

Tech leads sell-off as crude sees two-way trade on US-Iran talks

- **SNAPSHOT:** Equities down, Treasuries steepen, Crude up, Dollar up, Gold up
- **REAR VIEW:** US-Iran nuclear talks in Oman to proceed on Friday, after initial reports of cancellations over US disagreement; ISM Services tops on headline, but sub-indices disappoint; ADP monthly employment underwhelms; US VP Vance proposes a trading bloc for critical minerals; EIA crude stocks draw more than expected; AMD earnings beat falls short of lofty expectations; LLY earnings impress; US sets quarterly refunding at USD 125bln, as expected
- **COMING UP: Data:** Australian Balance of Trade (Dec), German Factory Orders (Dec), EZ Retail Sales (Dec), US Challenger (Jan), Weekly/Continuing Jobless Claims, Revelio PLS. **Events:** ECB Announcement, BoE Announcement & MPR, Banxico Announcement, CNB Announcement. **Speakers:** BoE's Bailey; ECB's Lagarde; Fed's Bostic; BoC's Macklem, RBA's Bullock. **Supply:** Australia, Japan, Spain, France. **Earnings:** Amazon, Strategy, Roblox, Reddit, Bloom Energy, ConocoPhillips, Bristol Myers Squibb, Barrick Mining, Cigna, Linde, Shell, Unilever, Siemens Healthineers, BBVA, BNP Paribas, UniCredit.

MARKET WRAP

US indices were lower on Wednesday, primarily due to losses in AI-related names, namely semiconductors, software, memory and robotics. That said, breadth was very strong highlighted by the Equal-Weight RSP, +0.9%. Energy, Materials, and Staples, the best three performing sectors YTD, continue to see gains given their little exposure to the AI complex (AAPL outperformed in Tech +2.6%) while Healthcare was boosted by a strong Eli Lilly (LLY) earnings report. Back to tech, AMD earnings contributed to downside in the space, as valuation concerns remain, particularly over expenses, despite beating on quarterly metrics and guidance. Precious metals also saw downside at the US equity open alongside crypto, with gold reversing earlier gains, albeit losses were limited given the increased US-Iran tensions. Macro-moving updates came via US-Iran tensions, with crude prices rallying after Axios reported that the nuclear talks scheduled for Friday had been cancelled as the US disagreed with the location and Iran's desire to exclude non-nuclear issues from the talks. That said, both Axios and the Iranian Foreign Minister said the talks are back on in Oman, with the former adding it comes amid several Arab and Muslim leaders urgently lobbied the Trump administration on Wednesday afternoon not to follow through on threats to walk away. Crude prices rallied on headlines that the talks were cancelled before trimming gains after the second wave of updates. Other developments came via US data whereby ADP employment change eased in January beneath expectations, whilst the ISM Services PMI reading was encouraging on the headline yet contained poor internals (drop in employment & new orders, rise in prices paid); limited reaction was seen. T-Notes were little changed, trading in a narrow range upon the QRA announcement, which saw quarterly refunding set at USD 125bln, as expected. Given the passing of the funding bill seen on Tuesday, the BLS rescheduled the JOLTS December report and confirmed the claims report will both be released on Thursday. Rate announcements are expected from the BoE and ECB on Thursday.

US

ISM SERVICES: ISM Services was poor, despite the headline topping expectations at 53.8 (exp. 53.5, prev. 53.8) as employment tumbled to 50.3 from 51.7 (exp. 52.3) and new orders dropped to 53.1 from 56.5. Also, the inflationary gauge of prices paid lifted to 66.6 from 65.1. Although business activity rose to 57.4 from 55.2. Supplier deliveries rose, remaining expansionary, inventories fell into contractionary territory, while backlog of orders lifted, but remained beneath 50. New export orders and imports both fell below 50. Overall, Oxford Economics write that robust consumer spending, lower interest rates, and continued AI-related construction will support the sector over 2026. The consultancy further adds that the details of the report reinforce their expectations for the Fed to remain on hold until the middle of the year.

ADP: Private employers added 22k jobs to the economy in January, shy of the expected 48k, easing from the +41k in December. Leading gains was healthcare (+74k) while the downside was led by manufacturing, which has lost jobs every month since March 2024. Annual pay saw job-stayers tick higher to 4.5% from 4.4% while job-changers fell to 6.4% from 6.6%. Companies employing between 50 and 249 workers added 37k jobs, with small firms flat and large employers down 18k. Dr. Nela Richardson, chief economist at ADP, said, "While we've seen a continuous and dramatic slowdown in job creation for the past three years, wage growth has remained stable." Pantheon Macroeconomics still believes that the labour market will remain weak in H1 overall, pressuring the FOMC to begin easing policy again.

FIXED INCOME

Treasuries curve steepened on Wednesday, once again in a narrow range, with eyes on latest Quarterly Refunding. At settlement, 2-year -1.4bps at 3.561%, 3-year -0.8bps at 3.641%, 5-year unch. at 3.835%, 7-year +0.5bps at 4.052%, 10-year +0.8bps at 4.278%, 20-year +1.6bps at 4.864%, 30-year +1.6bps at 4.914%.

THE DAY: Overnight and through the European morning, T-Notes were rangebound and traded within a tight 4 tick range as participants awaited the next catalyst. Tsys saw little move to the monthly ADP, which underwhelmed, before only moving a couple of ticks higher on an overall poor ISM Services report. Recapping, despite the headline topping expectations, employment and new orders tumbled, while the inflationary gauge of prices paid lifted. Prior to the data, the highlight of the day was the QRA (more details below), where yields ticked slightly higher as the quarterly refunding came in line with expectations at USD 125bln.

Elsewhere, and while not seemingly impacting T-Notes, US tech was heavily sold amid weakness in mega-cap names, especially NVDA/AMD. Ahead, JOLTS has been rescheduled to Thursday, alongside jobless claims, as well as ECB/BoE rate decisions and earnings from AMZN.

SUPPLY

QRA

- US set quarterly refunding at USD 125bln, as expected; to sell USD 58bln in 3-year notes, USD 42bln in 10-year notes, and USD 25bln in 30-year bonds next week. The Treasury believes its current auction sizes leave it well-positioned to address potential changes to the fiscal outlook and to the size and composition of the SOMA portfolio. As such, Treasury to keep coupon and floating rate note auction sizes unchanged for 'next several quarters', and future auction increases will consider trends on structural demand, potential costs/risks to issuance profiles.

BILLS

- US sold 17-wk bills at high rate 3.595%, covered 2.97x

STIRS/OPERATIONS

- **Market Implied Fed Rate Cut Pricing: March 1bps (prev. 1bps), April 5.3bps (prev. 5.3bps), June 15.6bps (prev. 17.4bps), December 46.6bps (prev. 48.7bps).**
- NY Fed RRP op demand at 2.41bln (prev. 1.8bln) across 18 counterparties (prev. 18).
- EFFR at 3.64% (prev. 3.64%), volumes at USD 107bln (prev. 93bln) on February 3rd.
- SOFR at 3.69% (prev. 3.69%), volumes at USD 3.268tln (prev. 3.307tln) on February 3rd.

CRUDE

WTI (H6) SETTLED USD 1.93 HIGHER AT USD 65.14/BBL; BRENT (H6) SETTLED USD 2.13 HIGHER AT USD 69.46/BBL

NOTE: After settlement, gains trimmed following reports that the US and Iran are now to meet on Friday, Iranian Foreign Minister said nuclear talks to be held in Muscat on about 10am, with Axios noting that the talks are back on after several Arab and Muslim leaders urgently lobbied the Trump admin not to follow through on threats to walk away; one US official said they will do the meeting if they insist, but are very skeptical.

The crude complex was firmer as US/Iran nuclear talks for Friday have been cancelled. WTI and Brent were largely rangebound in overnight trade, before grinding lower through the European session to hit lows of USD 62.86/bbl and 66.98, respectively, as risk sentiment continued to sour due to the heavy selling in US tech. However, and after EU players left for the day, benchmarks soared after Axios reported that US/Iran nuclear talks for Friday have been cancelled due to the Iranians' refusal to engage in non-nuclear issues. Axios added that the US told Iran it will not agree to Tehran's demands to change the location and format, but if they are willing to go back to the original format, the US is ready to meet this week or next week. In an immediate reaction, WTI and Brent gained, before extending even higher to peaks of USD 65.53/bbl and 69.76. More recently, US President Trump remarked that Iran's Supreme Leader should be very worried now. Regarding the EIA data, which garnered little market reaction, crude and distillates saw larger-than-anticipated draws, with gasoline a smaller-than-expected build. Overall, production was down 481k W/W..

EQUITIES

CLOSES: SPX -0.51% at 6,883, NDX -1.77% at 24,891, DJI +0.53% at 49,501, RUT -0.90% at 2,625

SECTORS: Technology -1.90%, Communication Services -1.67%, Consumer Discretionary -1.16%, Utilities -0.44%, Industrials +0.24%, Financials +0.80%, Consumer Staples +1.05%, Health +1.22%, Real Estate +1.53%, Materials +1.80%, Energy +2.25%.

EUROPEAN CLOSES: European Closes: Euro Stoxx 50 -0.39% at 5,972, Dax 40 -0.52% at 24,653, FTSE 100 +0.85% at 10,402, CAC 40 +1.01% at 8,262, FTSE MIB +0.47% at 46,636, IBEX 35 -0.09% at 18,103, PSI +0.61% at 8,882, SMI +1.08% at 13,518, AEX -0.37% at 990

STOCK SPECIFICS:

- **AMD (AMD):** Strong report; however investors focused on next Q outlook, which topped, but didn't meet lofty exp. amid accelerating AI-related spending.
- **NVIDIA (NVDA):** Planned sales of H200 AI chips to China remain stalled pending a US national security review.
- **Silicon Laboratories (SLAB)** is to be acquired by Texas Instruments (TXN) for USD 231/shr or USD 7.5bln.
- **Enphase Energy (ENPH):** Top & bottom line surpassed exp. with a strong outlook.
- **Super Micro Computer (SMCI):** EPS, profit topped & raised annual rev. guidance.
- **Eli Lilly (LLY):** Top & bottom line beat alongside strong FY view.
- **Take-Two Interactive (TTWO):** Q bookings topped & issued stronger than exp. guidance.
- **GE Healthcare (GEHC):** EPS & rev. topped w/ strong FY guidance.
- **Corteva (CTVA):** Q4 rev. miss on seasonal timing shifts that pushed deliveries into Q1.
- **Mondelez (MDLZ):** Cautious FY guidance & ongoing cocoa cost headwinds.
- **Chipotle Mexican Grill (CMG):** FY26 comp. sales view light.
- **Cencora (COR):** Weak revenue print.
- **Uber (UBER):** Next Q guidance underwhelmed; however, JPM thinks the pullback was overdone, noting the EPS miss is

weighed by equity investments.

- Wolfpack short **IonQ (IONQ)**.

FX

The Dollar was firmer against all G10 peers as DXY looked to retest Monday's high driven by a strong ISM Manufacturing reading. Today's ISM Services report wasn't as glamorous despite the headline topping expectations, as sub-indices sent mixed signals. Employment and New Orders dropped while prices paid rose. Meanwhile, the ADP monthly report saw private employment growth ease beneath expectations. US equities sunk at the cash open as valuation concerns surrounding AI-related companies continue to show, seemingly spreading its risk-off tone to crypto, leaving USD extending on earlier strength. Ahead, the focus will be on JOLTS, which has been rescheduled for Thursday, while US-Iran relations are at the forefront amid a volatile session of updates regarding the Friday meeting between the two. As it stands, the meeting is to take place on Friday in Oman as Iran had requested this week amid several Arab and Muslim leaders lobbying the Trump admin to take part, though one US official issued scepticism, Axios reported.

G10FX, as mentioned, was entirely in the red against the Greenback, led by the SEK, JPY, and NZD. EUR saw relative outperformance, trading marginally weaker whilst showing little reaction to downward revisions in the Final EZ PMI Services report and slightly softer-than-expected HICP Y/Y reading for January. Focus turns to the ECB on Thursday, as well as the BoE. Back to JPY, weakness left the USD/JPY pair back above the 156 handle, peaking at 156.89. The move comes ahead of what's expected to be a decisive LDP victory in Sunday's snap election. [Click here for the Newsquawk Snap Election Preview.](#)

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