US Market Wrap - 14th August 2025

Dollar and yields rise on hot US PPI

- **SNAPSHOT**: Equities mixed, Treasuries down, Crude up, Dollar up.
- **REAR VIEW**: Hot US PPI; US initial/continued claims remain rangebound; Putin says the US are seeking agreements that are acceptable to all; Kremlin says Putin/Trump to discuss trade and economic cooperation where there is "huge untapped potential"; Fed's Daly says a 50bps rate cut could send off an urgency signal, Musalem too pushes back against a 50bps cut; UK GDP tops expectations in Q2/June; Australia job growth in July matches expectations; Norges Bank holds rates, as expected.
- **COMING UP**: **Data:** Japanese GDP (Q2), Chinese Activity Data (Jul), German WPI (Jul), US Retail Sales (Jul), US University of Michigan Prelim (Aug), Import/Export Prices (Jul), Industrial Production (Jul), Atlanta Fed GDP. **Events:** Trump-Putin summit & Joint Press Conference. **Supply:** Australia.

MARKET WRAP

US equities were mixed, weighed earlier in the premarket as recent bets of a Fed September rate cut were trimmed on inflationary fears posed by today's hot US PPI report. Headline and core PPI metrics markedly accelerated above expectations, surpassing both the consensus and forecast range on all fronts, with core & headline M/M rising 0.9% against the expected 0.2%. Over three-quarters of the move higher in producer prices can be tracked to the index for final demand services (+1.1%), while over half can be attributable to margins for final demand trade services rising 2%. The latter suggests that producers have room to pass on the costs of tariffs to buyers. The report sparked downside in equities, bonds, gold and upside in the dollar. Given the rise in US yields, the recent outperformance in RUT swiftly reversed, trading lower by ~1.3% while the SPX was unchanged. Elsewhere on the data footing, jobless claims were within forecast ranges, dropping to 224k from 227k, below the 228k forecast, with continued claims falling to 1.953mln. Sectors were mixed, with Healthcare and Consumer Discretionary leading gains while Materials, Industrials, and Consumer Staples saw losses. In FX, Dollar strength followed PPI, coinciding with the downside move in Treasuries, as yields moved higher in response to market pricing of a Fed September 25bps rate cut falling to c. 94% from 100%. Due to the aforementioned, gold prices were weighed on, falling to ~USD 3,340/oz from earlier highs of 3,374. For the Yen, original strength was seen as markets paid more attention to US Treasury Secretary Bessent's remarks on Bloomberg yesterday, in which he said the BoJ are behind the curve on inflation and is likely to hike rates soon. GBP relatively outperformed after GDP (Jun) beat, while the EUR/NOK was modestly lower after the Norges Bank held its Key Policy Rate as expected. In crude, prices were initially weighed by Russia's President Putin sounding positive on the US ahead of their meeting on Friday. That said, WTI and Brent moved higher thereafter into settlement as Trump's latest remarks throughout the day did little to bolster recent optimism surrounding a peace deal between Russia and Ukraine. At the Fed, both Daly (2026 voter) and Musalem (2025 voter) pushed back against the idea of 50bps rate cut, with the former noting a move would send an urgency signal. Following the July jobs report, which marked the third consecutive month of notable slowing in job growth, Daly said she has stopped describing the labour market as solid.

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PPI: PPI was hot. The headline M/M rose 0.9%, well above the 0.2% forecast and massively above the highest forecast of 0.3%. This saw the Y/Y at 3.3%, accelerating from 2.3%, above the 2.5% forecast and above the highest 3.0% forecast. The core measure rose 0.9%, above the 0.2% forecast, 0.0% prior, and above the 0.4% high estimate, with Y/Y at 3.7% (exp. 2.9%, prev. 2.6%, high 2.6%). Within the report, the BLS highlights that within final demand, over three-quarters of the broad-based advance in July can be traced to the index for final demand services, which rose 1.1%. It also noted that over half of the broad-based July increase is attributable to margins for final demand trade services, which rose 2.0%. Prices for final demand goods increased 0.7%. Within the report, the PCE components saw a notable increase in Portfolio Management fees, rising 5.8%, accelerating from the 2.1% in June. However, this is primarily tied to asset prices and reflects the gains in equities seen over the last month. The PPI report will likely bolster the case for those on the Fed that they are further away from their inflation goals than their employment goals. However, there is still a lot of data to digest between now and September. Money markets are no longer fully pricing a 25bps rate cut in September after the PPI report. When looking towards the PCE report, Oxford Economics write "With the CPI and PPI components in hand, our forecast is for the PCE deflator to rise 0.2% m/m in July, while the core PCE deflator will rise 0.3%". This is not as scary as the 0.9% PPI prints.

INITIAL JOBLESS CLAIMS: Weekly Initial Claims (w/e 9th August) fell W/W to 224k from 227k, beneath the 229k markets had expected, leaving the 4-week average higher, however, at 221.7k (prev. 221k). The unadjusted data totalled 199,186 (+1.9% W/W), with seasonal factors having expected an increase of 3.4%. Continued Claims (w/e 2nd August) fell to 1.953mln from 1.968mln, beneath the expected 1.964mln. On an unadjusted basis, continued claims total 1.984mln, -0.8% W/W, where seasonal factors had expected no change from the prior week. NSA claims saw the biggest drop in Iowa (-741), while the biggest increase occurred in Massachusetts again (+ 1,283). Pantheon Macroeconomics writes, "The stability in initial jobless claims recently provides some reassurance that a relatively low layoff rate is limiting the deterioration in the labor market, despite the clear further slowdown in hiring". Ahead, the firm notes the uptick in recent months in several leading indicators of layoffs "suggests that initial claims should start climbing again soon".

FED'S DALY (2027 voter): The Fed San Fransico President said a large rate cut next month does not seem warranted, in a WSJ interview. Daly noted a 50bps rate cut could send off an urgency signal, signalling that the Fed doesn't feel strength about the labour market. Daly doesn't see that nor the need to catch up and prefers moving gradually to a more neutral setting "over the next year or so". Daly has stopped describing the labour market as solid after the July payroll report (Jul +73k, Jun +14k, May +19k). On policy, she said it's likely too restrictive for where the economy is headed, and so for her, that calls for recalibration. Recently, in June, Daly forecasted two rate cuts for 2025, a view she said is still reasonable, but cuts at all three remaining meetings this year could be appropriate if they saw more signs that the labour market was more precarious, albeit fewer cuts would be warranted if there were signs of serious strength in inflation. On businesses, Daly said they have found ways to absorb tariff costs rather than passing them on to consumers.

FED'S MUSLAEM (2025 voter): The St.Louis Fed President expects most of the impact of tariffs on inflation to fade in 6-9 months, albeit, said it could be more persistent. Similar to Daly, Musalem said a 50bps is not warranted by the state of the economy or data, and will further revise his view as more data comes in, saying it's too early to pre-commit a decision for the September meeting. Concerning the labour market, Musalem said it's showing signs of softening but remains robust. The economy is growing slightly less than 1% which poses downside risks to the jobs market. The 2025 voter remarked that businesses are reporting no immediate plans for layoffs, inflation is running close to 3%, with tariffs feeding through to inflation.

FIXED INCOME

T-NOTE FUTURES (U5) SETTLED 12 TICKS LOWER AT 111-25+

Hot PPI sees the curve bear flatten . At settlement, 2-year +5.0bps at 3.737%, 3-year +4.6bps at 3.700%, 5-year +4.7bps at 3.819%, 7-year +4.9bps at 4.027%, 10-year +5.1bps at 4.291%, 20-year +5.4bps at 4.856%, 30-year +5.3bps at 4.881%.

INFLATION BREAKEVENS: 1-year BEI +4.0bps at 3.245%, 3-year BEI +2.7bps at 2.718%, 5-year BEI +1.7bps at 2.464%, 10-year BEI +1.7bps at 2.381%, 30-year BEI +1.4bps at 2.276%.

THE DAY: T-notes continued to advance higher in the European morning to peak at 112-14 ahead of the US data. The super-hot PPI took the limelight with all metrics surging above all analyst forecasts, reigniting inflationary concerns after the US CPI was deemed not as hot as feared. The hot report saw money markets pare back rate cut bets, with a 25bps rate cut no longer fully priced, albeit still pricing a 93.5% probability of such a move at the time of writing. Meanwhile, jobless claims were within forecast ranges, dropping to 224k from 227k, below the 228k forecast, with continued claims falling to 1.953mln. T-notes tumbled on the PPI print and continued to push lower into settlement. There is still more data to digest between now and the FOMC meeting, which will further shape rate cut expectations, including PCE, CPI and one more NFP report. On Friday, US Retail Sales and Import Price updates will be in focus, but also the meeting between Trump and Putin on Friday afternoon. The Jackson Hole Economic Symposium also takes place next week, where Fed talk will be eyed for any commentary on their decisions ahead, which so far seem quite mixed. Following the PPI data, analysts released forecasts for the Fed's preferred gauge of inflation, core PCE, which ranged between 0.25-0.3% M/M. Fed speak today saw Musalem and Daly, the latter (non-voter) leaned dovish, but the former (voter) was hawkish. Meanwhile, Bessent clarified his remarks from Wednesday, stating he was not telling the Fed to cut by 50bps, adding they might start with a 25bps cut in September and then accelerate cuts later.

SUPPLY

Notes/Bonds

- US to sell USD 16bln of 20yr bonds on August 20th
- US to sell USD 8bln of 30yr TIPS on August 21st

Bills

- US sold USD 100bln 4-week bills at a high rate of 4.28%, B/C 2.67x
- US sold USD 85bln 8-week bills at a high rate of 4.185%, B/C 2.72x
- US to sell USD 82bln of 13-week bills and USD 73bln of 26-week bills on August 18th; all to settle August 21st.
- US to sell USD 85bln of 6-week bills on August 19th; to settle August 21st

STIRS/OPERATIONS

- **Market Implied Fed Rate Cut Pricing: September 23.4bps (prev. 25.7bps), Oct 38bps (prev. 43bps), Dec 57bps (prev. 63bps).**
- NY Fed RRP op demand at USD 29bln (prev. 57bln) across 14 counterparties (prev. 21)
- EFFR at 4.33% (prev. 4.33%), volumes at USD 116bln (prev. 114bln) on August 13th.
- SOFR at 4.33% (prev. 4.36%), volumes at USD 2.796tln (prev. 2.804tln) on August 13th.

CRUDE

WTI (U5) SETTLED USD 1.31 HIGHER AT 63.96/BBL; BRENT (V5) SETTLES USD 1.21 HIGHER AT 66.84/BBL

WTI and Brent chopped in the European morning before rallying throughout the US session ahead of the Trump/Putin meeting. WTI and Brent traded between USD 62.58-63.98/bbl and USD 65.55-66.87/bbl. Lows were seen after Russian President Putin said the US is making a sincere effort to find a solution for the Ukraine crisis, and is seeking agreements that are acceptable to all. However, the downside did not last long, and crude marched higher thereafter. Attention largely resides on the meeting between Russian President Putin and US President Trump, with the White House recently tempering expectations for any breakthrough at the talks, while the White House reiterated its warning that Trump has plenty of tools to use if needed. Aside from geopolitics, the hot PPI report was the highlight, which reignited inflation fears and saw markets pare back rate cut bets from the Fed. Elsewhere, the NHC said that Tropical Storm Erin continues forward and may become a hurricane by Friday. Note, it appears to be heading towards the Gulf of Mexico, so it is worth monitoring. With all the focus on the aforementioned Russia/US meeting, ING write that clearly, there is upside risk for the market if little progress is made, where Trump could extend secondary tariffs on other buyers of Russian energy. On which, ING writes, "The expected oil surplus through the latter part of this year and 2026, combined with OPEC spare capacity, means that the market should be able to manage the impact of secondary tariffs on India. But things become more difficult if we see secondary tariffs on other key buyers of Russian crude oil, including China and Turkey".

EQUITIES

CLOSES: SPX +0.01% at 6,467, NDX -0.07% at 23,832, DJI +0.01% at 44,927, RUT -1.35% at 2,297.

SECTORS: Financials +0.55%, Health +0.5%, Consumer Discretionary +0.45%, Communication Services +0.42%, Technology -0.03%, Energy -0.17%, Utilities -0.71%, Real Estate -0.72%, Consumer Staples -0.73%, Materials -0.81%, Industrials -0.88%.

EUROPEAN CLOSES: Euro Stoxx 50 +0.90% at 5,437, Dax 40 +0.75% at 24,367, FTSE 100 +0.13% at 9,177, CAC 40 +0.84% at 7,870, FTSE MIB +1.11% at 42,654, IBEX 35 +1.09% at 15,184, PSI -0.47% at 7,723, SMI +0.31% at 12,009, AEX -0.20% at 898

- **Cisco (CSCO):** Slight Q4 earnings beats failed to impress Wall St.
- **Deere (DE):** Cut FY net income view, noting customers remain cautious amid ongoing uncertainty.
- **Coherent (COHR):** EPS & rev. missed with/ guidance disappointing.
- **Tesla (TSLA):** Preparing to test its robotaxi service in NYC.
- **Amcor (AMCR):** Q4 earnings fell short of expectations.
- **Tapestry (TPR):** FY26 EPS outlook missed forecasts.
- **Fortive (FTV):** Downgraded to 'Equal Weight' from 'Overweight' at Barclays.
- **Dow (DOW):** Upgraded to 'Neutral' from 'Underperform' at BofA.
- **Ibotta (IBTA):** Profit, sales, and guidance underwhelmed.
- Trump admin said to discuss US taking stake in **Intel (INTC)**, according to Bloomberg; Intel-US talks follow meeting between CEO and Trump this week. Intel and US discussing plan that would bolster Ohio expansion.

FX

The Dollar clawed back Wednesday's weakness after a hot US PPI report. Headline and Core PPI exceeded analysts' expectations, accelerating way beyond the forecast range on both monthly and yearly gauges, with headline and core M/M at 0.9% against expectations of 0.2%. While the market pricing still favours a 25bps rate cut from the Fed in September, rate cut bets pulled back after the PPI report from 100% to ~96%. Before the US data, remarks were seen from Fed's Daly (2027 voter) in a WSJ interview, where she said a 50bps rate cut could send off an urgency signal, and after the July jobs report, which unveiled three consecutive months of notably slowing in job growth, she won't describe the labour market as solid. Musalem (2025 voter) also argued against a 50bps cut, due to the state of the economy/data, and expects most of the impact of tariffs on inflation to fade in 6-9 months. Meanwhile, the claims report showed no immediate cause for concern in the labour market, with initial and continued claims remaining within recent ranges. DXY rose to ~98.28 from earlier lows of 97.631.

G10FX was notably in the red on account of USD strength driven by trimmed Fed rate cut bets. Antipodes sank the most, despite some strength in AUD overnight after jobs growth met expectations in July, while relative outperformance was seen in GBP, albeit still posting losses, helped by GDP metrics for Q2/June topping expectations. JPY too relatively outperformed, posting lesser weakness than peers as remarks from US Treasury Secretary Bessent on Wednesday got more attention, in which he said the BoJ is behind the curve on inflation and is likely to hike interest rates soon. USD/JPY now trades around highs of 147.95 from the earlier Bessent-induced lows of 146.22, while Cable moved lower to ~1.3530.

The Norges Bank held the Key Policy Rate at 4.25% as expected. The committee views restrictive policy as still needed, but it will likely be appropriate to continue with a cautious normalisation of the policy rate ahead. ING expect Norges Bank to keep the door open to more easing later this year, with some risk of a slightly hawkish tweak in communication. The firm anticipates two 25bps cuts in September and December, with a call for EUR/NOK (did little on the rate hold, before moving modestly lower) to return to 11.60-11.70 by the end of the year.

Spot gold prices fell over USD 17/oz, weighed by the firmer dollar and US yields on account of the hotter-than-expected US PPI report. Saxo Bank's Head of Commodities Strategy, Ole Hansen, says "Overall, the print does not alter our bullish view on gold as the Fed eventually will have to choose between fighting inflation or supporting he economy".