI -0.17% at 11,953, AEX +0.61% at 914

## STOCK SPECIFICS:

- **Tesla (TSLA)** CEO Musk announced the formation of the "America Party" and Trump responded, calling him a 'train wreck'.
- **Apple (AAPL)** iPhone China shipments fall 9.7% Y/Y in May.
- **CrowdStrike (CRWD)** downgraded at Piper Sandler to 'Neutral' from 'Overweight'.
- Trump's tax and spending bill was approved, which will add billions for immigrant detention centres. Of note for The GEO Group (GEO) and CoreCivic (CXW)
- **Shell (SHEL)** said weak oil and gas trade hit Q2 profit.
- **CoreWeave (CRWV)** to buy **Core Scientific (CORZ)** and deal represents USD 20.40/shr value.
- **AbbVie (ABBV)** reports USD 823mIn IPR&D and milestones expense; impacts Q2 GAAP and non-GAAP EPS by USD 0.42.
- **Nike (NKE)** will likely raise prices more than planned following the US-Vietnam trade deal.
- **Capgemini (CGEMY)** has agreed to buy **WNS (WNS)** for USD 3.3bln (USD 76.50/shr) in cash.
- **Molina Healthcare (MOH)** weak prelim Q2 results, and FY outlook as expects medical cost pressures to continue into H2 of the year.
- **Netflix (NFLX)** downgraded at Seaport Research to 'Neutral' from 'Buy'.

## FX

The Dollar strengthened to start a week lacking US data. Trade dominated headlines and market moves with US President Trump's trade letters to countries, an ongoing situation. So far, letters have been sent to Japan, South Korea, Kazakhstan, Myanmar, Malaysia, Laos, and South Africa, with tariff levels ranging from 25% to 40%. The key differences in the trade letters when compared to "Liberation Day", are the emerging theme of discontent from the US administration on transhipped goods, threatening countries that evade a higher tariff via transhipped goods with that higher tariff. Moreover, Trump is now threatening countries that retaliate with higher tariffs with additional tariffs whose size is determined by the tariff level they received today. The announcement from Trump resulted in broad-based strength in the USD, despite the typical dollar weakness seen following trade escalations from Trump. Additionally, and perhaps offering USD support before trade letters were sent, Trump threatened that any country that allies itself with the anti-American policies of BRICS will be charged an additional 10% tariff. Trade is to be the subject of focus for the remainder of the week, given the lack of tier 1 releases in the US with attention now on the countries' responses to the US trade letters.

**G10 FX-ex SEK** was in the red against USD, with JPY, AUD, and NZD underperforming, while SEK outperformed with gains following a hotter-than-expected flash CPIF report for June. Aside from Sweden, Eurozone retail sales dropped in May, while softer-than-expected wage data in Japan weighed on expectations for a rate hike in 2025. Currently, BoJ money market pricing has ~48% chance of a 25bps hike by year-end. For EUR/USD ING lean towards a consolidation in a 1.1700-1.1830 range this week, "although again we would avoid trying to pick a top in EUR/USD".

**EMFX:** In Israel, the central bank kept interest rates as expected at 4.5%; USD/ILS saw short-lived downside given the strong USD environment. The Bank of Israel Governor hopes to lower the interest rate three times in the next year to reach a level of 3.75%. On Brazil, Trump sparked weakness in BRL after condemning Brazil's treatment of their former President Bolsonaro. Following Trump's tariff letters to Asian countries, varied reactions were seen; USD/KRW and USD/ZAR gained, while USD/KZT and USD/LAK were little changed. In CEE on Tuesday, ING expect a slight increase in Hungarian inflation from 4.4% to 4.5% year-on-year with 0.1% month-on-month, in line with the market and the NBH's expectations. "Core inflation should fall again from 4.8% to 4.4%".

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