

### Global risk off as Trump threatens massive China tariffs

- **SNAPSHOT:** Equities down, Treasuries up, Crude down, Dollar down, Gold up
- **REAR VIEW:** Trump threatens China with massive tariffs due to recent export controls on rare earths; China to impose special port fees on US vessels; China suspects QCOM of violating antitrust laws; China reportedly customs crackdown on NVDA AI chips; UoM tops expectations; EU plans new proposal with the US to implement trade deal; Better-than-expected Canada jobs report; Israeli PM Netanyahu to expand circle for peace; Japan's Komeito leader conveyed intention to withdraw from the LDP coalition; Fed Chair candidates reduced to five.
- **COMING UP: Holiday:** US Columbus Day, Canadian Thanksgiving, Japanese Holiday (Sports Day). **Events:** OPEC MOMR. **Data:** Chinese Trade Balance (Oct), German Wholesale Price Index (Sep). **Speakers:** BoE's Mann; Fed's Paulson; RBA's Hauser.
- **WEEK AHEAD:** Highlights include Potential Retail Sales data, start of earnings season, China inflation and trade, UK GDP. [Click here for the full report.](#)
- **CENTRAL BANK WEEKLY:** Previewing RBA Minutes; Reviewing FOMC Minutes and RBNZ. [Click here for the full report.](#)
- **WEEKLY US EARNINGS ESTIMATES:** Big banks to start earnings season. [Click here for the full report.](#)

### MARKET WRAP

It was a risk-off trade on Friday, with stocks plummeting while havens rallied as US President Trump reignited trade concerns. In response to China's rare earth export controls, Trump threatened massive tariffs on China, noting that other countermeasures are also under consideration. He also said there is seemingly no need for an in-person meeting with Chinese President Xi, given the escalations. The post on Truth hit global equities hard, with all indices in the red and sectors also whacked, aside from Consumer Staples. The Dollar was sold on the news as it raises trade uncertainty, while the Yen and Swiss Franc outperformed. Antipodes were hit the hardest, given the close ties to China. Oil prices were sold in the risk-off trade, adding to the post-Gaza ceasefire downside. Gold prices initially rallied back above USD 4,000/oz, pared, and then rose again in later trade as the downside in equities continued. T-notes rallied across the curve on the haven demand, extending on the bid seen in the European morning (tracked global peers higher). Elsewhere, UoM data sparked little reaction and was largely in line with expectations. 1-year inflation expectations eased, with the 5-year unchanged. Note, next week's CPI data has been pushed back to 24th October, while the Fed said Industrial Production will be delayed. Retail Sales are also likely to be delayed. Fed speak today saw Daly echo dovish remarks. Waller said the Fed needs to cut rates, but needs to do so cautiously, noting it will not be aggressive or fast, and will move in 25bp steps. Musalem noted that the goals are in tension, but warned that there is limited room for further easing before policy becomes accommodative.

### US

**UOM:** The Prelim Oct. UoM Consumer Sentiment headline slipped to 55.0 from 55.1, above the 54.2 forecast. The beat was led by the current conditions index rising to 61.0 from 60.4, despite expectations for a drop to 60.0. The forward-looking expectations eased to 51.2 from 51.7, despite an unchanged consensus. The report notes that "Pocketbook issues like high prices and weakening job prospects remain at the forefront of consumers' minds. At this time, consumers do not expect meaningful improvement in these factors. Meanwhile, interviews reveal little evidence that the ongoing federal government shutdown has moved consumers' views of the economy thus far." Inflation expectations saw the one-year ahead ease to 4.6% from 4.7%, while long-run inflation expectations were steady at 3.7%. It notes that "inflation expectations for both time horizons are about midway between the readings seen a year ago and the highs seen this year in April and May in the wake of the initial announcements of major tariff changes."

**FED'S WALLER** (voter, dove): Governor Waller reiterated the view that tariffs are a one-time cost increase, which doesn't result in persistent inflation. He acknowledges there could be a temporary effect, but he does not think it will be that big. Waller claims there is roughly a 40% pass-through of tariffs to goods. He is not seeing evidence of a wage-price spiral, which undercuts the risk of second-round inflation effects. On rates, Waller kept dovish, saying the Fed needs to cut, but be cautious at the same time. The Fed will not be aggressive or fast, and will move in 25bps steps. The governor views the labour market as not that strong and is not tight in any way. Separately, Waller described his interview for Fed Chair as "great", but doesn't know if he is a finalist for the role. Reports had suggested the list is now down to five, Waller, Bowman, Rieder, Warsh and Hassett.

**FED'S MUSALEM** (2025 voter, hawk): Musalem noted that Fed goals are in tension with inflation running high and the labour market showing weakness, noting a balanced approach only works if inflation expectations are anchored. He reiterated that short-term expectations are elevated, but long-term expectations are anchored. He expects inflation to fade by H2 26, but warns the labour market could weaken; it looks like it is currently at full employment. Musalem supported the September rate cut as insurance against a weakening labour market, and he is open-minded about future rate cuts as further insurance, believing the Fed should tread with caution. He said policy is between modestly restrictive and neutral, reiterating that there is limited room for further easing before policy gets overly accommodative. He believes the Fed has a good understanding of the economy right now, despite the shutdown.

**FED'S DALY** (2027 voter, dovish): Daly said inflation has come in much less than had been feared, and the labour market is to a point where softening looks like it could be more worrisome if they don't risk manage. Daly described policy as still modestly restrictive after the September rate cut. She notes that the Fed is also projecting more cuts, as part of the risk management.

### FIXED INCOME

## T-NOTE FUTURES (Z5) SETTLED 21 TICKS HIGHER AT 113-05+

**T-notes rally in risk-off trade as Trump threatens massive China tariffs.** At settlement, 2-year -7.2bps at 3.527%, 3-year -7.9bps at 3.536%, 5-year -8.9bps at 3.653%, 7-year -9.2bps at 3.837%, 10-year -9.1bps at 4.057%, 20-year -9.5bps at 4.604%, 30-year -9.5bps at 4.638%.

**INFLATION BREAKEVENS:** 1-year BEI -5.8bps at 3.215%, 3-year BEI -5.5bps at 2.639%, 5-year BEI -5.2bps at 2.377%, 10-year BEI -4.0bps at 2.299%, 30-year BEI -2.8bps at 2.233%.

**THE DAY:** T-notes had been gradually rising overnight and in the European morning, tracking global peers higher; however, T-notes shot higher as markets tanked following Trump's massive tariff threat on China. T-notes rose from lows overnight of 112-16+ to afternoon peaks of 113-06+ in the wake of the post, which saw global havens (Gold, Yen and Swiss Franc) rally, while the Dollar was sold aggressively. Elsewhere, focus was on Fed speak and the UoM, the data saw a slight beat while the 1yr inflation expectations eased to 4.6% from 4.7%, while the 5yr ahead inflation expectations were maintained at 3.7% - sparking little move in T-notes. Fed speak saw Daly echo dovish remarks (inflation has been less than feared, labour market softening could become more worrisome). Waller said the Fed needs to cut rates, but needs to do so cautiously, noting it will not be aggressive or fast, and will move in 25bp steps. Musalem was neutral, noting the goals are in tension, but was hawkish on the neutral rate, noting there is limited room for further easing before policy becomes accommodative. Note, with the government still in shutdown and no sign of a reopening soon, CPI and Retail Sales data next week will likely be delayed. The BLS announced the CPI data will be released on 24th October, even with the government shut down, but there has been no mention of the Retail Sales report. Focus also largely lies on trade tensions between the US/China to see if a resolution is seen, as Trump announced he sees no need to meet with Chinese President Xi, given the recent rare earth export ban.

## SUPPLY

### Bills

- US to sell USD 95bln in 6-week bills (prev. USD 90bln), USD 86bln in 13-week bills (prev. USD 84bln) and USD 77bln in 26-week bills (prev. 75bln) on Oct. 14th; all to settle Oct. 16th

## STIRS/OPERATIONS

- **Market Implied Fed Rate Cut Pricing: Oct 25bps (prev. 24bps), Dec 48bps (prev. 45bps), January 60bps (prev. 55bps).**
- NY Fed RRP op demand at USD 4.1bln (prev. 4.5bln) across 10 counterparties (prev. 12)
- EFRF at 4.10% (prev. 4.10%), volumes at USD 84bln (prev. 76bln) on October 9th.
- SOFR at 4.12% (prev. 4.14%), volumes at USD 2.924tln (prev. 2.946tln) on October 9th.

## CRUDE

**WTI (X5) SETTLED USD 2.61 LOWER AT 58.90/BBL; BRENT (Z5) SETTLED USD 2.49 LOWER AT USD 62.73/BBL**

**Crude benchmarks end the week in the red as risk-off trade and easing geopolitical tensions in the Middle East weigh.** Throughout overnight and European trade, crude prices inched lower, with momentum picking up after the Gaza ceasefire took effect and Israeli PM Netanyahu saying he will work to expand the circle of peace. The move lower accelerated as US President Trump threatened China with massive tariffs due to China's recent tightening of their export controls on rare earths. The announcement sparked a broad-based risk-off trade, with crude prices no exception. WTI and Brent hit lows of USD 58.70/bbl and 62.52/bbl, from earlier highs of 61.67/bbl and 65.36/bbl, respectively. On supply, Saudi crude oil supply to China is set to fall to about 40mln barrels in November from 51mln in October, according to sources cited by Reuters. In other news, the weekly Baker Hughes rig count saw oil rigs fall by 4 to 418, natgas rise by 2 to 120, leaving the total down by 2 to 547. At ANZ, they expect oil prices to trade around USD 60-65/bbl through H1 2026. "A further recovery of oil prices to USD 70/bbl by the end of 2026 is possible, either due to rising recovery in demand or OPEC stepping in to support the market with production cuts".

## EQUITIES

**CLOSES:** SPX -2.71% at 6,553, NDX -3.49% at 24,222, DJI -1.90% at 45,480, RUT -3.01% at 2,395

**SECTORS:** Technology -3.97%, Consumer Discretionary -3.29%, Energy -2.80%, Communication Services -2.31%, Industrials -2.22%, Financials -2.16%, Materials -1.82%, Health -1.49%, Real Estate -1.12%, Utilities -0.44%, Consumer Staples +0.25%.

**EUROPEAN CLOSES:** Euro Stoxx 50 -1.75% at 5,527, Dax 40 -1.40% at 24,267, FTSE 100 -0.86% at 9,427, CAC 40 -1.53% at 7,918, FTSE MIB -1.74% at 42,048, IBEX 35 -0.69% at 15,477, PSI -0.73% at 8,170, SMI -0.89% at 12,497, AEX -1.87% at 940.

## STOCK SPECIFICS

- **Qualcomm (QCOM):** China suspects QCOM of violating antitrust law.
- **Venture Global (VG):** Lost a partial arbitration ruling to BP over LNG sales from the Calcasieu Project.
- **Levi Strauss (LEVI):** Earnings & guidance beat, but concerns over tariff exposure weigh.
- **Elastic (ESTC):** Raised FY26 revenue view; announced USD 500mln share buyback programme.
- **Applied Digital (ALPD):** Adj. EPS & revenue beat expectations.
- **Amcor (AMCR):** Maintained FY26 EPS view.
- **Serve Robotics (SERV):** Announced USD 100mln registered direct offering.
- **Rocket Lab (RKLB):** Signed contract for two Electron launches with Jaxa.
- **Doximity (DOCS):** Downgraded at JPMorgan to 'Underweight' from 'Neutral'.
- **Hologic (HOLX):** Reportedly has renewed buyout interest, according to CTFN Daily.

- **Johnson & Johnson (JNH)** in talks to buy **Protagonist Therapeutics (PGTX)**, WSJ reports.

## FX

**The Dollar** lost its haven appeal into the weekend after US President Trump revived negative discourse on trade with China. Trump expressed dislike towards China's recent move to ramp up export controls over rare earths to other countries, announcing one response under consideration is massive tariffs on goods imported from China. Immediately, risk sentiment soured, causing weakness in global equities and a bid in CHF and JPY. The move today is in fashion with the Dollar's normal reaction to increased friction between the US and China on trade, now bringing into doubt whether the US and China can reach a deal in November to at least renew their trade truce. Elsewhere, UoM topped expectations, Fed speakers were present (members kept to known views), and the EU plans a new proposal with the US to implement the trade deal (BBG reported), aiming for a checklist that ensures the pact remains on track. DXY remains firmer on the week despite Friday's events, trading ~98.97 from earlier 99.431 highs.

**G10 FX** performance vs USD was mixed. JPY & CHF outperformed in the space given their lesser exposure to a US-China trade war and usual haven appeal, with the latter erasing earlier weakness in the week, while the former still has some work to do. GBP and EUR also benefited. On the flip side, AUD and NZD, which have closer trade relations with China, were also punished, losing ground vs USD, particularly AUD; AUD/USD now trades ~0.6480 from earlier 0.6573 highs.

In Canada, a better-than-expected jobs report (Sep) supported the CAD, whereby job growth saw a healthy rebound, rising 60.4k, above the expected 5k (prev. -65.5k). The unemployment rate unexpectedly remained firm at 7.1% (exp. 7.2%). Since the report, USD/CAD retreated from 1.3977 lows as Canada's close ties with the US and China weighed alongside the risk-off trade, which weighed on crude prices.

In Japan, the Komeito leader Saito met with LDP Leader Takaichi and conveyed his intention to withdraw from the coalition, citing the lack of sufficient answers on issues of politics and money, according to NHK. The main takeaway is that this would weaken Takaichi's majority and, as such, reduce the likelihood of legislation being passed. JPY saw choppy trade on the news.

**CNH:** The Chinese Yuan was hit by Trump's tariff threat on China, causing USD/CNH to hit highs of 7.1481 from earlier 7.1236 lows. Trump's disapproval of China's approach to rare earths has left him questioning his upcoming meeting with President Xi in two weeks. Trump did say, however, that many other countermeasures are under serious consideration.

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