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US Market Wrap - 11th July 2025

Stocks and bonds hit on inflationary fears amid Trump's latest tariffs

- **SNAPSHOT**: Equities down, Treasuries down, Crude up, Dollar up
- **REAR VIEW**: Trump announces 35% tariff on Canada, Teases EU tariff announcement; Trump to make major Russia statement on Monday; Rubio says odds are high of a Trump-Xi meeting; Goolsbee warns rate cuts could be delayed due to fresh tariff updates; ECB's Schnabel downplays another rate cut; 3 OPEC+ delegates say there have been no talks about a possible pause of output hikes; US posts budget surplus in June due to higher tariff revenue; Stellar Canada jobs report; UK GDP surprisingly contracts; IEA trims 2025 world demand growth forecast; Covestro, BASF and Brenntag lower guidance; KHC to break itself up.
- **COMING UP**: **Data:** Indian WPI, Chinese Trade. **Events:** Trump on Russia. **Speakers:** ECB's Cipollone. **Supply:** EU.
- **WEEK AHEAD:** Highlights include US CPI and Retail Sales, UK CPI and Jobs report, China trade and GDP, Aussie Jobs, and CPI from Canada and Japan. Click here for the full report.
- **CENTRAL BANK WEEKLY:** 11th July 2025: Reviewing RBA, RBNZ, BoK and FOMC Minutes. Click here for the full report.
- **WEEKLY US EARNINGS ESTIMATES:** Big bank earnings get underway, highlights include JPM, GS, MS, WFC, TSM, ASML. Click here for the full report.

MARKET WRAP

Stocks finished in the red but well off the earlier lows, while T-notes were sold across the curve with the Dollar bid. The focus continues to lie on Trump's tariff letters, with the latest seeing a 35% tariff on Canada, while the EU letter is still expected to be announced on Friday. The inflationary fear aspect of higher tariffs pressured T-notes across the curve with yields bear steepening, resulting in lows seen at settlement amid commentary from Fed's Goolsbee, who warned rate cuts may be delayed due to Trump's fresh tariff announcements. Note, there was some pressure in equities after FHFA Director Pulte made a statement cheering on rumours that Fed Chair Powell was resigning, albeit it is not clear where these supposed rumours are emanating from, and indices pared the initial downside. In FX, the Dollar was bid with the move higher in yields pressuring JPY, while GBP lagged after soft GDP data. Gold prices surged despite the movement in the buck and yields, with the upside predominantly supported by the uncertainty regarding upcoming EU tariffs. Gold held its bid despite the move from lows in US equities. Oil prices were bid in anticipation of a "major statement on Russia" from US President Trump on Monday. Elsewhere next week, the focus largely lies on US CPI to help gauge the inflationary impact of Trump's tariffs so far.

US

FEDERAL BUDGET: The Federal Budget in June posted a USD 27bln surplus, a huge improvement vs the May USD 316bln deficit and also better than the expected deficit of USD 11bln. While the surplus wasn't expected via the consensus, keep in mind the analyst forecast range was USD -85bln to USD 105.5bln, and the CBO estimated a USD 24bln surplus. The shift to a surplus was supported by a record high revenue in US gross customs duties, USD 27bln, +301% due to tariffs. Regarding the report, Oxford Economics noted timing effects have helped produce a surplus last month (likely on tariff revenue preceding OBBB's tax cuts and spending costs). Ahead, Oxford look for the budget shortfall to dip in FY2025, and recent developments tied to fiscal and trade policy will only reinforce this move lower.

GOOLSBEE (2025 Voter): The Chicago Fed President warned that US President Trump's latest tariff threats could delay rate cuts, via a WSJ interview. He said the threats could spark fresh concerns about inflation and force the Fed to maintain its wait-and-see approach. Meanwhile, on a Moody's podcast, he said the new round of tariffs makes it messy to truly say how the economy is doing. Goolsbee wants to wait until the anxiety dies down before being comfortable that the US is back on track to a soft landing. He also noted that if they go into an environment where prices start rising again, he will be nervous.

FIXED INCOME

T-NOTE FUTURES (U5) SETTLED 16 TICKS LOWER AT 110-23

T-notes sold across the curve following more tariff announcements from Trump. At settlement, 2-year +3.4bps at 3.902%, 3-year +4.1bps at 3.876%, 5-year +5.6bps at 3.987%, 7-year +7.1bps at 4.192%, 10-year +7.9bps at 4.425%, 20-year +9.9bps at 4.958%, 30-year +10.1bps at 4.963%.

INFLATION BREAKEVENS: 1-year BEI +4.2bps at 2.747%, 3-year BEI +4.4bps at 2.558%, 5-year BEI +4.8bps at 2.460%, 10-year BEI +3.1bps at 2.372%, 30-year BEI +2.4bps at 2.321%.

THE DAY: T-notes were lower across the curve on Friday, with the curve steepening. The downside was predominantly led by the long-end, with the short-end only slightly lower on the session. Weakness largely stemmed from Trump's fresh tariff announcements: 35% on Canada, and we are still awaiting the EU rate at the time of writing. There was no tier 1 data on Friday, although the Budget data posted a surplus, driven by higher tariff revenue. As mentioned, the downside started overnight after Trump announced a 35% tariff on Canada from 1st August, but the weakness extended throughout the session in anticipation of the EU tariff announcement. This also pressured bunds, which took T-notes down with them, while Gilts also pressured US debt. In the

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UK, GDP data disappointed, which initially led to upside in Gilts, but this faded as lower growth and thus lower tax revenues are likely to put further pressure on Chancellor Reeves' fiscal headroom. In the wake of the Canada announcement and in anticipation of the EU tariff, inflationary fears were high, with the inflation breakeven yields rising, particularly in the short end. In late trade, T-notes settled at lows amid commentary from Fed's Gooslbee, warning of another delay to rate cuts given Trump's latest Tariff updates.

SUPPLY

Bills

- US Treasury to sell USD 82bln of 13-week bills and USD 73bln of 26-week bills on July 14th; to sell USD 70bln (prev. 50bln) of 6-week bills on July 15th; all to settle July 17th

STIRS/OPERATIONS:

- Market Implied Fed Rate Cut Pricing: July 2bps (prev. 2bps), September 18bps (prev. 18bps), Oct 32bps (prev. 34bps), Dec 50bps (prev. 52bps).
- NY Fed RRP Op demand at USD 182bln (prev. 183bln) across 37 counterparties (prev. 36)
- EFFR at 4.33% (prev. 4.33%), volumes at USD 106bln (prev. 105bln) on July 10th.
- SOFR at 4.31% (prev. 4.32%), volumes at USD 2.735tln (prev. 2.752tln) on July 10th.

CRUDE

WTI (Q5) SETTLED USD 1.88 HIGHER AT USD 68.45/BBL; BRENT (U5) SETTLED USD 1.72 HIGHER AT USD 70.36/BBL

Crude futures held an upward bias throughout the session, supported by Trump's tease of a major Russia statement on Monday. WTI and Brent saw lows of USD 66.50 and 68.55/bbl in the morning before accelerating higher through the day to settle just off the earlier peaks of USD 68.59/bbl and 70.53/bbl, respectively. Prices were underpinned after President Trump announced plans to deliver a “major” statement on Russia on Monday, while the European Commission is reportedly preparing a floating Russian oil price cap as part of the EU’s 18th sanctions package. Separately, OPEC+ officials reportedly haven’t discussed pausing the upcoming output hike, though all options remain on the table according to Kpler. Bloomberg sources previously indicated OPEC+ may halt increases from October, while Saudi Arabia plans to complete a 2.2mln BPD revival by September. Meanwhile, the IEA trimmed its 2025 and 2026 global demand growth forecasts by 20k BPD each, now expecting +700k BPD in 2025 and +720k BPD in 2026. It also raised its 2025 supply growth forecast to +2.1mln BPD. Meanwhile, the macro focus has largely been on trade updates after US President Trump announced a 35% tariff on Canada. The Saudi Energy Minister spoke, confirming Saudi Arabia has remained fully compliant with its voluntary OPEC+ target, noting the marketed crude supply in June stood at 9.532mln BPD. However, earlier Bloomberg reports said that Saudi Arabia is asking companies that OPEC uses for independent analysis of oil-production levels to submit a lower figure for the kingdom's June output. Riyadh is reportedly arguing that the standard practice (measuring oil production) was not appropriate for that month, and they should instead adopt a different metric called supply to market. For Russia, Deputy PM Novak said that in August-September, Russia intends to fully compensate for oil produced in excess of the OPEC+ quota.

EQUITIES

CLOSES: SPX -0.33% at 6,260, NDX -0.21% at 22,781, DJI -0.63% at 44,372, RUT -1.26% at 2,235

SECTORS: Financials -1.00%, Health -0.88%, Materials -0.75%, Consumer Staples -0.38%, Industrials -0.31%, Technology -0.22%, Communication Services -0.20%, Utilities -0.12%, Real Estate -0.07%, Consumer Discretionary +0.33%, Energy +0.48%

EUROPEAN CLOSES: Euro Stoxx 50 -0.98% at 5,385, Dax 40 -0.89% at 24,240, FTSE 100 -0.42% at 8,938, CAC 40 -0.92% at 7,829, FTSE MIB -1.11% at 40,078, IBEX 35 -1.02% at 13,997, PSI -0.27% at 7,727, SMI -1.62% at 11,929, AEX -0.63% at 921

STOCK SPECIFICS

- **Levi Strauss (LEVI):** Profit & revenue topped expectations; raised FY25 outlook.
- **Performance Food Group (PFGC):** Reportedly attracted takeover interest from USFD.
- **United States Cellular (USM):** DoJ cleared the T-Mobile (TMUS) USD 4.4bln acquisition of US Cellular.
- **Robinhood (HOOD):** Florida’s AG is investigating Robinhood's crypto business.
- **iShares MSCI Canada ETF (EWC):** Trump announced 35% tariffs on Canada.
- **Freeport-McMoRan (FCX):** Downgraded at UBS to 'Neutral' from 'Buy'.
- **Texas Instruments (TXN):** Upgraded at TD Cowen to 'Buy' from 'Hold'.
- **Meta (META):** Unlikely to offer additional changes to the "pay or consent" model to the EU, according to Reuters sources; Meta is likely to be hit with fresh EU charges under the Digital Markets Act over its business model.
- **JPMorgan (JPM):** Told fintechs they have to pay up for customer data, Bloomberg reports. The report weighed on **Visa (V), Mastercard (V),** and other related names.
- **Kraft Heinz (KHC):** Preparing to break itself up, WSJ reports.

FX

The Dollar's July recovery continued into the weekend, with trade tensions exacerbated between the US and Canada after Trump announced 35% tariffs on Canada. A letter to the EU is expected at any point now, with eyes on whether Trump will be aggressive or not when compared with the 20% reciprocal tariff announced on "Liberation Day". US data was thin, with the Federal Budget USD 316bln deficit in May flipping to a USD 27bln surplus in June, thanks to record-high gross customs duties revenue on account of tariffs. At the Fed, Goolsbee (2205 voter) sounded in no rush to return to easing, remarking the latest tariff threats could delay rate

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cuts, and make it messy to truly say how the economy is doing. Behind the slowly returning confidence in the dollar, perhaps, is that while some of Trump's latest tariff announcements have been more aggressive than in early April, elements of the TACO trade are still reminiscent. The 35% tariff on Canada is to keep the exemption for USMCA goods, and when asked about possible Canada tariff carve-outs, said "we will see" .

EUR/USD was modestly lower as markets awaited the Trump trade letter to the EU, which is likely to hit some point this evening. Newsflow out of Europe concerned the ECB, where Schnabel maintained her stance as a hawk, disapproving of a further rate cut. At Rabobank, they say short covering can lift the USD further in the coming weeks, and they maintain a 1-month target of 1.16. Over 12 months, they remain optimistic that EUR/USD can eventually extend its gains to 1.20.

GBP was among the worst G10 performers on Friday, weighed by an unexpected 0.1% (exp. +0.1%) contraction in UK GDP in May. Despite the surprise miss, Pantheon Macroeconomics says the data isn't as bad as it looks, citing the size of the drop in manufacturing looks erratic and should partly rebound, upward revisions to GDP 3M/3M, and signs of a GDP growth rebound in June.

CAD saw a choppy session, weighed at first by the Trump announcement of 35% before, regaining ground ahead of the jobs reports. The strong report saw immediate CAD strength, but most of the move was pared. The report saw the economy add 83.1k jobs (exp. 0.0k), helped by a rebound in part-time employment, with the unemployment rate unexpectedly falling to 6.9% (exp. 7.1%) from 7.0% despite the participation rate rising. USD/CAD sits above its 21 DMA (1.3659) with Canada's Industry Minister saying they are turning to trust partners in Europe and other allies amid US threats.

Haven's performance was mixed. Gold was supported amid the risk-off trade fears, while the rise in US yields weighed more so on the Yen, putting USD/JPY at 147.50 while USD/CHF was little changed at 0.7970.

Brazil was void of tier 1 data, with the anticipated US trade letters on the US and EU the key events. Since the Trump 50% tariff announcement on Brazil, a further weakening in the BRL has been avoided, though equities in Brazil remained subdued. Brazil's President Lula showed no signs of kowtowing to Trump, planning to appeal the US tariffs to the WTO and is interested in creating a trade currency despite Trump's 10% tariff threat on countries that align with BRICS.

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