

### Stocks catch bid and bonds chop with focus on Kugler replacement

- **SNAPSHOT:** Equities up, Treasuries steepen, Crude down, Dollar down
- **REAR VIEW:** Trump raises India tariff by 25% due to purchases of Russian oil; Russia and US say talks between Putin and Witkoff were productive; White House expects secondary sanctions on Russia on Friday; Trump says Fed Governor decision will be made by the end of week; Trump reportedly to push for a temporary Fed governor to fill Kugler's seat; Warsh probability of Fed Chair falls; Weak US 10yr note auction; Swiss President leaves DC without trade deal; Fed's Kashkari sees two rate cuts this year as appropriate; Germany readies EUR 100bn fund to invest in strategic assets; EIA crude stocks draw more than expected; RBI holds Repo Rate as expected; AAPL to boost US investment by USD 100bn.
- **COMING UP:** **Data:** Australian Goods/Services Imports (Jun), New Zealand Inflation Forecasts (Q3), German Trade (Jun), Industrial Output (Jun), Swedish CPI (Jul), French Trade Balance (Jun), US Jobless Claims (w/e Aug 2), Wholesale Sales (Jun) NY Fed SCE, Atlanta Fed GDP, Chinese Trade Balance (Jul). **Events:** BoE Announcement, MPR & DMP, CNB & Banxico Announcement. **Speakers:** BoE's Bailey, Fed's Bostic. **Supply:** Spain, France, US. **Earnings:** Trade Desk, Eli Lilly, ConocoPhillips, Vistra Energy, Peloton, Warner Bros, DataDog, Merck, Maersk.

### MARKET WRAP

Stocks were bid on Wednesday with a focus on US earnings this week, but upside today was led by the heavy-cap stocks, with Consumer Discretionary heavily outperforming while Health Care lagged. Tech saw gains too despite a weak AMD report after-hours on Tuesday. There was no key data released on Wednesday, but several Fed speakers were on the wires. Kashkari said two rate cuts this year still seem appropriate, but if inflation rises due to tariffs, the Fed could pause, or even hike. Cook said the July jobs data was concerning, and big revisions can happen at economic turning points. Collins said she is uncertain what R-star actually is. Price action in bonds was interesting, with an apparent fat finger triggering sell-side algos and stop losses, seeing the 30yr bond futures fall over a point before completely paring later. There is a lot of focus on Trump's new pick to replace Governor Kugler. Bloomberg reported that Trump advisers are pushing for the appointment to be a temporary position, which will see the appointee join the Fed until January, giving Trump more time to consider a future Fed Chair. Shortly after the bond dump, Polymarket probabilities of Kevin Warsh as the next Fed Chair plummeted before paring somewhat, but with Hasset the favourite, followed by Waller, and then Warsh. The Dollar was sold to the benefit of G10 peers, with the Euro clearly outperforming, while the CHF lagged, with the Swiss President leaving talks with no trade deal. Elsewhere on trade, US President Trump announced an additional 25% tariff on India (taking the total to 50%) due to its Russian oil purchases. Energy prices were choppy but ultimately settled lower on Russia/Ukraine optimism. Lows were seen post-settlement on reports that Trump is open to meeting with Putin and Zelensky as soon as next week. Attention turns to the 30-year bond auction on Thursday after the weak 10yr supply today, as well as weekly jobless claims and the BoE rate decision.

### US

**KASHKARI (2026 Voter):** The Minneapolis Fed President said that the economy is slowing, albeit it has held up quite well in the face of tariffs. He added that although the impact of tariffs on inflation is not clear, it still may be appropriate in the near term to begin adjusting the policy rate. Kashkari still sees two rate cuts this year as appropriate, but warned that if inflation rises due to tariffs, the Fed could pause or even hike. However, it is better to cut and then hike rather than sit on your hands in the face of slowing economic data, stating the Fed needs to respond to the slowing economy, even if they will not know the answer to inflation for a while. On the July jobs report, he stressed the unemployment number is very important, but the Fed knows that revisions are possible, and he has no reason to doubt the BLS data. Kashkari also noted that wage growth is declining, which suggests the labour market is cooling.

### FIXED INCOME

#### T-NOTE FUTURES (U5) SETTLED 2 TICKS LOWER AT 112-07+

**T-notes chop and curve steepens with focus on Kugler replacement and supply this week, with a long-end fat finger hitting curve but moves pare by settlement.** At settlement, 2-year -1.7bps at 3.699%, 3-year -1.1bps at 3.654%, 5-year flat at 3.762%, 7-year +0.8bps at 3.965%, 10-year +2.0bps at 4.216%, 20-year +3.4bps at 4.786%, 30-year +3.8bps at 4.807%.

**INFLATION BREAKEVENS:** 1-year BEI +1.1bps at 3.208%, 3-year BEI 0.0bps at 2.685%, 5-year BEI -0.3bps at 2.425%, 10-year BEI +0.2bps at 2.349%, 30-year BEI +1.0bps at 2.249%.

**THE DAY:** T-notes saw gradual selling pressure overnight before paring in the US morning. Downside largely tracked Gilts and Bunds amid reports in the UK that the NIESR calculated a GBP 41bn hole for the reference year into the Autumn budget, which means Reeves needs to save or find over GBP 50bn in order to restore headroom to an acceptable level. Bunds were pressured by reports from Bloomberg that Germany is preparing to launch a EUR 100bn investment fund, dubbed Deutschlandfonds, to help secure strategic sectors such as defence, energy and critical raw materials. Nonetheless, as US players arrived, upside was seen amid a lack of data, with focus still on Trump's next pick as Fed Chair. There was a huge move just as European players left for the

day, seemingly on little headline drivers, but the huge weakness seen was led by the long-end. The 30-year bond futures fell over a point before paring thereafter. The reason behind the move is not clear. However, shortly after the move, the probability of Kevin Warsh being the next Fed Chair diminished to a low of 12.5% (now back at 17% at the time of writing), with NEC Director Hasset now the front-runner as next Fed Chair. One angle for the move could be that with Hasset as the next likely Fed Chair, it reduces the perception of Fed independence, and participants may want some more term premium, albeit the move was likely disproportionate to the expected reaction, given there is still nothing confirmed. Volume in the 10yr surged to just over 300k in that 30-minute window, while volumes throughout the rest of the day only saw a peak of 70k in a 30-minute time frame. Perhaps indicative of a fat finger, while analysts also suggested this could have triggered stop losses and algo sell programmes to extend the move lower. This all occurred before the 10-year auction, which ultimately was very soft (first tail since Feb, largest tail since August 2024 - more below), with perhaps the price instability keeping bidders at bay. T-notes saw brief selling on the auction, but upside returned ahead of settlement, with T-notes settling around session peaks, with the earlier fat finger completely pared. Attention turns to the 30-year bond on Thursday, as well as any update from Trump on the Kugler replacement. On the latter, Bloomberg reported that Trump advisers are pushing for Kugler's replacement to have a temporary role, which implies that they will be replaced when that term expires in January, giving Trump more time to think about the next Fed Chair.

## SUPPLY

### Notes/Bonds

- **10-YR:** Overall, a weak auction. The US Treasury sold USD 42bln of the new issue 10yr notes at a high yield of 4.255%, tailing the when-issued by 1.1bps, the first tail since February 2025 and the largest tail since August 2024 in the 10yr. The bid-to-cover of 2.35x was worse than the average 2.58x and down from the prior 2.61x. The breakdown saw direct demand fall to 19.61% from 23.7%, but above the 16.4% average, although indirect demand fell to 64.23% from 65.4%, below the 72.3% average. Dealer participation surged to 16.16% from 10.9%, well above the 11.2% average. US to sell USD 25bln of 30yr bonds on August 7th.

### Bills

- US sold USD 65bln of 17-week bills at a high rate of 4.105%, B/C 3.31x
- US to sell USD 100bln of 4-wk bills (prev. 95bln) on August 7th
- US to sell USD 85bln 8-wk bills (prev. 85bln) on August 7th

### STIRS/OPERATIONS

- **Market Implied Fed Rate Cut Pricing: September 24bps (prev. 24bps), Oct 41bps (prev. 39bps), Dec 62bps (prev. 58bps).**
- NY Fed RRP op demand at USD 92bln (prev. 84bln) across 22 counterparties (prev. 23).
- EFFR at 4.33% (prev. 4.33%), volumes at USD 115bln (prev. 117bln) on August 5th.
- SOFR at 4.34% (prev. 4.33%), volumes at USD 2.863tln (prev. 2.828tln) on August 5th.

## CRUDE

**WTI (U5) SETTLED USD 0.81 LOWER AT 64.35/BBL; BRENT (V5) SETTLED USD 0.75 LOWER AT 66.89/BBL**

The crude complex ultimately settled lower on Russia/Ukraine peace optimism. Meanwhile, one overhanging risk event has been clarified as Bloomberg reported that US President Trump has signed an Executive Order imposing an additional 25% tariff on India in response to its continued purchase of Russian oil, which saw two-way action in the energy space. Prior to this, benchmarks saw modest pressure following the conclusion of Witkoff/Putin talks, as Kremlin aide Ushakov said the talks were useful and constructive; and from Russia's side, Russia sent "signals" and have "received some signals" from Trump. Further pressure was seen to see crude settle around lows, as Ukrainian President Zelensky said Russia looks like it is more inclined to a ceasefire. The remarks followed a call with Trump, who explained details of the meeting between Putin and Witkoff, where "great progress was made!" Elsewhere, albeit garnering little market reaction, the weekly EIA data saw a larger crude and gasoline draw than anticipated, a surprise distillate draw, and crude production fell by 30k W/W. Lastly, on OSPs, Saudi Arabia sets September Arab light crude oil OSP to US at plus USD 4.20/bbl vs ASCI (prev. plus USD 3.90), NW Europe at plus USD 3.35/bbl (prev. plus 4.65) to ICE Brent settlement, and Asia at plus USD 3.20/bbl (prev. plus USD 2.20) vs Oman/Dubai average. For the record, WTI and Brent traded between USD 64.21-66.75/bbl and 66.78-69.18/bbl, respectively.

## EQUITIES

**CLOSES:** SPX +0.73% at 6,345 NDX +1.29% at 23,315, DJI +0.19% at 44,194, RUT -0.20% at 2,221

**SECTORS:** Health -1.52%, Energy -0.91%, Utilities -0.90%, Real Estate -0.81%, Materials -0.79%, Industrials +0.06%, Financials +0.48%, Communication Services +0.72%, Technology +1.34%, Consumer Staples +1.74%, Consumer Discretionary +2.50%.

**EUROPEAN CLOSES:** Euro Stoxx 50 +0.22% at 5,261, Dax 40 +0.25% at 23,905, FTSE 100 +0.24% at 9,164, CAC 40 +0.18% at 7,635, FTSE MIB +0.65% at 41,010, IBEX 35 +0.82% at 14,526, PSI +0.40% at 7,741, SMI -0.86% at 11,745, AEX -0.35% at 884

### STOCK SPECIFICS:

- **Snap (SNAP):** Surprise loss per share.
- **AMD (AMD):** Flagged uncertainty over sales of its Instinct MI308 AI chip in China.
- **Rivian Automotive (RIVN):** Deeper loss per share than expected and withdrew '25 gross profit target.
- **Super Micro Computer (SMCI):** Profit and revenue missed with weak next quarter outlook.
- **NFL** will acquire a 10% stake in **Disney's (DIS)** ESPN in a deal, valued at ~USD 2.5-3.0bln; in earnings, EPS beat, revenue

missed and raised FY profit view.

- **Novo Nordisk (NVO)**: Top and bottom line missed expectations, but Wegovy sales beat.
- **Uber (UBER)**: EPS, revenue, gross bookings beat and announced USD 20bln share buyback programme; Strong next quarter outlook.
- **Shopify (SHOP)**: Revenue and GMV surpassed expectations.
- **McDonald's (MCD)**: EPS, revenue and comp. sales topped.
- **Match (MTCH)**: Top line beat with strong next quarter guidance.
- **Mosaic (MOS)**: Said US tariffs are reducing phosphate shipments, which were significantly below last year's levels.
- **Arista Networks (ANET)**: EPS and revenue topped.
- White House official said **Apple (AAPL)** is to announce a domestic manufacturing pledge of USD 100bln.
- **Apple (AAPL)** will reportedly remain largely unaffected by the tariffs targeting India, according to CNBC.
- **Novartis (NVS)** weighs deal for biotech **Avidity (RNA)** to boost drug pipeline, FT reports.
- **Sarepta (SRPT)** hired a Trump-connected lobbying firm after the death of a boy treated with its DMD gene therapy, according to STAT News.
- **NVIDIA (NVDA)** CEO met with US President Trump at the White House, CNBC reports.

## FX

**The Dollar's** weakness thus far in August continued on Wednesday, despite newsflow having little bearing on USD moves. Key updates were on topics of trade, geopolitics, and the Fed. US President Trump doubled tariffs on India to 50%, citing the direct and indirect imports of Russian oil. Meanwhile, reports emerged that Trump advisers are to push for a temporary Fed governor to fill Kugler's seat, a move that would allow Trump more time to decide on a Fed Chair. Separately, talks between the Russian President Putin and US Special Envoy Witkoff seemingly went well, with both parties calling the meeting productive. The NYT also reported that Trump may meet with Putin and Zelensky next week. Multiple Fed speakers were present throughout the day, where Kashkari's (2026 voter) appearance carried the most weight, "Two rate cuts this year still seems appropriate", but "If inflation rises due to tariffs, Fed could pause or even hike". DXY continues its descent in August following the selloff on August 1st in response to the poor NFP report, now trading around 98.18 from the 100.01 seen at the start of the month.

In **Europe**, EZ Retail Sales rebounded 0.3% in June after a 0.3% drop in May, with growth accelerating to 3.1% from 1.9% Y/Y; EUR/USD saw little follow-through. Meanwhile, the ECB's Economic Bulletin highlighted recent developments in consumer confidence, particularly within households in the top 20% income bracket, which point towards muted consumption growth overall in 2025. Ahead, the EU will likely have to wait a few more days for Trump's EO on lowering tariffs on EU auto imports, Reuters reported. Elsewhere, Sterling strengthened against the USD, but succumbed to EUR, leaving EUR/USD higher at ~0.8727. UK PM Starmer refused to rule out tax rises over the GBP 50bln black hole, The Telegraph reported. Now, the focus turns towards the BoE rate decision on Thursday, and Governor Bailey's press conference thereafter, where a 25bps rate cut is widely expected. Click here for the BoE Newsquawk Preview.

**CHF** underperformed in the sell USD environment, strengthening modestly when compared to G10 peers. Strength was perhaps limited in the wake of the Swiss President's failed attempt to reach a deal with the US on trade, despite reports that Switzerland were to make a more attractive offer. Currently, USD/CHF sits at ~0.8060 and EUR/CHF at 0.9400.

**EM:** The RBI held the Repo Rate at 5.5% as expected, arguing current macroeconomic conditions and outlook call for continuation of the policy rate at current levels; USD/INR was unreactive. Meanwhile, relations between Brazil and the US continue to be at a standstill, with talks not ongoing. Brazil's President Lula leaned more aggressively against former President Bolsonaro, despite Trump's 50% tariff on Brazil being somewhat driven by "Brazil's insidious attacks on free elections". Lula said Bolsonaro should face additional charges for courting US tariffs and hurting the Brazilian economy; USD/BRL moved lower on the day, with the July low of 5.404 approaching on the downside.

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