



CIO OFFICE MORNING MARKET WRAP

21 May 2025

The US Treasury yield curve bear-steepened as the long-end moved up by 6 bps and the front-end remained anchored. Investors slowly digest the implications of the US downgrade. We don't see a large, forced selling of US Treasury holdings by third parties due to this downgrade. The Treasury plans to auction \$16 billion of 20-year bonds today. The offering will mark the first auction of longer-duration Treasury bonds since Moody's downgrade and a litmus test for investor appetite. Given that the 20-year trades at the top end of this year's range, it should be easily digested, probably with a slight concession. Risk assets had a tough time with S&P 500 and Nasdaq down about 0.4% last night. Healthcare was the best performing sector whereas Energy was at the bottom of the chart. German PPI was lower than anticipated with MoM price decline of 0.6%. Preliminary May euro area consumer confidence remained low at -15.2.

A host of Fed speakers insisted that the central bank is happy to wait and watch. San Francisco Fed President Mary Daly said that the bank should be prepared to move with more agility once they have more solid information on macro trends. Beth Hammack reiterated Daly's remarks mentioning that "the best action we can take is to sit on our hands and really carefully go through the data." Meanwhile, the tax cut bill impasse is not yet resolved with demands to raise a draft SALT cap past \$30,000 for states with high tax rates.

Markets this morning

The Asian markets are in the green this morning. Both Hong Kong and mainland China stocks are up roughly around 0.6%. Nikkei is down 0.2%. This comes on the heels of yesterday's turmoil in the JGB auction where investors shunned government bond auctions and yields soared. Japan's exports increased 2% last month while imports dipped 2.2%. Oil increased on renewed geopolitical tensions as Brent Crude topped \$66. Gold is back above \$3,300. US 10-year yields are now at 4.5%. Bitcoin trades above \$107k.

Upcoming key events/data

Today, we get the UK April CPI data. Economists anticipate the Core figure to accelerate to 3.6%. The Headline number will increase to 3.3%.

Best Regards,

Chief Investment Office
Wealth Management
Emirates NBD.

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