

TACO is back -belief Trump has “already relented” on tariffs and that there will be “further relents” in the future when he signalled that he was open to negotiation.

Rightly or wrongly, markets think they know what happens from here - Either negotiations result, and a ‘deal’ of some sort (usually in the vaguest terms) is announced, allowing Trump to claim a win, or a fresh extension to the deadline is announced. However the fact is that US administration does not view high tariffs & trade deals as mutually exclusive, and that it purposely crafts trade deals, for example with Britain, that normally leaves high tariffs in place.

Modest moves in global bond markets and yield curves continue to steepen - standout action in Japanese fixed income, where long term JGB yields rose to new highs.

Powell has asked Fed's Inspector general to conduct an additional review of ongoing \$2.5 billion renovation of Fed's HQ - which has drawn fire from Trump and others. The risk is that Fed's handling of its renovation, which administration officials are seeing it as mismanaged, could be used as one step in a possible pathway for Trump to sack Powell.

US CPI today - Expected 0.3% m/m print is partially tariff impacted, but the bulk of the tariff impact will be felt from July onwards- to print at least 0.4% m/m - too hot for Fed

Europe draws up retaliatory tariffs in case no trade deal is reached. Šefčovič said: “We want to use every day, every possibility and every minute until 1 Aug to find negotiated solution”. ZEW today. Tariff standoff - ECB's July pause. Support at Yesterday's 1.1650 low & then 1.1537, 0.382% of May/Jul rise - break below the under pressure 1.1666 21-dma would be bearish

China's Q2 GDP beat forecasts again with a 5.2% y/y growth, driven by strong trade and industrial production. Taiwanese leader said to be planning US ‘stopover’ is set to anger China, a time when US-China relations are already tense

UK retail sales rose sharply, driven by hot weather- but sales growth inflation-driven. Keep an eye on UK auctioning £1bn of 7Y gilts today - 1.3389 LBB and 1.3373 June base should pause this downmove.

Finally, risk of upper house election spooks markets now. The fear is that the political shake-up could accelerate fiscal spending & drive super-long bond yields higher. With Japan's debt at 250% of GDP, pressure mounting. 148.55 obj

Exuberance about upcoming mini or maxi trade deal - even if there is no deal, no need to get disappointed. Inflation print concerning- probably reflects impact of overcapacities of China or the lack of local pricing power : 85.80/86.10 to prevail.