US Market Wrap - 16th July 2025

Markets chop on prospects of Powell firing and soft PPI

- **SNAPSHOT**: Equities up, Treasuries steepen, Crude down, Dollar down
- **REAR VIEW**: Trump reportedly asked GOP lawmakers if he should fire Fed Chair Powell; Trump plays down reports over firing Powell; Softer-than-expected US PPI; Trump says pharma tariffs will probably begin at month-end and initially be low; Trump says there will probably be two or three deals by August 1st; Fed's Logan wants low inflation to persist to resume easing; US Industrial Production tops expectations; Hotter-than-expected UK CPI; EIA crude stocks unveil bigger-than-expected draw; ASML guidance underwhelms; BAC & GS report solid earnings.
- **COMING UP**: **Data:** Japanese Trade, Australian Employment, UK Jobs, EZ HICP (Final), US Trade, Jobless Claims, Retail Sales & Atlanta Fed GDPNow. **Events:** BoJ SLOOS, G20. Finance Ministers Meeting. **Speakers:** Fed's Kugler, Daly, Cook, Waller. **Supply:** Spain, France, UK. **Earnings:** Novartis, Publicis, Evolution Gaming, Volvo.

MARKET WRAP

Markets chopped to cool PPI and mixed messages about Fed Chair Powell's future. Equities finished the day green with outperformance in the Russell after the prior day's underperformance, while Nasdaq lagged after Tuesday's outperformance. Sectors were predominantly green with outperformance in Health Care, Real Estate and Financials, while Energy, Communications and Consumer Discretionary lagged. T-notes chopped but settled higher across the curve, supported by a soft PPI report that helped offset some of the inflationary concerns seen on Tuesday after the CPI report started to show the impact of tariffs. There was a lot of volatility on several reports that US President Trump is looking to fire Fed Chair Powell, seeing the 2s30s curve steepen to 120bps, the widest since April, as prospects of a more dovish Fed chair hit front-end yields, while higher growth prospects associated with a lower yields on the short end and term premium lifted long-end yields. The reports also sparked aggressive selling in equities and the Dollar while Gold caught a bid, along with other havens like the Yen. However, shortly after US President Trump pushed back on these reports, saying it is highly unlikely he will fire Powell, unless there is fraud involved regarding the Fed building renovations, something that Trump touted as a possibility. This saw a large paring of the aforementioned moves with equities bouncing higher from the lows, while the yield curve narrowed from the earlier peaks but still remained steeper on the session. Elsewhere, earnings saw solid GS and BAC reports, while MS finished flat after initially selling. Meanwhile, European chip giant ASML disappointed on guidance for the next quarter and for 2026. Crude prices saw two-way price action, selling off in the European morning with lows seen after the EIA report. However, crude prices pared to settle flat on supply concerns after a drone attack saw APIKUR announce the majority of its member companies suspended production following strikes on Iraqi oilfields in Kurdistan.

US

TRUMP V POWELL: Several reports had suggested that US President Trump was set to fire Fed Chair Powell, leaving participants fearful of a lack of Fed independence. It was reported that Trump asked GOP Financial House and Service Committee members whether he should fire the Fed Chair, who apparently did not object to the idea, while a meeting was set to take place between the Republican committee members and Fed Chair Powell tonight. However, in the Press Conference of Trump's meeting with the leader of Bahrain, Trump was questioned on the reports. Trump denied them, saying they are not true, and that they are not going to fire Fed Chair Powell, but they will make a change in eight months. Trump also stated that NEC Director Hassett would be considered for the job. Trump said it is highly unlikely that he will fire Powell, unless there is fraud - noting how it is possible there is fraud. Aside from high interest rates, Powell has also come under scrutiny for the cost of the Fed's building renovations. As it is illegal to fire a Fed Chair over policy differences, it seems Trump could use the cost of the building renovations as a cause to fire Powell, but as it stands, Trump is not planning on doing so yet. Following the reports and denial, FBN reported that the flip-flopping reflects divisions in the administration over his authority. There had also been reports of a meeting between the GOP House and the Service Committee and Fed Chair Powell, but this was later cancelled after Trump's press conference. It was reportedly cancelled due to the House vote on the GENIUS Act. Following this, Senate GOP banking Committee member Tillis said firing a Fed chair over economic decisions would undermine US credibility and ending the Fed's independence would be a huge mistake. House Speaker Johnson, meanwhile, said he believes new Fed leadership would be helpful. The market reaction to the firing reports was one of uncertainty. Equity futures were hit while the Dollar tumbled and gold was bid. The move in T-notes also incorporated Fed policy with the yield curve steepening. The front-end of the curve saw yields fall on prospects of a more dovish Fed policy under a new Fed Chair, while long-end yields rose - likely on the growth prospects of a dovish Fed. It is also likely that there was some term premium being priced in too, with participants demanding a higher yield given heightened uncertainty of an economy, given the questions around Fed independence. Note, these moves largely reversed after the Trump pushback.

PPI: Headline PPI in June was flat despite expectations for a 0.2% rise, cooling from the upwardly revised 0.3%. Y/Y rose 2.3%, beneath the 2.5% forecast and easing from the 2.7% prior (also upwardly revised from 2.6%). The Core measure was also flat, beneath the 0.2% forecast and upwardly revised 0.4%, with Y/Y at 2.6% easing from the prior 3.0%, beneath the 2.7% forecast. Regarding the components that filter into PCE, the drop in Airline fares to -2.7% from -0.9% was somewhat offset by a 2.2% acceleration in Portfolio Management following May's 0.9% decline. Healthcare numbers were more mixed, physician care maintained a 0.1% pace. Home health and hospice care rose 0.2%, up from -0.1%. Hospital Outpatient care rose 0.3%, up from the -0.2%. Hospital inpatient care was flat, down from the prior 0.3%. Nursing home care rose 0.1%, down from the prior 0.2% pace. Following the data, Pantheon Macroeconomics lowered its Core PCE forecast to 0.28% from 0.35% following the CPI report. Morgan Stanley lowered it to 0.27% from 0.35%, while Oxford Economics look for a 0.4% Core PCE print in June. After the CPI report on

Tuesday started to show the impact of tariffs, it is worth noting the impact of tariffs in PPI will likely be delayed as PPI largely ignores imports and focuses on domestically priced goods, therefore PPI will not capture the tariff effect immediately and the impact would likely showup later indirectly, through higher input costs or shifts in production patterns. Regarding the June report, Oxford Economics write "Goods prices did increase, but the 0.3% gain doesn't point to widespread increases due to tariffs".

INDUSTRIAL PRODUCTION: Industrial production for June rose 0.3%, above the expected 0.1%, and the prior months, revised higher, 0.0%. Manufacturing output lifted 0.1% (exp. 0.0%, prev. 0.3%), while capacity utilisation unexpectedly ticked higher to 77.6% from 77.5%, against the consensus of a 77.4% print. On IP, Oxford Economics notes that while it surprised to the upside, they will not be changing their baseline forecast for now, as they still see industrial activity weakening in H2 2025 as the full effect of tariffs materialises. Policy uncertainty remains elevated, and OxEco adds that the price shock will, on average, be larger for businesses ordering equipment than for consumers, and as such, these headwinds will overcome the resilience the manufacturing sector has shown so far this year.

FED'S LOGAN (2026 Voter): Her base case is that monetary policy needs to hold tight for a while longer to bring inflation down, and she wants to see low inflation continue longer to be convinced. Before PPI, Logan said June CPI data suggests PCE inflation, which the Fed targets at 2%, will rise. The Dallas Fed President added that softer inflation and a weakening labour market could call for lower rates fairly soon, and if the Fed misjudges and doesn't cut soon enough, it could cut rates further to get employment back on track. Further on rates, Logan suggested cutting rates too soon risks deeper economic scars and a longer road to price stability, and they will be looking at the data in the summer and into fall before they have a good read.

FIXED INCOME

T-NOTE FUTURES (U5) SETTLED 11 TICKS HIGHER AT 110-20

T-Notes steepen to cool PPI and mixed messaging about Powell's future. At settlement, 2-year -6.7bps at 3.892%, 3-year -6.8bps at 3.867%, 5-year -6.0bps at 3.992%, 7-year -4.5bps at 4.214%, 10-year -2.8bps at 4.461%, 20-year -0.5bps at 5.017%, 30-year +0.3bps at 5.021%.

INFLATION BREAKEVENS: 1-year BEI +3.2bps at 2.793%, 3-year BEI +2.4bps at 2.623%, 5-year BEI +2.0bps at 2.511%, 10-year BEI +1.7bps at 2.416%, 30-year BEI +1.8bps at 2.355%.

THE DAY: T-notes were sideways in the European morning but did track gilts lower after a hot UK CPI report. This swiftly pared, however, with T-notes accelerating higher on the softer-than-expected US PPI report, easing some of the inflationary concerns from Tuesday's CPI report. Thereafter, a lot of volatility was seen regarding the future of Fed Chair Powell, with several reports suggesting that Trump is going to fire Fed Chair Powell, seeing the curve drastically steepen. The 2s30s spread steepened to 120bps at the peak as markets digested the prospect of a more dovish Fed Chair, with 2yr yields falling to lows of 3.86% while the 30yr yield rose to a high of 5.08%. It is also worth noting that the long-end may have also been pricing in more term premium if there was increased risk in the US about Fed independence. However, in a press conference, US President Trump denied that he was looking to fire Fed Chair Powell and that he had not drafted a letter. This saw the 2s30 spread narrow back to c. 113bps, although the curve was still steeper on the day.

SUPPLY

Bills

- US sold USD 65bln of 17-week bills at 4.230%, B/C 3.02x.
- US to sell USD 90bln (prev. 80bln) of 4-week bills and USD 80bln (prev. 70bln) of 8-week bills on July 17th; all to settle July 22nd.

STIRS/OPERATIONS:

- **Market Implied Fed Rate Cut Pricing: July 1bps (prev. 1bps), September 16bps (prev. 14bps), Oct 29bps (prev. 27bps), Dec 46bps (prev. 44bps).**
- NY Fed RRP op demand at USD 197bln (prev. 198bln) across 35 counterparties (prev. 36)
- EFFR at 4.33% (prev. 4.33%), volumes at USD 101bln (prev. 104bln) on July 15th.
- SOFR at 4.37% (prev. 4.33%), volumes at USD 2.784tln (prev. 2.759tln) on July 15th.

CRUDE

WTI (Q5) SETTLED USD 0.14 LOWER AT 66.38/BBL; BRENT (U5) SETTLED USD 0.19 LOWER AT 68.52/BBL

The crude complex saw was choppy, selling off in the morning before paring during the US session to settle only slightly lower. The move higher from lows was seemingly driven by geopolitical tensions with Israel striking southern Syria despite the US push for a ceasefire, while a drone attack also hit Iraq's Kurdistan oil field. In response to the drone attacks, a majority of APIKUR member companies announced the suspension of production following the strikes. Elsewhere, the weekly EIA data saw a larger crude draw than expected, while gasoline saw a surprise build and distillates saw a larger build than expected - seeing WTI and Brent hit lows of USD 65.42/bbl and 67.71/bbl, respectively. On the macro footing, a cooler than expected US PPI, mixed big bank earnings, and back-and-forth rhetoric on Fed Chair Powell's job security saw the Dollar sell off, seeing lows on reports Trump is set to fire Powell, before paring on Trump's denial. The dollar weakness and supply impact from the aforementioned drone attacks saw crude briefly return into positive territory, but still off the morning peaks of USD 67.01/bbl and 69.09/bbl for WTI and Brent, respectively.

EQUITIES

CLOSES: SPX +0.32% at 6,264, NDX +0.10% at 22,908, DJI +0.53% at 44,255, RUT +0.99% at 2.227

SECTORS: Energy -0.84%, Communication Services -0.15%, Consumer Discretionary -0.02%, Utilities +0.06%, Consumer Staples +0.18%, Technology +0.27%, Materials +0.30%, Industrials +0.35%, Financials +0.66%, Real Estate +1.07%, Health +1.22%

EUROPEAN CLOSES: Euro Stoxx 50 -1.22% at 5,289, Dax 40 +0.07% at 24,077, FTSE 100 -0.13% at 8,927, CAC 40 -0.57% at 7,722, FTSE MIB -0.40% at 39,763, IBEX 35 +0.08% at 13,886, PSI -0.17% at 7,694, SMI +0.03% at 11,905, AEX -2.29% at 902.

EARNINGS:

- **ASML (ASML)** issued a weak next quarter revenue outlook, alongside narrowing its FY25 view due to tariff uncertainty, and not confirming 2026 growth target.
- **Morgan Stanley (MS)** beat on EPS, revenue and net income, but expenses and provisions for credit losses were above expected.
- **Goldman Sachs (GS)** earnings impressed with all major metrics surpassing analyst expectations, alongside a strong revenue breakdown as Equities & trading revenue was particularly solid.
- **M&T Bank (MTB)** beat on profit with loan loss provisions less than expected.
- **Bank of America (BAC)** profit, NII, and IB revenue topped with expenses and provisions for credit losses, less than expected. Ahead, affirmed Q4 NII view.
- **PNC Financial (PNC)** top and bottom line impressed, alongside loan loss provisions less than expected. Ahead, FY outlook somewhat underwhelmed.
- **Johnson & Johnson (JNJ)** profit and revenue surpassed Wall St. expectations, in addition to raising FY25 outlook.
- **JB Hunt (JBHT)** profit fell short due to higher costs.
- **Omnicom (OMC)** major metrics exceeded consensus, but operating profit was light.

STOCK SPECIFICS:

- Activist investor Elliott Investment Management has taken a sizable stake in **Global Payments (GPN),** according to the FT.
- **Amazon (AMZN)** removed from the BofA's US tier 1 list.
- NHTSA said **Ford (F)** is recalling 694,271 US vehicles as a fuel leak in the presence of an ignition source, such as hot engine or exhaust components, can increase the risk of a fire.
- **Google (GOOG)** to unveil new pixel hardware on August 20th with AI in focus, Bloomberg reports.

FX

The **Dollar** was hit by the growing concern over the Fed's independence from the Trump administration as reports suggested a Trump firing of Fed Chair Powell may come soon. USD pared earlier strength on first reporting via CBS, which sources cited said Trump asked GOP lawmakers if he should fire Powell. The weakness accelerated on Bloomberg reports, that a White House Official said Trump is likely to fire Powell soon, discussing a move in said meeting with lawmakers; DXY swiftly hit lows of 97.714 following the BBG report from the 98.843 seen before the initial CBS report. That said, Trump's pre-credentialed media meeting with Bahrain's PM gave the weaker dollar breathing room, as a result of Trump downplaying the reports, remarking it's highly unlikely he will fire Powell, unless there is fraud, which he believes is possibly involved - about the renovations at the Fed that have been highlighted at Powell's testimonies to Congress. While the buck regained some of the losses, the broad-based dollar downside holds with the JPY the clear winner from dovish bets in short-duration T-notes over a dovish replacement as the Fed Chair. The latest round of the Trump feud over Powell left the US PPI report somewhat forgotten. The report, which briefly sparked pressures on the buck, saw all metrics cooler-than-expected, though, keep in mind, the inflationary impacts of tariffs are likely to show up later in PPI as the PPI baskets largely ignore imports, focusing on domestically priced goods.

G10FX was generally in the green, mostly a function of the USD weakness described above rather than currency-specific developments. Nevertheless, ex-US, the UK CPI June report garnered attention with core, headline, and services all above-expected, accelerating rather than expectations for holding still. ING's James Smith says Services CPI will probably bounce around these levels for the rest of the year, before printing dramatically lower next spring, a result of the chunky price rises that came through in April dropping out next year. As such, Sterling was lifted immediately with the upside holding to around 1.3410, likely thanks to USD weakness ahead of the UK jobs report on Thursday.

JPY's marked outperformance was on the situation in US Treasuries, where the short end yields were lower in anticipation of a more dovish Fed Chair replacement. USD/JPY fell to lows of 146.92 from the 148.75 pre-USD sell-off, while CHF saw modest weakness, likely on its less attractive yield environment (SNB rate at 0%) when compared to the BoJ's 0.5%. Gold benefited from the risk-averse environment, rising by around USD 28 to USD 3,352/oz.

EMFX: In Brazil, BRL chopped to JOTA reports that the Supreme Court Justice wants to question Tarcísio de Freitas about an allegation made by the lawyer of the former advisor to Bolsonaro that the governor participated in a meeting to discuss the coup draft document. If the allegation was confirmed, it could see the potential 2026 presidential run by Tarcísio sink. At the NBP, Kochalski's guidance for the rate path was in line with market money market pricing, seeing the space for 25-50bps in total by year-end. Regarding the CZK, ING believe the Czech story remains hawkish and is open to the possibility of going to 24.600 again despite a stronger USD, "which should lead to overperformance within the CEE region".

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