

Small caps outperform after soft-leaning CPI

- **SNAPSHOT:** Equities mixed, Treasuries up, Crude flat/up, Dollar flat, Gold up
- **REAR VIEW:** Jan US CPI leans soft; OPEC+ sources say leaning towards resuming oil output hikes in April, no final decision made; Fed's Goolsbee still has concerns on service inflation; Trump reportedly plans to roll back tariffs on metal and aluminium goods; Germany mulls debt brake exemption to boost raw material fund; AMAT tops earnings.
- **COMING UP: Desk:** Newsquawk will open for APAC coverage as usual on Sunday, 15th February 2026 with EU coverage commencing as normal on Monday, 16th February. Thereafter, the desk will shut at 18:00GMT/13:00ET and then re-open on the same day for APAC coverage at 22:00GMT/17:00ET. **Holiday:** US Holiday (Presidents Day); Chinese Spring Festival Golden Week. **Data:** Japanese Industrial Production Final (Dec), Swedish Unemployment (Jan), EZ Industrial Production (Dec). **Events:** Japan PM Takaichi to meet with BoJ Governor Ueda. **Speakers:** Fed's Bowman.
- **WEEK AHEAD:** Highlights include US PCE and GDP, FOMC Minutes, RBNZ, Flash PMIs, UK, Canadian and Japanese Inflation. [Click here for the full report.](#)
- **CENTRAL BANK WEEKLY:** Previewing RBNZ, FOMC Minutes, and RBA Minutes; Reviewing BoC Minutes. [Click here for the full report.](#)
- **WEEKLY US EARNINGS ESTIMATES:** Earnings season continues with retailer WMT the highlight. [Click here for the full report.](#)

MARKET WRAP

Equities were mixed on Friday, with the Russell 2k outperforming, which rallied 1.2%. The equal-weight ETF also saw strong gains while the majority of sectors were green too, showing strong breadth with the heavy-weight sectors (Comms, Tech and Consumer Disc) weighing on broader index performance. The highlight of the session was the CPI report, which ultimately came in softer than expected on the headline, while core was in line with forecasts. Goods prices were supportive of the view that tariff-induced inflation is largely behind us, but services inflation continued to accelerate, which gave Fed's Goolsbee some concerns. T-notes were firmer across the curve in response to the inflation data, with the front end leading, seeing the curve bull steepen. In FX, GBP outperformed while the Aussie lagged, with price action elsewhere rather tame. Crude prices settled flat to slightly firmer, with crude paring the immediate downside after OPEC surveys revealed the bloc is leaning towards resuming output hikes from April. US-China relations were in the limelight after the Pentagon added a plethora of Chinese companies to a list accused of aiding the Chinese military, although this list was later removed. Gold and Silver prices saw further gains alongside bitcoin.

US

CPI: The January inflation report leaned soft. The headline rose 0.171%, beneath the 0.3% forecast and cooling from the prior 0.298%. The Y/Y rose 2.4%, below the 2.5% forecast and dropping from the 2.7% read in December. The core metrics were in line with expectations. Headline core inflation rose 0.295% M/M, up slightly from the 0.233% in December, with the Y/Y rising 2.5%, down from the prior 2.6%. Within the report, core goods inflation was almost non-existent again (0.04% vs prior 0.03%), with core services accelerating to 0.39% from 0.27%. The supercore print rose to 0.58% from 0.23%, however. Oxford Economics highlights that the data reinforce their view that tariff-induced price increases on the goods side are largely behind us. The desk's preliminary estimate for headline and core PCE is 0.19% and 0.265%, respectively, for January. It says the data is welcome news for the Fed, but it does not change its baseline forecast for monetary policy based on one inflation reading. "Lingering distortions from the shutdown in the price data, prospects for solid growth this year, and a stabilising job market will keep the central bank on hold until June."

FED'S GOOLSBEE (2027 voter): Said we are still seeing pretty high services inflation, which is worrisome, and it was not tame in the CPI data. Goolsbee continued to argue that rates can still go down, but needs to see progress on inflation, which he believes is not on a path back to 2% inflation but stuck around 3%. "If we're at 2% inflation, we can have several more cuts." He did note that the CPI data had encouraging bits as well. The Chicago Fed President noted that the job market has been steady, with only a modest cooling. He doesn't know how restrictive Fed policy is, and consumers should hold in if the job market is stable and inflation eases. Goolsbee reiterated his dissent at the December meeting (wanted to hold vs cut), "Would have been wiser to wait in December 2025".

FIXED INCOME

T-NOTE FUTURES (H6) SETTLED 12 TICKS HIGHER AT 113-05+

T-notes bull steepen after soft CPI, led by the short-end. At settlement, 2-year -5.4bps at 3.412%, 3-year -6.0bps at 3.450%, 5-year -5.9bps at 3.609%, 7-year -5.8bps at 3.814%, 10-year -4.8bps at 4.056%, 20-year -3.3bps at 4.643%, 30-year -3.1bps at 4.698%.

THE DAY: T-notes were lower across the curve on Friday, particularly in the long-end seeing the curve bull steepen. Price action was largely a function of the US CPI report, which saw core metrics in line with forecasts, but headline prints were lower than expected. T-notes saw choppy trade in response to the data but ultimately moved higher and held onto the gains. The soft CPI

report was not enough for banks to bring forward their Fed rate cut calls, however, with many pushing back rate cut expectations after the strong January NFP report. However, money markets have grown more optimistic on 2026 rate cuts, pricing in ~40% chance of a third 25bps Fed rate cut this year. Nonetheless, an economy showing a robust labour market and cooling inflation is very welcome news for the Fed. With inflation still above target, and the labour market holding up, it allows the Fed to continue with its pause in rate cuts. Markets are not expecting rate cuts to resume until the Summer, when Warsh (if successfully nominated by the Senate) takes the helm from Fed Chair Powell. A key risk is whether or not Fed Chair Powell decides to stay on as governor after his term as Chair expires in May. He has not given any hints about what he will choose to do yet. Next week, attention turns to GDP and PCE data (albeit for December on account of government shutdowns), as well as 20-year supply and 30-year TIPS.

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.

Notes

- 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. 1.3bps), April 6.2bps (prev. 4.2bps), June 21.2bps (prev. 16.9bps), December 62.2bps (prev. 52.3bps).**
- NY Fed RRP op demand at USD 0.4bln (prev. 2.84bln) across 3 counterparties (prev. 10)
- EFFR at 3.64% (prev. 3.64%), volumes at USD 97bln (prev. 101bln) on February 12th
- SOFR at 3.65% (prev. 3.65%), volumes at USD 3.205tln (prev. 3.167tln) on February 12th

CRUDE

WTI (H6) SETTLED USD 0.05 HIGHER AT USD 62.89/BBL; BRENT (J6) SETTLED USD 0.23 HIGHER AT USD 67.75/BBL

The crude complex ended the day flat, but saw initial weakness on OPEC reports. Benchmarks were pretty rangebound on Friday, but the aforementioned sources took WTI and Brent from close to highs to daily troughs. Recapping, the sources said that OPEC+ is leaning towards resuming oil output hikes from April, although no decision has been made, and the discussions will continue heading into the next meeting on March 1st. Elsewhere from this, there was little new as traders digested the cooler-than-expected US inflation report, but it did little to alter views into the next FOMC confab. On the geopolitical footing, despite garnering no market reaction, Trump, on the war in Ukraine, said Zelensky is going to have to get moving, and Russia wants to get a deal, while on Iran, he noted if they have a deal, they [US carriers] will be leaving soon. He reiterated that he wants to make a deal with Iran, but they have been difficult. For the record, the weekly Baker Hughes rig count saw oil -3 at 409, natgas +3 at 133, with the total unchanged at 551. WTI traded between USD 62.14-63.26/bbl and Brent USD 66.89-68.05/bbl.

EQUITIES

CLOSES: SPX +0.05% at 6,836, NDX +0.18% at 24,733, DJI +0.10% at 49,500, RUT +1.18% at 2,647

SECTORS: Communication Services -0.76%, Technology -0.52%, Consumer Discretionary -0.08%, Financials -0.07%, Consumer Staples +0.19%, Energy +0.55%, Industrials +0.83%, Health +1.01%, Materials +1.10%, Real Estate +1.48%, Utilities +2.69%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.44% at 5,985, Dax 40 +0.20% at 24,903, FTSE 100 +0.42% at 10,446, CAC 40 -0.35% at 8,312, FTSE MIB -1.71% at 45,431, IBEX 35 -1.25% at 17,672, PSI -0.30% at 8,999, SMI +0.71% at 13,626, AEX +0.59% at 994

STOCK SPECIFICS

- US removes document that listed firms linked to China military; US agency had requested the withdrawal of the document, via Federal Register. Companies that were briefly listed included: Alibaba (BABA), Baidu (BIDU), Cosco, BYD (BYDDY), Huawei, Nio (NIO), SMIC, Tencent, and more.
- **Airbnb (ABNB):** Rev. beat w/ strong guidance for next Q & FY
- **Applied Materials (AMAT):** EPS, rev. topped & issued guidance well exp., supported by accelerating AI-driven investment & record segment revs.
- **Arista Networks (ANET):** Q. metrics beat w/ stellar outlook.
- **Coinbase (COIN):** Top line fell short.
- **DraftKings (DKNG):** FY outlook disappointed as it plans heavy investment to expand into prediction markets.
- **Pinterest (PINS):** EPS, rev. light & issued weaker-than-exp. guidance w/ mgmt. citing tariff-related headwinds that hit large retail advertisers & pressured revenue.
- **Rivian Automotive (RIVN):** Solid Q4 numbers & guided to significant increase in vehicle deliveries this year.
- **Roku (ROKU):** EPS & rev. surpassed Wall St. consensus.
- **Vertex Pharmaceuticals (VRTX):** Profit light.

FX

The Dollar Index was unchanged as GBP strength was offset by marginal JPY weakness, with a muted Euro in the background.

Today's highlight was the US January CPI report, which came in cooler-than-expected on Headline gauges, while core metrics matched forecasts. DXY pared modest overnight gains on the report amid US yields moving lower across the curve as markets upped their bets on Fed rate cuts in 2026, now pricing in ~40% chance of a third 25bps rate cut.

G10 FX saw mixed performance, with winners and losers against the dollar only seeing marginal/modest moves. GBP led strength, followed by NZD, while CHF and EUR were flat, and AUD led losses. The Euro was little moved by EZ GDP second estimates and employment data that were broadly in line with expectations. EUR/USD traded in a narrow intraday range of 1.1847-1.1884, while AUD/USD inched lower to around 0.7075 but firmer from the 0.7013 seen at the end of last week.

JPY was unfazed by remarks from BoJ's Tamura, who reiterated that rates will be raised in the future if the outlook is met. He added that recently inflation has become sticky and they may be able to judge that BoJ's price goal has been achieved as early as this spring. USDJPY sits around 152.80 but is notably lower than 157.56 seen at the start of the week.

CHF was modestly firmer against the Euro with in-line Y/Y inflation of 0.1% erasing earlier weakness. The print is in line with the SNB's Q1 average forecast

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newsquawk.com · +44 20 3582 2778 · info@newsquawk.com