

GS Basics - Rare Earths. Data Weakness. US Housing: Sellers > Buyers
FICC and Equities | 5 June 2025 | 6:50AM UTC

Poor JGB auction, but bonds bid anyway. Asia mixed: NKY -50bp, HSI +50bp, Korea +1.5%(continuing post-election momentum). Despite weaker-than-expected ADP and ISM Services, markets remain incredibly **resilient**. The May Beige Book revealed that nine of twelve Fed districts reported flat or declining economic activity. **Tariff uncertainty remains a persistent theme**.

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Implications of ISM/ADP are unclear. GIR **trimmed their NFP number slightly**? Possible that tariffs saw front loaded growth impact that will make 2H of Q2 looks very different from 1H. Equities should wobble if growth backdrop gets worse but structurally less worried on growth, market has automatic stabilizers — rates rallied (Dec SOFR +7pts on 2 days). The only persistent casualty: the dollar. **Weak dollar paradigm** is fundamentally different from the last decade and forcing re-think of ROW asset allocation.

Merz in Washington today.? We'll see if this manifests positively for trade. Still some lingering hopes of a Xi/Trump call this week. **DAX touched at all-time highs yday** on tax/fiscal cut hopes. Correlation between Europe and the Euro is now fully positive. Europe's trading more like an EM than Japan — lets see if that turns into a potential headwind going into earnings season. ECB up next. 25bps is a done deal. The key question **is will they pause in July** (approx. 7bps priced)?

Rare earths in focus: **"Suzuki shares extend intraday losses to fall by as much as 5.7%, after Nikkei reports that Swift model output is being halted on China's rare-earth export curbs."** (BBG)... "Automotive company executives are flagging a possible shortage of rare-earth magnets from China, which are vital in the production of car parts," (RTRS)... "Four major automakers are racing to find workarounds to China's stranglehold on rare-earth magnets, which they fear could force them to shut down some car production within weeks," (WSJ). Doesn't matter—until it does. Rare earths sit at the center of multiple industries.

Oil lower after what feels like a more emphatic leak from Saudi that it wants to OPEC+ to... **"add at least 411,000 barrels** a day of output in August and **potentially September,**" (Reuters). Message is clear: Saudi is trying to cap prices. Debate now centers on demand calibration vs. bearish positioning. But selling rallies remains baseline unless they pivot.

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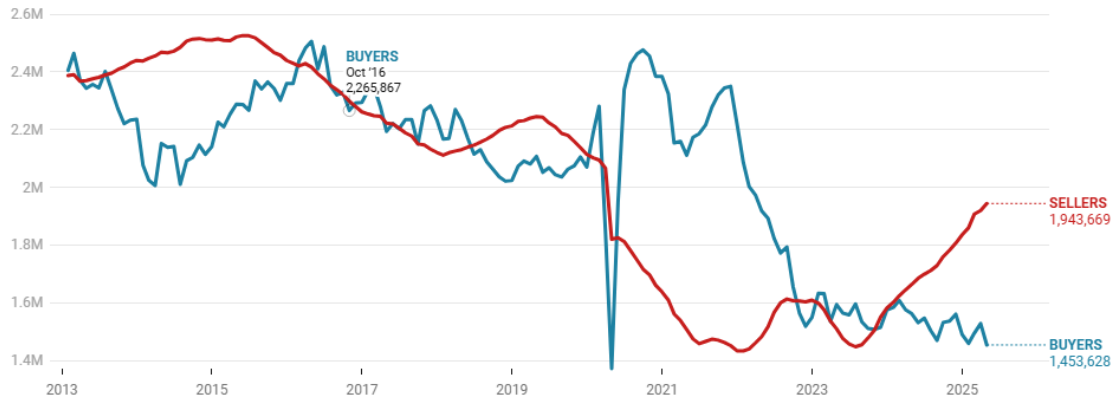
Macro equity flows still dominated by vol control. As **realized vol compresses** this continues to drive index-level equity inflows. Persistent **selling of front-end fixed strike vol** from systematic overwriting/ETFs is supplying excess gamma in US equities....fueling a **self-fulfilling process of re-leveraging** into a thin summer tape. Long Tech/AI...Short Consumer (PVH cut guidance overnight). Europe looks capped at these levels given the above

headwinds (not to mention: "President Putin did say, and very strongly, that he will have to respond to the recent attack on the airfields," Trump posted on Truth Social) . Watch auto space today as rare earth concerns mounting. Focus turns to ECB + Broadcom earnings tonight.

Side-note: "The U.S. Housing Market Has Nearly **500,000 More Sellers Than Buyers**—the Most on Record" - Redfin

There Are Nearly 500,000 More Sellers Than Buyers

Estimated number of U.S. homebuyers and sellers actively in the market



Source: Redfin as of 29/5/2025, past performance is not indicative of forward returns