

Stocks, bonds, and dollar chop following poor ISM Services report and Trump interview

- **SNAPSHOT:** Equities mixed, Treasuries flatten, Crude down, Dollar flat
- **REAR VIEW:** ISM Services PMI unexpectedly falls; Trump says if energy prices do down, Putin will stop killing people; Trump threatens EU with 35% tariffs if they do not make agreed upon US investments; Trump to substantially raise India tariff in next 24 hours; Trump touts Kevin Warsh & Hassett as Fed candidates, alongside two others; Russia reportedly weighing Ukraine air-truce offer to Trump on war; Weak US 3yr note auction; US International Trade deficit narrows; Atlanta Fed GDPnow (Q3) revised higher; China S&P Global Services PMI tops expectations; Mixed Services PMIs out of Europe.
- **COMING UP:** **Data:** German Industrial Orders (Jun), EZ Construction PMIs (Jul), EZ Retail Sales (Jun), Italian Industrial Output. **Events:** RBI Policy Announcement. **Speakers:** Fed's Collins, Cook and Daly. **Supply:** Australia, Germany, US. **Earnings:** AppLovin, Airbnb, Lyft, Uber, Shopify, Walt Disney, McDonald's, Novo Nordisk, Siemens Energy, Commerzbank, Bayer, Glencore.

MARKET WRAP

US indices ended the day with losses, aside from the small-cap Russell 2000 (+0.6%), which saw gains. Trump's CNBC interview was the highlight of the day, whereby he spoke on a wide range of topics, more details below, but in a brief recap, he said both Kevin's (Warsh & Hassett) and two others are the candidates for the next Fed Chair, noting Bessent wants to stay at the Treasury. On tariffs, Trump said if the EU does not make the US investments agreed upon in the deal, the EU will pay tariffs of 35%, but if investments are made, tariffs will be cut to 15% (from 30%). Trump also repeated will be raising India tariffs substantially in the next 24 hours as they keep purchasing Russian oil. Data-wise, ISM Services PMI disappointed, with the headline printing below the bottom end of the forecast range, while the employment sub-index fell further into contractionary territory. The Dollar eked out gains with the Yen, the G10 laggard and weighed on by a rise in US yields in the short-end. Treasuries chopped to the aforementioned soft ISMs and supply with eyes on Kugler replacement, with the US 3yr auction garnering little reaction. The crude complex was lower on Tuesday, and was hit on Trump, noting that if energy prices do go down, Putin will stop killing people, and also after Bloomberg reported that Russia is reportedly weighing a Ukraine air-truce offer to Trump on the war. Sectors were mixed, but there was a downward bias with Utilities sitting at the bottom of the pile, and Materials at the top; a deluge of earnings failed to have any macro sway. In terms of some of the notable reports in the last 24 hours, Palantir and Pfizer metrics impressed with solid guidance, while Caterpillar missed on profit and sees FY25 net tariff impact of USD 1.3-1.5bln

US

TRUMP: US President Trump spoke on a plethora of topics in a CNBC interview, including data, Fed, energy, trade, India, pharma, and China. On data, he noted labour statistics are antiquated and political, and reiterated that payroll numbers are rigged. Re. the Fed, said Both Kevin's (Warsh & Hassett) are very good, and those two and two others are the candidates for the next Fed Chair. On Kugler's replacement, the replacement will come very soon and could be the next Fed Chair; he loves Scott Bessent, but he wants to stay where he is (US Treasury Secretary). Energy prices saw weakness as the President noted that if energy prices do go down, Putin will stop killing people. On the trade footing, Trump said that if the EU do not make the US investments agreed, they will pay tariffs of 35%, but if investments are made, tariffs will be cut to 15% (from 30%). India is currently at 25%, but will be raising it substantially in the next 24 hours because they're buying Russian oil. Trump noted will be announcing tariffs on semiconductors and chips in the next week or so, and will be putting an initially small tariff on pharma, but in one year, it will go up to 150-250%. On China, said President Xi called for a meeting with Trump, and he will meet with him before the end of the year if there is a trade deal.

ISM SERVICES PMI (JULY): ISM Services unexpectedly fell to 50.1 (exp. 51.5) from June's 50.8, signalling slower growth in July. Prices paid rose to 69.9 (prev. 67.5), the highest level since October 2022, while the other sub-indices generally saw growth slow M/M. Business activity fell to 52.6 from 54.2, employment remained in contractionary territory for the second consecutive month, hitting 46.4 from 47.2, and new orders declined to 50.3 from 51.3. Supplier deliveries rose to 51 from 50.3, the backlog of orders rose to 44.3 from 42.4, while export orders contracted to 47.9 from 51.1. Overall, eleven industries grew in July, one more than in June. ISM Chair Miller writes, "The most common topic among survey panelists remained tariff-related impacts, with a noticeable increase in commodities listed as up in price". When taking into account the declines in the employment indexes in the services and manufacturing ISM PMIs, ING suggest that "with a 90% services weighting and 10% manufacturing weighting, they these readings are historically consistent with NFP dropping by more than 100,000". ING adds, "while the relationship with payrolls hasn't been as strong since the pandemic, at the very least, should be braced for soft jobs growth through H2 of the year at the very least".

INTERNATIONAL TRADE (JUN): The US International Trade deficit narrowed to USD 60.2bln from 71.7bln, beneath the 61.3bln forecast. The Goods trade balance was revised to a deficit of USD 84.85bln from 85.99bln. Exports fell by 1.3bln to USD 277.3bln, while imports fell by 12.8bln to 337.5bln. The June decrease in the goods and services deficit reflected a decrease in the goods deficit of USD 11.4bln to USD 85.9bln and an increase in the services surplus of 0.1bln to 25.7bln. The data shows three consecutive declines in imports, following the tariff front-loading seen in Q1. Oxford Economics highlights that "Consumer goods and in particular pharmaceuticals have been hardest hit, but weakness was broad-based across most categories." It also adds that China

has seen the largest declines of trade, noting the share of imports from China has roughly halved from about 15% to 7% as of June, but other trading partners have mostly filled the void. Looking ahead, Oxford Economics expects reduced trade volumes this year due to bloated inventories, decreased business and consumer spending, and higher prices impacting goods demand.

FED'S DALY: The San Francisco Fed President said she is comfortable with the Fed's July decision, but is less comfortable with making that same decision again and again, via a Reuters exclusive interview after the closing bell on Monday. Daly stressed that the Fed can't wait to be certain there is no inflation persistence, and needs to make a call based on what's most likely. She sees no indication of a persistent tariff effect on inflation, and noted that the job market is not precariously weak, but it is softening, and further softening would be unwelcome. She added that there is still a lot of uncertainty over whether or not a September rate cut would be appropriate. On the July Fed decision, she was willing to wait another cycle, but they cannot wait forever. Daly added that looking ahead, every meeting going forward is 'live' for thinking about policy adjustments. She still believes two rate cuts in 2025 is appropriate, but the Fed may do fewer than two rate cuts, although the more likely thing is they need to do more.

FIXED INCOME

T-NOTE FUTURES (U5) SETTLED 2+ TICKS LOWER AT 112-09+

T-Notes chop to soft ISMs and supply with eyes on Kugler replacement. At settlement, 2-year +4.1bps at 3.722%, 3-year +3.3bps at 3.681%, 5-year +2.5bps at 3.767%, 7-year +1.8bps at 3.962%, 10-year +0.4bps at 4.202%, 20-year -1.5bps at 4.755%, 30-year -1.9bps at 4.776%.

INFLATION BREAKEVENS: 1-year BEI +0.9bps at 3.205%, 3-year BEI +0.6bps at 2.686%, 5-year BEI -0.7bps at 2.429%, 10-year BEI -1.0bps at 2.348%, 30-year BEI -1.6bps at 2.240%.

THE DAY: T-Notes saw gradual pressure overnight and in the European morning to bottom out at 112-05 from an earlier 112-15+ peak. There was little news of note for the downside, but it does come ahead of supply this week. After hitting the low, T-Notes turned around in a move led by the long-end following the ISM Services PMI miss. The headline fell to 50.1 from 50.8, despite expectations for a gain to 51.5. Price Paid accelerated to 69.9 from 67.5, while employment fell to 46.4 from 47.2. T-Notes rose back to test the earlier highs but failed to reach it, paring ahead of supply in what was likely a dealer concession with data in the rear-view mirror as eyes turn to the 3yr supply. The 3yr auction was weak, relative to the prior and six-auction average (more below). Aside from supply this week, focus lies on the replacement for Fed Governor Kugler, who is retiring at the end of this week, with US President Trump set to name a replacement this week. The President today said that both Kevin's (Warsh and Hasset) are good candidates, noting Bessent wants to stay as Treasury Secretary, so he will let him do that.

SUPPLY

Notes/Bonds

- US to sell USD 42bln of 10yr notes on August 6th.
- US to sell USD 25bln of 30yr bonds on August 7th.

3yr auction

- US sold USD 58bln of 3yr notes, and tailed by 0.7bps, slightly greater than the prior, and six-auction average, tail of 0.4bps. Bid-to-cover was 2.53x, above the last auction of 2.51x, but shy of the 2.59 average. Dealers took 17.9%, surpassing both the previous (16.5%) and six auction average (14.7%). Directs took 28.1% (prev. 29.4%) and Directs took 54.0% (prev. 54.1%), similar to the prior but some way off the six auction averages of 19.9% and 65.5%, respectively.

Bills

- US to sell USD 65bln of 17-wk bills on August 6th (prev. 65bln)
- US to sell USD 100bln of 4-wk bills (prev. 95bln)
- US to sell USD 85bln 8-wk bills (prev. 85bln) on August 7th
- US sold USD 85bln of 6-week bills at a high rate of 4.30%, B/C 2.60x
- US sold USD 53bln of 52-week bills at a high rate of 3.760%, B/C 2.85x

STIRS/OPERATIONS

- **Market Implied Fed Rate Cut Pricing: September 24bps (prev. 23bps), Oct 39bps (prev. 40bps), Dec 58bps (prev. 61bps).**
- NY Fed RRP op demand at USD 84bln (prev. 126bln) across 23 counterparties (prev. 26).
- EFFR at 4.33% (prev. 4.33%), volumes at USD 117bln (prev. 129bln) on August 4th.
- SOFR at 4.33% (prev. 4.34%), volumes at USD 2.828tln (prev. 2.885tln) on August 4th.

CRUDE

WTI (U5) SETTLED USD 1.13 LOWER AT USD 65.16/BBL; BRENT (V5) SETTLED USD 1.12 LOWER AT USD 67.64/BBL

The crude complex was lower on Tuesday, and saw gyrations lower on headline news, including both Trump and Russia. Benchmarks were edging lower through the EU morning, before extending even further to initial intra-day troughs during US President Trump's CNBC interview, whereby he said if energy prices do go down, Putin will stop killing people. He spoke on a deluge of other topics, but for the energy complex, he also said India is currently at 25% [tariff], but will be raising it substantially in the next 24 hours, because they're buying Russian oil. Elsewhere, WTI and Brent were sent to lows of USD 65.03/bbl and 67.52/bbl, respectively, after Bloomberg reported that Russia is reportedly weighing a Ukraine air-truce offer to Trump on the war. Following this, benchmarks saw marginal paring of weakness amid an FT report that Trump reportedly readies fresh sanctions against

Russia's shadow fleet if Putin does not agree to a ceasefire in Ukraine by Friday. Note, the Friday deadline is in-fitting with the 10-day deadline Trump gave Russia on July 27th. Ahead, participants await the weekly private inventory data after-hours, whereby current expectations are (bbbls): Crude -0.6mln, Distillate +0.8mln, Gasoline -0.4mln.

EQUITIES

CLOSES: SPX -0.49% at 6,299, NDX -0.73% at 23,019, DJI -0.14% at 44,112, RUT +0.60% at 2,226

SECTORS: Utilities -1.05%, Technology -0.91%, Communication Services -0.88%, Financials -0.40%, Health -0.39%, Industrials -0.22%, Consumer Staples -0.15%, Energy +0.11%, Real Estate +0.29%, Consumer Discretionary +0.29%, Materials +0.80%.

EUROPEAN CLOSES: Euro Stoxx 50 +0.12% at 5,249, Dax 40 +0.42% at 23,857, FTSE 100 +0.16% at 9,143, CAC 40 -0.14% at 7,621, FTSE MIB +0.11% at 40,744, IBEX 35 +0.12% at 14,403, PSI -0.25% at 7,710, SMI +0.27% at 11,840, AEX -0.19% at 887

STOCK SPECIFICS:

- **Palantir (PLTR):** Top and bottom line beat with strong next quarter and FY revenue outlook.
- **Vertex Pharmaceuticals (VRTX):** Q2 metrics topped, but shares tumbled as it halted development of a painkiller
- **Softbank (SFTBY):** Operating income surpassed expectations.
- **Hims & Hers Health (HIMS):** Revenue light and GLP-1 revenue declined Q/Q.
- **Diageo (DEO):** Sees flat organic sales growth for FY26, including impact of US tariffs.
- **Caterpillar (CAT):** EPS light and sees FY25 net tariff impact of USD 1.3-1.5bln.
- **Pfizer (PFE):** Major metrics topped and raised FY25 profit view.
- **GlobalFoundries (GFS):** Light next quarter guidance.
- **Marriott International (MAR):** EPS, net income and EBITDA beat
- UK CMA says **Aramark (ARMK)** completed purchase of Entier will move to an in-depth phase 2 investigation.
- US President Trump was debanked in early 2021 by **JPMorgan (JPM)** and **Bank of America (BAC)** due to his role in the Jan 6th melee, according to sources cited by Fox's Gasparino.
- US prepares to end USD 7bln in solar panel grants, according to NYT.

FX

The Dollar index heads into the US evening with slight gains, as a disappointing ISM Services PMI report weighed on earlier upside. The report highlights the ongoing slowdown in growth in the services component since October 2024, with continued upside risks towards prices paid from US tariffs. Meanwhile, the US international trade deficit narrowed in June, boosted by a narrowing in the trade deficit with China. Away from US data, Trump's interview on CNBC was the highlight. Trump covered many topics, including trade, where he threatened the EU with 35% tariffs if they didn't adhere to the agreed-upon US investments, while the planned substantial tariff raise on India from 25% is to come in the next 24 hours. From the Fed, Daly said late on Monday, that two rate cuts still seem to be appropriate this year, but said more than two cuts are more likely than fewer. DXY sits ~98.81 from earlier highs of 99.082.

GBP, AUD, EUR, and NOK outperformed in the G10 space with marginal strength, while **CAD** and **CHF** were flat. **NZD** and **JPY** underperformed in the red, the latter weighed by a rise in US yields on the front end. The G10 data docket was filled with Services PMIs out of Europe, whereby Germany and the UK beat expectations, while France, Italy, and the EZ missed. At the ECB, Holzmann advocates for unchanged rates as they await economic developments, and does not expect a continued depreciation of the USD. EUR/USD now trades ~ 1.1570 while EUR/CHF trades around its 10 DMA (0.9318) as attention looks towards the Swiss President's visit to the US, aiming to reduce the 39% tariff the US imposed on the country.

EMFX: In China, Services PMI jumped to 52.6 (exp. 50.4) from 50.6, signalling the sharpest expansion in the services sector since May 2024. Meanwhile, via Reuters citing traders, the RBI likely sold dollars prior to the local spot market open to support INR; USD/INR was modestly firmer, albeit off from the session highs sparked by Trump floating an increased tariff on India in the next 24 hours.

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