

Stocks flat and Bonds bid on dovish Waller as Fed enters blackout

- **SNAPSHOT:** Equities flat/down, Treasuries up, Crude down, Dollar flat.
- **REAR VIEW:** Waller continues to push for 25bps July cut; Strong UoM metrics & inflation expectations fall; Trump pushing for minimum 15-20% tariff on all EU goods; Solid US housing data; Greek tanker operators shipping approved Russian oil exports are expected to continue doing so; NFLX hit on content expense warning
- **COMING UP: Data:** Canadian Producer Prices, US Leading Index Change **Events:** Chinese LPR; BoC SCE; NZ Trade Balance **Earnings:** Ryanair, Sabadell, NXP Semiconductors, Verizon, Domino's Pizza, Cleveland Cliffs.
- **WEEK AHEAD:** Highlights include ECB, PBoC LPR, Global PMIs and the Japanese Upper House Election. [Click here for the full report.](#)
- **CENTRAL BANK WEEKLY:** Previewing PBoC LPR, ECB and CBRT. [Click here for the full report.](#)
- **WEEKLY US EARNINGS ESTIMATES:** Earnings season continues with highlights including VZ, KO, T, GOOGL, TSLA, HON. [Click here for the full report.](#)

MARKET WRAP

Stocks were choppy on Friday, with early upside faded amid mixed sectoral performance. Utilities, Consumer Discretionary and Real Estate outperformed, while Energy, Healthcare and Communication lagged. The focus on Friday was largely on commentary from Fed Governor Waller, who reiterated his call for a 25bps rate cut in July (more below). Meanwhile, US data saw strong housing data while the UoM also impressed, coinciding with easing inflation expectations. The dovish commentary from Waller, coupled with easing inflation expectations and tough trade updates on the EU, T-Notes were bid across the curve, although the Dollar was flat with NZD and AUD outperforming. Energy prices were hit on Reuters source reports that Greek tanker operators shipping approved Russian oil exports are expected to continue doing so despite a new wave of tougher sanctions by the EU that will further tighten restrictions, sources said. Gold prices were green but silver was flat, crypto was mixed with Bitcoin lower and Ethereum up amid Trump signing the GENIUS Act into legislation as expected. There were also reports that Trump would open up 401k plans to alternative investments, including digital assets and metals.

US

WALLER: Fed Governor Waller continues to call for a 25bps rate cut in July, citing rising risks to the economy as justification for easing. He added that if underlying inflation stays contained and growth remains tepid, further cuts may be warranted. Waller argued the Fed should not wait for the labour market to deteriorate before acting, warning that delaying cuts risks requiring more aggressive moves later. He noted mounting evidence of labour market weakness, pointing to the JOLTS report, quits rate, and Beige Book, none of which show a "super healthy" jobs picture. When asked if he would dissent at the July meeting to support a cut, Waller declined to commit, saying he would consider all arguments at the meeting. He added that while it's not critical to act immediately, there's no strong reason to delay either. On inflation, Waller reiterated that tariffs tend to have a one-off effect that the Fed can generally look through. He said a July rate cut could give the Fed room to pause in coming meetings, and noted that, excluding tariffs, inflation is nearing the 2% target. While tariffs will likely push inflation higher in the near term, he expects the effect to fade next year. He added that market-based inflation expectations remain well anchored. Waller estimated that a sustained 10% tariff could lift inflation by 0.75% to 1% this year, but said upside risks to inflation remain limited. At the same time, he warned of growth risks, with GDP tracking around 1%. He also emphasised that monetary policy should be moving closer to a neutral setting, which he estimates to be around 3%, though he acknowledged significant uncertainty around the long-run neutral rate. Finally, on speculation that he could be the next Fed Chair, Waller said no one from the Trump administration has approached him about the role.

HOUSING STARTS/BUILDING PERMITS: Housing starts rose by 4.6% in June to 1.321m, above the 1.3m forecast and 1.263m print in June (revised up from 1.256m). Building permits rose by 0.2% to 1.397m, also above expectations of 1.39m and the prior 1.394m. Pantheon Macroeconomics highlight that starts remain below last year's average of 1.371m, and look set to continue the trend lower in H2 this year. Looking into the data, the consultancy points out that the recent weakness is entirely due to single-family starts, which fell to 883k in June, the lowest level since last July. Multi-family starts rose to 438k from 337k. The desk also notes that total permits are a better guide to the trend in housebuilding than starts, and are consistent with a slight fall in total starts in July. Pantheon writes "Demand remains undermined by high mortgage rates and the tariff hit to consumers' confidence. Furthermore, a glut of unsold properties is compounding the pressure to pause new construction projects"

MICHIGAN: UoM prelim for July impressed, with conditions, expectations, and sentiment all surpassing expectations. The headline rose to 61.8 from 60.7 (exp. 61.5), while conditions and expectations lifted to 66.5 (exp. 63.9, prev. 64.8) and 58.6 (exp. 55.0, prev. 58.1), respectively, with the 1yr ahead inflation expectations falling to 4.4% from 5.0%, and the 5yr dropping to 3.6% from 4.0%. Ahead, Oxford Economics notes, "Nevertheless, sentiment remains depressed compared to pre-election levels, and recent announcements for new tariffs on August 1 could undermine any recovery in sentiment."

FIXED INCOME

T-NOTE FUTURES (U5) SETTLED 8+ TICKS HIGHER AT 110-25

T-Notes bear steeper on dovish Waller, rising EU-US trade tensions and easing inflation expectations . At settlement, 2-year -3.9bps at 3.878%, 3-year -4.7bps at 3.843%, 5-year -4.7bps at 3.959%, 7-year -4.3bps at 4.180%, 10-year -3.3bps at 4.430%, 20-year -2.0bps at 4.994%, 30-year -1.4bps at 5.000%.

INFLATION BREAKEVENS: 1-year BEI +1.2bps at 2.843%, 3-year BEI -2.1bps at 2.631%, 5-year BEI -1.7bps at 2.525%, 10-year BEI -1.5bps at 2.411%, 30-year BEI -1.7bps at 2.345%.

THE DAY: T-Notes were bid throughout the session as Fed Governor Waller reiterated his case for a July rate cut while UoM inflation expectations eased. Overnight and this morning, Governor Waller continued to make the case for a July rate cut, noting upside risks to inflation remain limited and there are signs the labour market is deteriorating. With the Fed going into blackout from Saturday, this is the last opportunity an official has had to speak before the July 30th FOMC. Waller and Bowman have so far been the only members at the FOMC to publicly back a rate cut in July. T-Notes rose higher overnight before stalling in the European morning, but once US players arrived the bid continued with Waller back on TV repeating his views. The US data on Friday was solid with housing starts and building permits beating expectations, while the UoM survey of consumer sentiment was also strong. However, inflation expectations pulled back, the 1yr eased to 4.4% from 5.0%, while the 5yr eased to 3.6% from 4.0%. This led to two-way price action in the 10yr futures. T-Notes then pushed back to session highs on reports in the FT that Trump is pushing for a 15-20% minimum tariff on all EU goods, and he also rejected the idea of reducing the 25% sectoral duties on cars from the EU.

SUPPLY

Bills

- US to sell USD 80bln 6wk bills (prev. 70bln) on July 22nd; to sell USD 82bln 13wk bills and USD 73bln 26wk bills on July 21st.

Notes/Bonds

- US to sell USD 13bln 20yr bonds on July 23rd, to settle on July 31st. US to sell USD 21bln 10yr TIPS on July 24th; to settle on July 31st

STIRS/OPERATIONS:

- Market Implied Fed Rate Cut Pricing: July 1bps (prev. 1bps), September 16bps (prev. 14bps), Oct 29bps (prev. 26bps), Dec 46bps (prev. 42bps).
- NY Fed RRP op demand at USD 199bln (prev. 193bln) across 36 counterparties (prev. 35)
- EFR at 4.33% (prev. 4.33%), volumes at USD 113bln (prev. 115bln) on July 17th.
- SOFR at 4.34% (prev. 4.34%), volumes at USD 2.743tln (prev. 2.771tln) on July 17th.

CRUDE

WTI (U5) SETTLED USD 0.18 LOWER AT 66.05/BBL; BRENT (U5) SETTLED USD 0.24 LOWER AT 69.28/BBL

The crude complex was ultimately lower on Friday, and saw weakness through the US session . Through the European morning, WTI and Brent saw gains, albeit without any clear catalysts, to hit highs of USD 67.54/bbl and 70.77/bbl, respectively, which largely seemed a continuation of Thursday's upside, where oil prices benefited from drone attacks on Iraq's Kurdistan oil field and the general risk tone. Further on that footing, the region's petroleum association said resumption of oil exports through the Northern pipeline is contingent on a finalised agreement, but no specific time or date has been set so far. However, the energy space saw distinct weakness as EU players left for the day to hit lows of USD 65.93/bbl and 69.14/bbl, which coincided with Reuters source reports noting that Greek fleet to keep shipping approved Russian oil despite new EU sanctions. Elsewhere, in the weekly Baker Hughes rig count, oil fell 2 to 422, nat gas rose 9 to 117, leaving the total up 7 to 544, and which was the first time in 12 weeks that US drillers add oil and natgas rigs. Natgas futures sold off on the release.

EQUITIES

CLOSES: SPX -0.01% at 6,296, NDX -0.07% at 23,065, DJI -0.32% at 44,342, RUT -0.62% at 2,239.

SECTORS: Utilities +1.71%, Consumer Discretionary +0.98%, Real Estate +0.35%, Materials +0.35%, Financials +0.07%, Technology -0.10%, Industrials -0.19%, Communication Services -0.22%, Consumer Staples -0.37%, Health -0.60%, Energy -0.96%

EUROPEAN CLOSES: Euro Stoxx 50 -0.29% at 5,362, Dax 40 -0.34% at 24,288, FTSE 100 +0.22% at 8,992, CAC 40 +0.01% at 7,823, FTSE MIB +0.46% at 40,312, IBEX 35 -0.01% at 13,994, PSI -0.28% at 7,674, SMI +0.15% at 11,969, AEX -0.29% at 912.

EARNINGS

- **Netflix (NFLX):** Warned on rising content expenses in Q3 & Q4; Note, EPS & revenue topped with strong guidance.
- **Interactive Brokers Group (IBKR):** Top & bottom line surpassed expectations.
- **Charles Schwab (SCHW):** EPS and revenue beat.
- **3M (MMM):** EPS & revenue topped with a strong FY outlook.
- **SLB (SLB):** Top & bottom lines surpassed Wall St. expectations.
- **American Express (AXP):** Expenses higher than expected.; EPS & rev. beat alongside reaffirming FY outlook.

STOCK SPECIFICS:

- **Target (TGT):** To end price matching.
- **Norfolk Southern (NSC)** is reportedly in early-stage talks to acquire **Norfolk Southern (NSC):**.
- **Talen Energy (TLN):** Expands & enhances portfolio with best-in-class CCGT acquisitions in PJM; deal accretive to cash flow

per share by over 40% in 2026.

- **Hess (HES):** Wins Exxon (XOM) arbitration case, paving way for **Chevron (CVX)** deal.
- **Sarepta Therapeutics (SRPT):** Reported another patient death from acute liver failure in an early-stage trial for a gene therapy.

FX

The Dollar was more-or-less flat on Friday with focus on commentary from Fed Governor Waller reiterating his desire for a 25bps cut in July and US data. Prelim UoM for July impressed as sentiment, conditions, and expectations all surpassed consensus, with inflation 1yr and 5yr inflation expectations also dropping to 4.4% (prev. 5.0%) and 3.6% (prev. 4.0%), respectively. Unsurprisingly, Trump continued to echo his vitriol for Fed Chair Powell, while on the trade footing, FT reported that Trump is pushing for 15-20% minimum tariff on all EU goods. Next week the calendar for the US is quiet, amid Fed blackout, aside from the continuation of US earnings season. For the record, the Dollar Index traded between 98.094-578.

The Kiwi was the G10 outperformer and was initially supported by the broader risk on sentiment and rebound in commodity prices, and while those moves later reversed the NZD managed to cling on to its gains. Aussie also saw strength vs. the Greenback, albeit to a slightly lesser degree ahead of the weekend. NZD/USD and AUD/USD saw highs of 0.5991 and 0.6540, respectively.

CHF, CAD, and EUR all saw similar gains vs. the Dollar, albeit with little currency-specific newsflow, ahead of the ECB next week for the single-currency Euro. Expectations are unanimous that the ECB will stand pat on rates. However, reporting ahead of the meeting has suggested that the GC is to discuss a more negative scenario next week than previously envisaged in June after Trump's latest tariff threat. Note, flash EZ PMI data for July hits a few hours before the release. The Euro did come under slight pressure on the aforementioned FT report that highlighted the sombre tone of talks with the US.

GBP and JPY both saw marginal losses, with Cable trading between a narrow range of 1.3407-75, and USD/JPY between 148.19-88 ahead of the Upper House elections on Sunday. In short, the LDP-led coalition runs the risk of losing its majority in the Upper House and leading a minority government in both houses. The prospect of this has lifted domestic yields in recent sessions, 10yr at a post-2008 peak, as PM Ishiba may be forced to agree to fiscally expansionary measures in order to court the support of opposition parties. Overnight, Japanese inflation metrics printed in-line and provided little traction for the Yen.

EMFX was mixed. COP, MXN, ZAR all saw gains to varying degrees, CLP, BRL, TRY saw losses, while the Yuan was flat. In Brazil, local press reported that former President Bolsonaro has to wear an ankle monitor, and note this has been an area of contention from US President Trump.

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newsquawk.com · +44 20 3582 2778 · info@newsquawk.com