

### Tech leads gains ahead of Samsung prelim numbers

- **SNAPSHOT:** Equities up, Treasuries flat, Crude down, Dollar flat, Gold down
- **REAR VIEW:** Mixed ISM Services PMI; Headline missed but Prices fell & Employment rose; Waller said forward guidance can be a 'valuable tool', but also sometimes best to avoid it; NVDA said "our roadmap is intact" in response to delay report; AVGO to develop & supply a range of custom ASIC silicon products for AAPL; Trump praised DELL; OPEC lifts output for August as expected
- **COMING UP:** **Data:** German Industrial Production (May), French Trade Balance (May), US ADP Employment Change Weekly, Trade Balance (May), New York Fed SCE (Jun), Atlanta Fed GDP (Q2), Canadian Trade Balance (May), Ivey PMI (Jun) **Events:** EIA STEO (Jul); NATO Ankara Summit **Speakers:** BoE's Mann Supply: Japan, UK, Germany, US

### MARKET WRAP

Stocks closed higher on Monday following the long Independence Day weekend, with the Nasdaq outperforming as Technology led the advance. Semiconductor stocks were among the strongest performers (SOXX +3%), while memory names rallied around 7% ahead of Samsung's preliminary earnings release overnight.

Alongside Technology, Communication Services, and Consumer Discretionary outperformed, while the traditional defensive sectors of Health Care, Consumer Staples and Real Estate lagged.

In FX, the Dollar surrendered its early gains as Sterling and the Australian Dollar outperformed, supported by the broader risk-on tone and carry demand at the expense of the lower-yielding Yen and Swiss Franc. The Euro also posted modest gains against the Greenback. The New Zealand Dollar underperformed ahead of the RBNZ decision this week, where the NZIER Shadow Board recommended leaving the Official Cash Rate unchanged at 2.25%, compared with market pricing implying around an 80% probability of a 25bp hike to 2.50%. Precious metals also weakened, with both gold and silver closing lower.

Energy prices edged lower after Saudi Aramco reduced the official selling price of its Arab Light crude to Asia by USD 11.00/bbl, taking it to a USD 1.50/bbl discount versus the regional benchmark—the largest reduction in 26 years. Geopolitical developments were limited, although reports suggested Islamabad is the leading candidate to host the next round of US-Iran technical talks, with July 11th emerging as the tentative meeting date.

Treasuries settled little changed, with the curve modestly steepening as investors looked ahead to this week's FOMC minutes and Treasury supply. Some pressure was also seen amid a busy slate of corporate bond issuance.

On the macro front, the ISM Services PMI came in slightly below expectations, although the employment component returned above the 50 threshold while the prices paid index declined, providing a somewhat more constructive inflation signal. Fed Governor Waller also reiterated that the balance of risks has shifted, arguing that the labour market now appears broadly stable while inflation has become the more pressing concern for policymakers. On communications, he stated that forward guidance can be a useful policy tool in certain circumstances but is not always appropriate.

Looking ahead, attention turns to the RBNZ policy decision on Tuesday night (EDT)/Wednesday morning (BST), the FOMC minutes on Wednesday, Fed Governor Williams on Thursday and this week's Treasury supply. Equity investors will also be closely watching Samsung's preliminary earnings for another read on conditions within the global memory chip sector.

### US

**ISM SERVICES PMI:** The ISM Services PMI eased to 54.0 in June (exp. 54.2, prev. 54.5), remaining firmly in expansion territory for a 24th consecutive month, with all four components of the composite index above their respective 12-month averages. Business Activity slowed to 55.4 from 57.7, while New Orders eased to 55.1 from 57.3, indicating activity and demand remained healthy despite moderating from May's pace. The Employment Index returned to expansion for the first time in four months, rising to 51.2 from 47.9, while the Prices Index fell to 67.7 from 71.3, its lowest level since February, signalling that cost pressures remained elevated but continued to ease. Elsewhere, the Supplier Deliveries Index fell to 54.4 from 55.2, however there was an increase in commodities listed as "in Short Supply", rising to nine from five. The Backlog of Orders Index rose to 54.9 from 51.3. Oxford Economics said the report points to a resilient services sector and is consistent with its forecast for US GDP growth of around 2% this year, despite the recent energy price shock. Oxford also noted that while supply-chain stress and price pressures are easing, some industries continue to expect higher input costs in the months ahead. Regarding the labour market, Oxford views the improvement in the employment index as a sign of stabilisation rather than reacceleration, supporting its expectation that the Federal Reserve will remain on an extended pause as it continues to focus on inflation.

**FED'S WALLER:** Fed Governor Waller stated risks have flipped around, noting the labour market seems stabilised, and inflation has been taking off, which changes how you think about policy. He stressed policymakers have always been committed to 2% inflation, and it is a credible pledge. However, he did say he would prefer the inflation target to be set as a range, but changing the target at this point would not be credible. Waller also stated that if the Fed's reaction function is not well understood, policymakers need to talk about it. On forward guidance, which Chair Warsh is adverse to, Waller said that it can speed the impact of monetary policy and

be a valuable tool, but it can be a hindrance if it is too strong or rigid, and it is problematic when policymakers confront different economic outcomes, all with a significant probability of occurring. Waller added that in some cases, it is best not to use forward guidance at all.

## FIXED INCOME

### T-NOTE FUTURES (U6) SETTLE 2 TICKS HIGHER AT 109-20+

**T-notes little changed on return from Independence Day weekend ahead of supply and FOMC minutes.** At settlement, 2-year -1.9bps at 4.118%, 3-year -2.3bps at 4.140%, 5-year -2.8bps at 4.204%, 7-year -2.1bps at 4.332%, 10-year -1.2bps at 4.473%, 20-year -0.2bps at 4.986%, 30-year +0.3bps at 4.988%.

**THE DAY:** It was a quiet return from the long Independence Day weekend, with the Treasury curve modestly steepening in subdued trading. There was little in the way of fresh macro catalysts, although crude prices edged lower after OPEC+ agreed over the weekend to increase oil production, in line with expectations. Additional downside pressure came after Saudi Aramco cut its official selling price for Arab Light crude to Asia by USD 11.00/bbl, marking the largest reduction in 26 years.

Geopolitical developments were limited. Reports suggested Islamabad is the leading candidate to host the next round of US-Iran technical talks, with July 11th emerging as the tentative meeting date.

Treasury futures came under some pressure during the US session amid a busy slate of corporate issuance, with Honda, Enel, Energy Transfer and Toyota all tapping the bond market. There may also have been some concession ahead of this week's Treasury supply, which includes 3-year, 10-year and 30-year coupon auctions.

Economic data and Fed commentary generated little market reaction. The ISM Services PMI came in slightly below expectations on the headline, although the decline in the prices paid component and the improvement in employment were viewed as constructive. Fed Governor Waller discussed the merits of forward guidance, noting it can be valuable but in some cases it is best not to use it at all. On the economic outlook, he observed that the balance of risks has shifted, arguing the labour market now appears broadly stable while inflation pressures have become the more pressing concern, altering how policymakers should think about monetary policy.

Looking ahead, attention turns to this week's Treasury supply, while the FOMC minutes on Wednesday will be closely watched for further insight into policymakers' appetite for rate hikes, the discussions surrounding the removal of forward guidance, and any early thinking on the broader policy reviews announced by Chair Warsh.

### SUPPLY

#### Notes

- US Treasury to sell USD 58bln of 3-year notes on July 7th, USD 39bln of 10-year notes July 8th, and USD 22bln of 30-year bonds on July 9th; all to settle July 15th

#### Bills

- US sold 3-month bills at high-rate 3.735%, B/C 2.58x; sold 6-month bills at high-rate 3.830%, B/C 3.05x
- US to sell USD 90bln (prev. 80bln) of 6-week bills and USD 52bln (prev. 50bln) of 52-week bills on July 7th.

### STIRS / OPERATIONS

- Fed Pricing: 30bps (prev. Dec +30bps)
- EFR at 3.63% (prev. 3.63%), volumes at USD 121bln (prev. USD 121bln) on July 3rd
- SOFR at 3.64% (prev. 3.66%), volumes at USD 3.208tln (prev. USD 3.321tln) on July 2nd
- NY Fed RRP op demand at 2.72bln (prev. 2.17bln) across 13 counterparties (prev. 4) on July 6th

## CRUDE

### WTI (Q6) SETTLES USD 0.14 LOWER AT 68.55/BBL; BRENT (U6) SETTLES USD 0.13 LOWER AT 71.99/BBL

**The crude complex was marginally lower to start the week, albeit in very thin newsflow, as traders returned from the holiday weekend.** Benchmarks were rangebound throughout the duration of the session amid a lack of headline-driven trade, which saw WTI trade between USD 67.82-69.21/bbl and Brent USD 71.02-72.61/bbl. Little new was said on geopolitics but reports suggest talks could resume from Saturday. Elsewhere, OPEC+ met over the weekend where they agreed to lift production by 188k BPD from August, in fitting with reports last week. Meanwhile, Saudi Arabia's August's OSPs were released; Arab Light crude oil to Asia set at USD -1.50/bbl to ICE Brent settlement, an USD 11/bbl reduction, the largest cut to its main oil price since at least 2000; NW Europe OSP was set at USD +0.85/bbl to Ice Brent settlement and USD +3.60/bbl vs ASCI to US. The calendar ahead is quiet, although US players will await the World Cup knockout soccer match versus Belgium, where star striker Balogun has controversially been allowed to play.

## EQUITIES

**CLOSES:** SPX +0.72% at 7,537, NDX +1.26% at 29,698, DJI +0.29% at 53,061, RUT +0.45% at 3,009

**SECTORS:** Communication Services +1.64%, Technology +1.34%, Consumer Discretionary +0.95%, Financials +0.85%, Industrials +0.84%, Materials -0.18%, Energy -0.26%, Consumer Staples -0.90%, Real Estate -0.90%, Utilities -1.06%, Health -1.17%

EUROPEAN CLOSES: Euro Stoxx 50 -0.27% at 6,396, DAX +0.15% at 25,818, FTSE 100 -0.26% at 10,652, CAC 40 -0.33% at 8,480, AEX -0.07% at 1,082, IBEX 35 -0.85% at 19,684, FTSE MIB +0.27% at 52,959, SMI -0.85% at 14,302, PSI -1.19% at 9,21.

#### STOCK SPECIFICS:

- **Broadcom (AVGO)** to develop and supply a range of custom ASIC silicon products for **Apple (AAPL)**.
- **TeraWulf (WULF)** announces Anthropic lease at its Justified Data campus.
- **Strategy (MSTR)** reduced Bitcoin holdings by 3.5k BTC.
- **Element Solutions (ESI)** is to be acquired by Solstice Advanced Materials in a USD 14.5bln cash-and-stock deal.
- **ASML Holding (ASML)** price target raised at Bernstein to USD 2.623k (prev. USD 1.971k).
- **Datadog (DDOG)** was downgraded at Bernstein.
- US President Trump praised **Dell (DELL)**, and said to "go out and buy a Dell computer"; also thanked **Micron (MU)** for contributions to Trump Accounts.
- **PNC (PNC)** raised quarterly dividend 17.5% to USD 2/shr (prev. 1.70).
- **Nvidia (NVDA)** said "our roadmap is intact" in response to delay report

## FX

**The Dollar Index** was flat to start the week, in light newsflow, as ISM Services PMI and Fed's Waller were the highlights, albeit little move was seen on either. The former saw the headline ease to 54.0 in June (exp. 54.2, prev. 54.5), while the Employment Index returned to expansion for the first time in four months, and the Prices Index encouragingly fell to 67.7 from 71.3, its lowest level since February. Fed Governor Waller, on forward guidance, which Chair Warsh is adverse to, said that it can speed the impact of monetary policy and be a valuable tool, but it can be a hindrance if it is too strong or rigid, and it is problematic when policymakers confront different economic outcomes all with a significant probability of occurring. Waller added that in some cases, it is best not to use forward guidance at all. Looking at the week ahead, the latest FOMC Minutes (Wed) and Fed's Williams (Thurs) are arguably the highlights.

**G10 FX** was mixed against the Greenback, and without sounding like a broken record, in a day lacking headline catalysts. JPY was the clear underperformer as USD/JPY hit a peak of 162.42, while Antipodeans were mixed. The Aussie outperformed on carry demand, while NZD lagged as hawkish positioning unwound ahead of Wednesday's RBNZ decision; as a reminder, money markets assign an 80% chance of a 25bps hike at the July meeting, lifting the OCR to 2.50% from 2.25%, in line with ANZ analysts. However, Westpac expects rates to remain unchanged while maintaining its tightening bias. Meanwhile, the NZIER Shadow Board recommended holding the OCR at 2.25%.

For the **Loonie**, the Q2 BoC survey was released, and the consumer survey showed inflation expectations declined after the Iran ceasefire was signed in mid-June, and that for the next 12 months, 54.6% of Canadians expect a recession (prev. 55.7% in Q1). Expectations for 5-year inflation rose to 3.39% (prev. 3.02% in Q1).

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newsquawk.com · +44 20 4545 5000 · sales@newsquawk.com