

Risk off trade on more AI disruption fears

- **SNAPSHOT:** Equities down, Treasuries up, Crude down, Dollar up, Gold down.
- **REAR VIEW:** Algorhythm Holdings platform sparks fears in logistics sector; Fed's Miran said there's a variety of reasons why the Fed can cut rates, Hammack said should stay on hold for now; IEA cuts 2026 global oil demand growth forecast; Russia's memo reportedly sees a return to USD system in pitch to Trump; Strong US 30-yr bond auction; Trump said we have to make a deal with Iran, could reach deal over the next month.
- **COMING UP:** **Data:** Indian WPI (Jan), German Wholesale Prices (Jan), Swiss CPI (Jan), EZ Prelim Employment (Q4), GDP 2nd Estimate (Q4), US CPI (Jan) **Speakers:** Fed's Miran, Logan; BoJ's Tamura; ECB's de Guindos; BoE's Pill **Supply:** Australia **Earnings:** Moderna, Safran, NatWest

MARKET WRAP

It was a risk-off session on Thursday, with downside in equities seemingly driven by further AI disruption fears. Stocks sold off at the US opening bell and into the European closing bell. At the time, a lot of attention was on an update from AI penny stock Algorhythm Holdings (RIME) that its SemiCab platform is enabling customers to scale freight volumes by 300-400%, without an increase in headcount. This largely weighed on the logistics/industrials sector, but other sectors also exposed to AI disruption (software, gaming, financials) also slumped, while the sectors that are least exposed to AI disruption (consumer staples) outperformed. The risk-off trade sparked upside in T-Notes, with the curve bull flattening led by the long end, with peaks seen after a stellar 30-year auction which saw T-Notes settle at highs. Elsewhere, crude prices also tracked risk sentiment lower but settled just off troughs. On the geopolitical footing, Trump reiterated they have to make a deal with Iran, and could reach deal over the next month, but will be very traumatic for Iran if they do not agree to a deal. The weakness in equities also filtered through to gold, silver and crypto - all assets which have performed similarly in recent weeks, particularly in times of volatility. FX was a bit calmer, however, but havens did outperform (Yen, Franc and Dollar), while cyclical lagged, particularly the Aussie. Attention largely turns to the US CPI report on Friday.

US

CLAIMS: Initial Jobless Claims in the week ending February 7th fell to 227k from 232k, but above the 222k forecast. This left the four-week average at 219.5k, up from the prior 212.25k. The unadjusted data saw initial claims decline by 4.5k to 248k, while seasonal factors expected a 1.1k increase. Continuing claims, for the preceding week, rose to 1.862m from 1.844m, above the 1.85m forecast. Pantheon Macroeconomics write that the data suggests the labour market remains just as subdued as last year, casting further doubt over the sustainability of January's jump in payrolls. However, the desk acknowledges that heavy snow in late January has lifted claims marginally. Looking ahead, PM says layoffs look set to main relatively lower over coming months, but hiring will likely remain weak too.

EXISTING HOME SALES: Existing home sales for January fell to 3.91m from 4.27m, and much beneath the expected 4.18m. Inventory of homes for sale was 1.22m units, 3.7 months' worth (prev. 3.3 months' worth), with the national median home price for existing homes rising 0.9% Y/Y to USD 396,800. NAR Chief Economist Dr. Lawrence Yun remarked that, "The below-normal temperatures and above-normal precipitation this January make it harder than usual to assess the underlying driver of the decrease and determine if this month's numbers are an aberration". Yun added that affordability conditions are improving, due to wage gains outpacing home price growth and mortgage rates being lower than a year ago. However, supply has not kept pace and remains quite low.

FIXED INCOME

T-NOTE FUTURES (H6) SETTLED 16+ TICKS HIGHER AT 112-25+

T-Notes bid in risk-off trade amid more AI disruption concerns. At settlement, 2-year -4.4bps at 3.468%, 3-year -5.8bps at 3.511%, 5-year -7.1bps at 3.670%, 7-year -7.5bps at 3.873%, 10-year -7.7bps at 4.106%, 20-year -8.1bps at 4.676%, 30-year -8.3bps at 4.731%,

THE DAY: T-Notes traded within a 7 tick range throughout the Asian, European and early morning US session, with some upside seen as US players arrived, and some marginal downside seen after the jobless claims data, despite coming in above expectations. Nonetheless, T-Notes shot higher after the US equity opening bell with upside supported by risk-off trade. Equities were sold on more fears surrounding AI disruption, with the logistics/industrial sector seemingly the next victim of AI. T-Notes rose from the US opening bell to the close of European cash equity trade, before meandering ahead of the 30-year auction. The auction ultimately was very strong, and gave a further lift to Treasuries into settlement. The next scheduled risk event is US CPI on Friday, and how it shapes Fed rate cut expectations. The strong January jobs report saw several banks push back the Fed rate cut calls, with money markets now fully pricing in the next rate cut by July.

SUPPLY

Bills

- US to sell USD 90bln of 6-week bills, USD 89bln of 13-week bills, USD 77bln of 26-week bills and USD 52bln of 52-week bills on February 17th; all to settle Feb 19th.
- US sold USD 105bln of 4-wk bills at a high rate of 3.630%, B/C 3.63x; sold USD 95bln of 8-wk bills at a high rate of 3.630%, B/C 2.88x

Notes

- Overall, a very strong auction. The US Treasury sold USD 25bln of 30-year bonds at a high yield of 4.750%, stopping through the when issued by 2.1bps, marking the largest stop through since April 2025. It was also stronger than the 0.1bps stop through in January, and better than the six auction average of a 0.5bps tail. The bid-to-cover jumped to 2.66x from 2.36x, well above the 2.34x average. The strong auction was led by a rise in indirect demand to 69.9% from 65.4%, above the 63.7% average. Direct demand rose to 24.2% from 23.5%, above the 23.9% average. This left dealers with just 5.9% of the auction, a better sign of demand when compared to the prior 11.2% and 12.4% average.
- US Treasury to sell USD 16bln of 20-year bonds on Wednesday February 18th, and USD 9bln of 30-year TIPS on Thursday February 19th

STIRS/OPERATIONS

- Market Implied Fed Rate Cut Pricing: March 1.3bps (prev. 0.0bps), April 4.2bps (prev. 4.2bps), June 16.9bps (prev. 16.4bps), December 52.3bps (prev. 51bps).
- NY Fed RRP op demand at USD 2.844bln (prev. 1.05bln) across 10 counterparties (prev. 6).
- NY Fed says the desk plans to conduct an additional approximately USD 40bln in reserve management purchases and c. USD 13.4bln in reinvestment purchases between February 13th and March 12th.
- EFR at 3.64% (prev. 3.64%), volumes at USD 104bln (prev. 92bln) on February 10th
- SOFR at 3.65% (prev. 3.63%), volumes at USD 3.194tln (prev. 3.132tln) on February 10th

CRUDE

WTI (H6) SETTLED USD 1.79 LOWER AT 62.84/BBL; BRENT (J6) SETTLED USD 1.88 LOWER AT 67.52/BBL

The crude complex slumped amid the broad risk-off sentiment and recovery in the Dollar. The energy space was largely rangebound overnight and initially through the European morning as WTI and Brent hit peaks of USD 65.10/bbl and 69.85, respectively. Benchmarks then saw weakness which coincided with the latest IEA forecasts, whereby it cut 2026 global oil demand growth forecast to 850k BPD (prev. 930k BPD), and also cut the 2026 global oil supply growth forecast to 2.4mln BPD (prev. 2.5mln BPD). Following that, oil was edging lower before succumbing to the overall dramatic turn in risk sentiment and the recovery of the Dollar, to plunge to session lows and settle around those levels. There was little crude specific behind the drop, just broader AI concerns fuelling risk off trade, although as Axios reported that Israel PM Netanyahu said the conditions Trump is setting on Iran, combined with their understanding they made a mistake last time by not reaching a deal, could lead Iran to accept a good deal, did aid a few downticks. Recently, US President Trump said they have to make a deal with Iran, and could reach deal over the next month, but will be very traumatic for Iran if they do not agree to a deal. Ahead, US CPI on Friday is the highlight.

EQUITIES

CLOSES: SPX -1.55% at 6,834, NDX -2.04% at 24,688, DJI -1.34% at 49,452, RUT -2.15% at 2,612

SECTORS: Utilities +1.50%, Consumer Staples +1.28%, Real Estate +0.31%, Health -0.17%, Industrials -1.20%, Communication Services -1.46%, Materials -1.49%, Consumer Discretionary -1.58%, Financials -1.99%, Energy -2.17%, Technology -2.65%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.27% at 6,019, Dax 40 -0.11% at 24,828, FTSE 100 -0.67% at 10,402, CAC 40 +0.33% at 8,341, FTSE MIB -0.62% at 46,223, IBEX 35 -0.82% at 17,897, PSI -0.49% at 9,026, SMI -0.21% at 13,543, AEX -2.02% at 989.

STOCK SPECIFICS:

- **Applovin (APP):** Results impressed, but desks note fell shy of buy-side estimates.
- **Cisco (CSCO):** Issued guidance that only met expectations, disappointing traders, despite reporting better-than-anticipated quarterly results
- **Equinix (EQIX):** Strong next Q & FY view.
- **iPhone (AAPL)** sees China growth in January
- **Kioxia's** issues stellar outlook, reflecting a surge in NAND flash memory prices & strong demand for the data storage needed for AI. Of note for **MU, SNDK, STX, WDC.**
- **McDonald's (MCD):** EPS, rev. & comp. sales all impressed
- **Motorola (MSI):** EPS & rev. topped w/ stronger than exp. FY outlook
- **Tyler Tech (TYL):** Top & bottom line light as was FY rev. midpoint guide.
- **Google (GOOGL):** Updated Gemini 3 deep think in close partnership with scientists and researchers to tackle research challenges.
- **Algorhythm Holdings (RIME):** Announced its SemiCab platform in live customer deployments is enabling its customers' internal operations to scale freight volumes by 300-400% without an increase in headcount.

FX

The Dollar Index only saw marginal strength on Thursday, but is well off the earlier lows. The buck saw a reversal as risk sentiment soured through the US afternoon. While moves in the FX space were more contained than the equity and precious metals space, the Dollar did reverse earlier losses as potential further AI disruption fears reared their head. As such, **AUD, CAD, NZD** succumbed, while the havens, **Yen** and **CHF**, outperformed, with USD/JPY falling to c. 152.35 from c. 153.75 before the AI-induced fallout. Back to Dollar-specific newsflow, initial jobless claims marginally fell to 227k from 231k, but above the expected 222k, although little move was seen in the Greenback. All participants await the US CPI on Friday, which will give a gauge on the inflationary side of the mandate, following the strong jobs market report on Wednesday. Given the latter, it has seen many banks push back their Fed calls for rate cuts to resume, with money markets now pricing in the first 25bps reduction by July, vs. June pre-NFP.

As mentioned, **havens** sat atop the G10 breakdown, and **high-beta FX** lagged as risk sentiment soured. This came as Algorhythm Holdings, which announced its SemiCab platform in live customer deployments, is enabling its customers' internal operations to scale freight volumes by 300-400% without an increase in headcount, which saw the Industrials sector the latest to suffer from AI disruption. More broadly, it seemed to ignite the concerns already there in other names, such as software, gaming and brokerage, on new AI platforms. Prior to this, the **Kiwi** led G10 gains while the **Aussie** lagged slightly, consolidating after recent outperformance as moves were Dollar-driven, with no major domestic catalysts for either currency. For the Yen, overall conditions remain supportive as markets continue to price faster BoJ normalisation.

EUR and **GBP** were flat in a choppy day, as the Pound saw a mixed reaction to the latest GDP data. Dec. M/M printed in line, while Y/Y and Q4 preliminary figures undershot expectations, briefly weighing on Cable before swiftly reversing.

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