

Stocks and T-notes bid as eyes remain on Trump Trade Tariffs

- **SNAPSHOT:** Equities up, Treasuries up, Crude flat, Dollar flat
- **REAR VIEW:** Trump sends seven more trade letters; More US tariffs to be announced on Wednesday, including Brazil; Germany Chancellor Merz says diplomatic means to resolve the Ukraine war has been exhausted; Mixed Chinese inflation data; RBNZ holds OCR as expected; EIA shows unexpected crude build; US Senate Majority Leader floats Russian sanctions bill vote this month; EU aiming to reach US trade deal before 1st August; Trump says getting very close to a deal on Gaza; Average US 10yr note auction; US Trade Advisor Navarro says AAPL thinks it's "too big to tariff"; OpenAI plans AI web browser release.
- **COMING UP: Data:** German CPI final, Norwegian CPI, Swedish GDP, US Weekly Claims, Chinese M2/New Yuan Loans. **Events:** BoK Base Rate, OPEC WOO. **Speakers:** Fed's Musalem, Waller & Daly, ECB's Cipollone, BoE's Breeden. **Supply:** Japan & US. **Earnings:** Delta, Conagra Brands.

MARKET WRAP

Stocks were higher on Wednesday, tracking Europe higher throughout the morning. US indices peaked around the US open before paring into the European close, before pushing higher into the US close. Sectors were predominantly green with Utilities, Communication and Technology leading, with Consumer Staples, Energy and Real Estate lagging. NVIDIA (NVDA) was responsible for some of the upside, with the stock becoming the first company to reach a USD 4tn market cap. There was little US data to digest, but the Q2 Atlanta Fed GDPNow tracker was maintained at 2.6%. With the focus largely on trade updates, Trump continued to reveal more tariff letters (Philippines 20% vs 17% Liberation Day tariff; Libya 30% vs 31%; Iraq 30% vs 39%, Brunei 25% vs 24%, Algeria 30% vs 30%, Sri Lanka 30% vs 44%, Moldova 25% vs 31%), with the Brazil numbers set to be announced later. On the EU, reports suggest they are not going to receive a letter from the US, but it is aiming to reach a US deal before 1st August, and potentially over the coming days. It was also reported that the EU will face a higher tariff than the UK, but talks are ongoing. The FOMC minutes saw little reaction, but confirmed a split rate outlook view on the Fed, in fitting with the June 2025 dot plots, although it did seem to confirm that only Waller and Bowman are willing to consider a July rate cut. It also revealed that several participants said the current Fed Funds rate may not be far above its neutral rate. T-notes rallied in the European session despite the upside in equities, with apparent short-covering the driver for the move higher, given the surge in yields since the beginning of July (yield from 4.187% to 4.435%). Meanwhile, the 10-year T-note auction was in line with recent averages. Oil settled flat in a choppy session, seeing upside on EIA data and Senator Thune's commentary about Russia sanctions, but paring on Gaza ceasefire hopes. Gold prices were bid with the upside largely a function of the move lower in UST yields. FX majors saw little change, although CAD underperformed with the Dollar flat. However, BRL lagged in the EMFX space in anticipation of Trump's tariff announcement later. Note, Brazil's Liberation Day tariff was the baseline 10% rate.

FED

FED MINUTES REVIEW: Overall, the FOMC minutes revealed a split committee on the outlook for rates (as was alluded to by the June Dot Plots). The latest FOMC Minutes showed most participants saw some reduction in the Fed funds rate this year as appropriate, though only a couple—likely Waller and Bowman—would be open to considering a cut as soon as July if data evolves as expected. Some participants judged no rate cuts would be needed, citing elevated inflation readings, sticky expectations, and resilient economic activity. However, most participants saw some reduction in the Fed funds rate this year as appropriate. On the neutral rate, several said that the current policy rate may not be far from neutral, while all agreed in June that it was appropriate to keep rates on hold. On inflation, a few noted limited recent progress on core inflation, while there were also concerns that lower- and moderate-income households are increasingly trading down due to price pressures. On the labour market, most believed higher tariffs or greater policy uncertainty would weigh on demand, with many expecting a gradual softening; a few flagged emerging signs of weakness and said they would watch for further deterioration. While participants agreed risks of higher inflation and weaker employment had diminished, they remain elevated, and although uncertainty has eased slightly—helped by fewer announced or expected tariffs—it is still high. Elsewhere, Fed staff revised up their 2025 real GDP growth forecast and saw slightly lower inflation than before. Meanwhile, the NY Fed's SOMA chief noted market participants now expect the balance sheet runoff to conclude by February 2026 (vs January 2026 prior), with the Fed's portfolio projected at USD 6.2tn (around 20% of GDP), with reserves at USD 2.9tn and ONRRP balances remaining low.

FIXED INCOME

T-NOTE FUTURES (U5) SETTLED 15+ TICKS HIGHER AT 111-08+

T-notes catch bid on likely short-covering and more Trump tariffs. At settlement, 2-year -4.7bps at 3.862%, 3-year -5.8bps at 3.826%, 5-year -6.9bps at 3.918%, 7-year -7.3bps at 4.113%, 10-year -7.7bps at 4.340%, 20-year -7.4bps at 4.871%, 30-year -7.3bps at 4.874%.

INFLATION BREAKEVENS: 1-year BEI -2.1bps at 2.750%, 3-year BEI -0.6bps at 2.497%, 5-year BEI -1.5bps at 2.396%, 10-year BEI -1.7bps at 2.332%, 30-year BEI -1.7bps at 2.292%.

THE DAY: T-notes were firmer across the curve on Tuesday with upside starting overnight amid some punchy rhetoric from US President Trump, who threatened 50% tariffs on copper and 200% pharmaceutical tariffs - albeit for now it appears this was an off-the-cuff comment. Trump continued to post letters to nations on tariffs, including the Philippines, Brunei, Algeria, Moldova, Iraq and Libya, albeit little reaction was seen. T-notes sold off in the US morning from the earlier highs, but a strong bid was seen with US trade underway on apparent little fresh fundamental drivers. Some had been citing short-covering as a reason for the move higher, given the downside seen recently in T-notes (112-12+ on 1st July to a low yesterday of 110-21+; yield from 4.187% to 4.435%). The only data release was US wholesale sales and inventory revisions, albeit they did not result in a meaningful adjustment to the Atlanta Fed GDPNow model, which currently tracks Q2 growth of 2.6%. Meanwhile, the FOMC Minutes revealed little new, although it perhaps confirmed that only Waller and Bowman are willing to consider a cut in July if data evolves as expected, as it referred to those considering July as "a couple". Meanwhile, several said the current Fed funds rate may not be far above its neutral rate.

SUPPLY

Notes

10yr: Overall, another average auction for the July supply. The US sold USD 39bln of 10-year notes at a high yield of 4.362%, stopping through the When Issued by 0.3bps, not quite as strong as the prior and six-auction average stop through of 0.7bps. However, the bid-to-cover of 2.61x was above the prior 2.52x and the average 2.56x. Direct demand improved to 23.7% in July, from 20.5% in June, and above the 16.3% auction, albeit this was more than offset by a drop in Indirect demand to 65.42% from 70.6%, beneath the 71.7% average. This left dealers with 10.87% of the auction, above the prior 9.0% but not quite as high as the 12.0% average. US to sell USD 22bln 30-year notes on July 10th, to settle on July 15th.

Bills

- US sold USD 65bln of 17-week bills at a high rate of 4.230%, B/C 3.03x

STIRS/OPERATIONS:

- **Market Implied Fed Rate Cut Pricing: July 1bp (prev. 1bp), September 19bps (prev. 17bps), Oct 34bps (prev. 32bps), Dec 52bps (prev. 49bps).**
- NY Fed RRP Op demand at USD 227bln (prev. 219bln) across counterparties 37 (prev. 37)
- EFFR at 4.33% (prev. 4.33%), volumes at USD 117bln (prev. 118bln) on July 8th.
- SOFR at 4.33% (prev. 4.33%), volumes at USD 2.765tln (prev. 2.814tln) on July 8th.

CRUDE

WTI (Q5) SETTLED USD 0.05 HIGHER AT 68.38/BBL; BRENT (U5) SETTLED USD 0.04 HIGHER AT USD 70.19/BBL

The crude complex settled flat in a choppy session, seeing upside on EIA data and Senator Thune's commentary, but paring on Gaza ceasefire hopes. Overnight, WTI and Brent were largely rangebound, before seeing upside through the European morning to hit highs of USD 68.94/bbl and 70.71/bbl, respectively. However, benchmarks swiftly pared the move and fell to lows of USD 67.70/bbl and 69.61/bbl at the US cash open. Following this, and coinciding with net bearish EIA data (more below), and BBG reporting that US Senator Thune said a Russia sanctions bill could be ready for a floor vote this month, benchmarks once again saw strength to come within reach of earlier highs and move back into the green for the session. On the aforementioned EIA data, in line with the private figures on Tuesday night, crude saw an unexpected chunky build of 7.07mIn (exp. -2.07mIn), while gasoline and distillates both saw a larger draw than forecasted. Crude production fell 48k bbl to 13.385mIn. Geopolitical updates saw German Chancellor Merz state that diplomatic means to resolve the Ukraine war have been exhausted. Crude prices sold off into settlement, while Axios reported a secret meeting today with US Envoy Witkoff, Israel's Dermer, and a Qatari envoy led to significant progress in the negotiations over the Gaza hostage and ceasefire deal. President Trump later said they have a chance this week or next week regarding a deal on Gaza.

EQUITIES

CLOSES: SPX +0.61% at 6,263, NDX +0.72% at 22,865, DJI +0.49% at 44,458, RUT +1.07% at 2,252.

SECTORS: Utilities +1.00%, Technology +0.94%, Communication Services +0.93%, Consumer Discretionary +0.74%, Industrials +0.70%, Materials +0.54%, Health +0.43%, Financials +0.30%, Real Estate -0.02%, Energy -0.50%, Consumer Staples -0.55%

EUROPEAN CLOSES: Euro Stoxx 50 +1.34% at 5,444, Dax 40 +1.30% at 24,522, FTSE 100 +0.15% at 8,867, CAC 40 +1.44% at 7,878, FTSE MIB +1.59% at 40,821, IBEX 35 +1.24% at 14,254, PSI +0.75% at 7,792, SMI +0.16% at 11,990, AEX +0.22% at 919

STOCK SPECIFICS:

- **Apple (AAPL)** appointed Sabih Khan as COO; in talks to acquire US broadcast rights for F1 starting next year; finally, White House Trade Advisor Navarro said Apple thinks it is "too big to tariff".
- China plans to install over 115,000 banned **NVIDIA (NVDA)** AI chips across 39 data centres.
- **WPP (WPP)** expects H1 LFL revenue to decline by 4.2-4.5% and lowered FY25 LFL revenue guidance to -3% to -5%.
- **Meta (META)** acquired just under 3% of **EssilorLuxottica (ESLOY)** in a deal worth ~ USD 3.5bln.
- **Starbucks (SBUX)** received bids from potential investors seeking a controlling stake in its China business.
- **AES (AES)** exploring strategic options, including a possible sale amid takeover interest.
- **Merck (MRK)** to acquire **Verona Pharma (VRNA)** for USD 10bln or USD 107/shr; VRNA closed Tuesday at USD 86.86/shr.
- **Amazon (AMZN)** Chair Bezos sold nearly 3mIn shares worth USD 665.8mIn over two days in July, part of a plan to offload up to 25mIn shares by May '26.

- DoJ is said to be investigating **UnitedHealth's (UNH)** Medicare billing.
- **Nvidia's (NVDA)** CEO Jensen Huang plans Beijing trip ahead of new China AI chip launch, via FT; Nvidia plans to launch a new AI chip designed specifically for China as soon as September, with Huang planning a visit to reassert the company's commitment to the country.
- **OpenAI** is planning to release an AI web browser, according to Reuters, citing sources.
- **Amazon (AMZN)**: Amazon's Prime Day sales fell 41% on the first day of the four-day event, Bloomberg reports.
- **Apple (AAPL)**: Reportedly planning a lighter, redesigned Vision Pro headset model for 2027; said to include a new chip and more comfortable strap, according to Bloomberg.
- **Autodesk (ADSK)** said to consider acquisition of software firm **PTC (PTC)**, according to Bloomberg citing sources.

FX

The Dollar had a mixed performance on Wednesday, with strength vs EUR and CAD offsetting the weakness vs JPY, CHF and GBP, leaving the DXY little changed at ~ 97.50. Whilst the Trump administration announced further tariff levels on seven countries, some of the levels were little changed from "Liberation Day", and thus far, recently announced levels are within a 20-40% range of the tariffs announced Monday. Dollar moves against major peers were muted following the tariff announcements, with markets still tentative over the outcome of US-EU talks. Aside from trade, FOMC Minutes did little to change the dial, but likely pointed towards Fed Bowman (Vice Chair of Supervision) and Fed Waller (Voter) as the only two members open to a rate cut in July if data evolved as they expected. It also revealed that several believe the neutral rate is not far off the current rate. Ultimately, the minutes were a non-event, with next Tuesday's CPI report the next scheduled key event for the Fed.

JPY, CHF, AUD, GBP, SEK, and **NZD** posted marginal to modest gains against the USD, while **EUR, CAD** saw weakness, with **NOK** little changed. Once again, attention was on trade, specifically the seven Trump trade letters Trump announced, with the EU being avoided for now, putting the focus on EM countries. According to the Guardian, citing an EU spokesperson, their understanding is "we are not going to receive a letter" from the US. "And that's all I can say". Other reports on a possible EU-US trade deal were conflicting, with Italy's Economy Minister saying talks on tariffs are "very complicated" and thinks they will continue until the 1st August deadline. Meanwhile, the EU Commission said it's aiming to reach a US trade deal before August 1st, potentially even in the coming days. Others suggested the EU will face higher tariffs than the UK.

NZD was modestly firmer against USD on the day, likely a function of mixed dollar sentiment rather than the RBNZ decision overnight. The Central Bank maintained rates as expected at 3.25%, stating that if medium-term inflation pressures continue to ease as projected, the Committee expects to lower the OCR further. Similar to the RBA, economic uncertainty stemming from global trade policy was cited, with some members, however, emphasising that further monetary easing in July would provide a guardrail to ensure the recovery of economic activity. Currently, NZD/USD hovers at 0.6000, a touch above its 50 DMA (0.5989), while AUD/USD remains above its 21 DMA (0.6519), trading at ~ 0.6540.

EMFX: As mentioned, more Trump trade letters were sent to countries, particularly EM countries. US tariffs on Algeria, Brunei, Philippines, and Libya were little changed from "Liberation Day" while tariffs on Moldova were cut to 25% (prev. 31%); Iraq was cut to 30% (prev. 39%), respectively; Sri Lank was cut to 30% (prev. 44%). Separately, inflation outside China was mixed. CPI in June was hotter on a yearly basis, but M/M showed deflation as expected, while PPI's deflationary print was more than expected, due to deeper declines in mining, raw materials, and processing prices. ING expect the next PBoC rate cut in Q4, and highlighted the relative strengthening of the CNY over the past few months, and persistently soft inflation that gives the People's Bank of China room to cut rates further later in the year

In Taiwan, the Central Bank has asked foreign investors via custodian banks to purchase stocks within one day after purchasing Taiwan Dollars for investment, according to Reuters, citing sources. The CB also requests foreign investors to sell any Taiwan Dollars received from stock sales within one day; USD/THB saw little reaction.

BRL weakened in response to US President Trump saying more tariffs are coming out on Wednesday, including a Brazilian number either tonight or tomorrow morning. Note, Brazil's Liberation Day tariffs were the baseline 10% rate.

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