

Crude rallies on reports Trump is close to major war with Iran

- **SNAPSHOT:** Equities up, Treasuries down, Crude up, Dollar up, Gold up
- **REAR VIEW:** Trump admin is reportedly closer to a major war with Iran than people realise; FOMC Minutes show a divided Fed; US Durable Goods come in better than feared; US Building Permits, Manufacturing Production, and Industrial Production top expectations; New NOTAM issued by Iran shows planned rocket launches within areas across Southern Iran on Thursday; UK Core & Services CPI comes in hot; Ukrainian official says US-Ukraine-Russia negotiations were substantive and there was progress; Zelensky says peace discussions are to continue; Weak 20-year auction.
- **COMING UP: Holiday:** Chinese Spring Festival Golden Week (17-24 Feb). **Data:** Australian Employment (Jan), US Trade Balance (Dec), Weekly/Continuing Claims, Philadelphia Fed (Feb), Pending Home Sales (Jan), EZ Flash Consumer Confidence (Feb), New Zealand Trade Balance (Jan), Australian Flash PMIs (Feb), Japanese CPI (Jan). **Speakers:** ECB's Cipollone, de Guindos; Fed's Bostic, Kashkari, Goolsbee, Bowman. **Supply:** Japan, Spain, France, US. **Earnings:** Walmart, Deere, Wayfair, Klarna, Opendoor, Newmont Mining, Southern, Constellation Energy, Airbus, Pernod Ricard, Renault.

MARKET WRAP

Equities saw two-way trade on Wednesday with morning weakness offset after a strong cash open before selling off best levels into the closing bell. Sectors were mixed, Energy, Consumer Discretionary, Financials and Tech outperformed, while Utilities, Real Estate and Consumer Staples lagged. There were several noteworthy developments. On geopolitics, Axios reported that Trump has moved closer to a major war with Iran, reigniting concerns in the region, resulting in oil prices rallying. Meanwhile, US data was overall strong with Durable Goods, Housing Data and Industrial Production beating analyst expectations. Meanwhile, the FOMC Minutes continue to show a divide on the rate outlook at the Fed, but several preferred two-sided guidance, noting upward adjustments could be appropriate if inflation remains above target. The strong data and geopolitical developments supported the Dollar, seeing it outperform, while the NZD lagged after a dovish RBNZ hold overnight. T-notes were lower across the curve on the data and upside in energy prices, while a weak 20-year auction did no favours. There was little reaction to the FOMC minutes, aside from some chop in USD/JPY. It noted that rate checks conducted by the NY Fed heading into the meeting were solely on behalf of the US Treasury, and it confirmed that there were no intervention operations in foreign currencies during the intermeeting period. Gold and silver prices rallied on Wednesday, while Bitcoin saw further pressure.

US

FOMC MINUTES: The FOMC's January meeting minutes showed a broad agreement to hold rates at 3.50-3.75%, with almost all participants backing no change, while a couple preferred a 25bps cut on the grounds that policy remained restrictive and labour market risks persisted (Miran and Waller). Those favouring a steady stance argued that, after 75bps of easing last year, policy was within estimates of neutral, and most expected supportive financial conditions and fiscal settings to underpin growth. However, views diverged on the path ahead: several indicated further cuts would likely be appropriate if disinflation progresses as expected, whereas others judged easing should await clearer evidence that inflation is firmly returning to target. Meanwhile, several favoured two-sided guidance, noting upward adjustments could be appropriate if inflation remains above target. However, all agreed policy was not on a preset course and would be informed by a wide range of incoming data, the evolving economic outlook, and the balance of risks. Inflation was seen as markedly lower than its 2022 peak but still somewhat elevated, with core goods, including tariff effects, cited as key drivers, and risks of persistence viewed as meaningful. Labour market conditions were described as stabilising, with low layoffs but subdued hiring, and downside employment risks judged to have diminished, though not disappeared. On the USD, the minutes noted a marked USD depreciation ahead of the meeting after reports that the Desk had conducted "rate checks" on the USDJPY pair, signalling heightened market sensitivity to potential intervention. However, the Committee confirmed that no foreign currency operations were undertaken for the System's account during the intermeeting period. The manager noted that quotes were requested solely on behalf of the US Treasury in the NY Fed's role as the fiscal agent for the US.

DURABLE GOODS: Durable Goods for December fell 1.4% M/M, but less than the expected -2%, against November's rise of 5.4%. Ex-Defense fell 2.5% M/M (prev. +6.6%), while Ex-Transport rose 0.9% from 0.4%, more than the consensus of 0.3%, and also above the top end of the forecast range. The headline was down, as expected, but Oxford Economics notes the more important development was another upside surprise in core orders, which provides a clearer signal of future business spending and bolsters its forecast for solid equipment investment in 2026. OxEco adds that while orders are the more forward-looking measure, shipments are what count towards GDP, and these were relatively stronger. As such, the consultancy is to its nowcast of solid Q4 business equipment investment, but subject to change with Thursday's trade data.

INDUSTRIAL PRODUCTION: US IP rose 0.7% in January, above the 0.4% forecast and accelerating from the downwardly revised 0.2% December reading. Manufacturing production rose 0.6%, above the 0.4% forecast, and also accelerating from the downwardly revised flat print in the previous report. Capacity utilisation rose to 76.2% from 75.7% but fell short of the 76.5% forecast. Within the report, Oxford Economics note that "Extreme winter weather effects predictably lowered mining output but boosted utilities production. The upside surprise was concentrated in manufacturing. OxEco expect "manufacturing to continue growing this year thanks to the AI tailwind, which will benefit not only computers and electronics but also electrical equipment". The desk also highlights that a fiscal boost, plus lower interest rates "will allow non-AI sectors to find their stride as well, and the potential for further tariff reductions is an upside risk for which to watch out."

BUILDING PERMITS/HOUSING STARTS: Note, due to the government shutdown last year, the release was delayed, and includes November and December readings, where November = prior. Building Permits topped expectations in December, revised up to 1.448mln above the expected 1.40mln (prev. 1.388mln). Single-family authorisations fell 1.7% M/M to 881k with multi-family units at 515k. Meanwhile, Housing Starts were 1.404mln, above the expected 1.33mln (prev. 1.332mln). Single-family housing starts were 981k +4.1% M/M, with units in buildings with five units or more at 402k. Pantheon Macroeconomics says the pick-up in housing starts and permits late 2025 is unlikely to be sustained as "relatively mild weather for the time of year largely explains why single-family starts overshot their permits-implied level". The firm expects permits to continue to trend down in 2026.

FIXED INCOME

T-NOTE FUTURES (H6) SETTLED 5+ TICKS LOWER AT 112-30+

T-notes lower after strong US data, rising energy prices, and a weak auction, while FOMC minutes continue to show a divided rate outlook. At settlement, 2-year +2.3bps at 3.460%, 3-year +2.5bps at 3.494%, 5-year +2.8bps at 3.649%, 7-year +3.0bps at 3.850%, 10-year +2.9bps at 4.083%, 20-year +2.8bps at 4.657%, 30-year +2.7bps at 4.710%.

THE DAY: T-notes were slightly lower on Wednesday with weakness seen in the wake of US data and also a slew of corporate issuance, as attention turned to the auction and FOMC minutes. The data was strong. Durable Goods were better than feared, falling 1.4% vs the -2% forecast. Housing Starts and Building Permits both accelerated, beating expectations. Meanwhile, Industrial and Manufacturing Production topped analyst estimates. One area of concern was the NY Fed Services survey, but the outlook was more encouraging. In the wake of the official data, the Atlanta Fed GDPNow estimate was revised lower to 3.6% from 3.7% - this also included the Existing Home sales and CPI report from the 11th and 13th February, respectively. The Minutes continue to show a divided Fed, where some judged rates should be heady for some time, while several said rate cuts would likely be appropriate if inflation declines as expected. Meanwhile, several favoured two-sided guidance, noting upward adjustments could be appropriate if inflation remains above target. Elsewhere, focus remains on geopolitics, with the key development today being reports in Axios that Trump is close to a full war with Iran, which largely lifted the crude space. The reports initially led to some minor upside in T-notes, but the upside faded with energy prices rallying. Some minor weakness was seen in the wake of a woeful 20-year auction (more below).

SUPPLY

Bills

- US sold 17-wk bills at a high rate 3.595%, B/C 3.15x
- US to sell USD 95bln of 8-week bills and USD 105bln of 4-week bills on February 19th; all to settle on February 24th

Notes

- US sold USD 16bln of 20-year bonds: Overall, a weak auction, seeing the largest tail since November 2024. The US sold USD 16bln of 20-year bonds at a high yield of 4.664%, tailing the when issued by 2bps. This is much weaker than the prior stop through of 1bps and the six-auction average stop through of 0.4bps. The bid-to-cover of 2.36x was notably softer than the prior 2.86x and the average of 2.66x. Within the report, direct demand fell to 27.2% from 29.1%, but remained above the 26.9% average, while indirect demand fell to 55.2% from 64.7%, below the 63% average. This left dealers with a chunky 17.6% of the auction, well above the prior 6.2% and the average of 10.1%.
- US Treasury to sell USD 9bln of 30-year TIPS on Thursday, February 19th

STIRS/OPERATIONS

- **Market Implied Fed Rate Cut Pricing: March 0bps (prev. 1.3bps), April 4.2bps (prev. 5.3bps), June 18.1bps (prev. 19.1bps), December 56.6bps (prev. 59.2bps).**
- EFR at 3.64% (prev. 3.64%), volumes at USD 97bln (prev. USD 90bln) on February 17th
- SOFR at 3.71% (prev. 3.66%), volumes at USD 3.254tn (prev. USD 3.169tn) on February 17th
- NY Fed RRP op demand at USD 0.9bln (prev. 0.4bln), across 10 counterparties (prev. 5)

CRUDE

WTI (J6) SETTLED USD 2.79 HIGHER AT 65.05/BBL; BRENT (J6) SETTLED USD 2.93 HIGHER AT USD 70.35/BBL

The crude complex saw notable gains amid heightened US/Iran tensions. The clear headline driver for the energy space came in the European morning, which sent benchmarks barrelling higher, as Axios, citing sources, reported that the Trump admin is closer to a major war with Iran than people realise, and a military operation would likely be a massive one. This sent WTI and Brent to intra-day highs, before they continued grinding higher throughout the US afternoon. Participants now await any response from Iran or any further rhetoric from the US. For the record, there was little concrete updates regarding the US/Russia/Ukraine trilateral talks, which formally ended in Geneva today, although Zelensky told reporters that they have agreed to continue peace discussions. The White House said meaningful progress was made on Ukraine, but the Kremlin said negotiations were difficult. Ahead, traders await private inventory metrics after-hours, which are delayed a day on account of the US holiday.

EQUITIES

CLOSES: SPX +0.56% at 6,881, NDX +0.80% at 24,899, DJI +0.26% at 49,663, RUT +0.45% at 2,659

SECTORS: Utilities -1.70%, Real Estate -1.45%, Consumer Staples -0.53%, Industrials +0.01%, Health +0.21%, Communication Services +0.31%, Materials +0.77%, Financials +0.78%, Technology +0.97%, Consumer Discretionary +1.00%, Energy +2.00%.

EUROPEAN CLOSES: Euro Stoxx 50 +1.34% at 6,103, Dax 40 +1.16% at 25,287, FTSE 100 +1.23% at 10,686, CAC 40 +0.81% at 8,429, FTSE MIB +1.30% at 46,361, IBEX 35 +1.35% at 18,198, PSI +0.76% at 9,143, SMI +0.30% at 13,805, AEX +1.48% at 1,011

STOCK SPECIFICS:

- **Meta (META)** to buy millions of Nvidia (NVDA) Vera Rubin chips.
- **Mister Car Wash (MCW)** to be taken private by Leonard Green & Partners for \$7.00/shr.
- **Moderna (MRNA)**: FDA accepted its application to review mRNA-1010.
- **Palantir (PLTR)** upgraded at Mizuho to 'Outperform' from 'Neutral'.
- **Snap (SNAP)** has exceeded 25mIn subs and tops USD 1bn annualised run rate.
- **Google (GOOGL)** launched Lyria 3 music generation in the Gemini app; SPOT, WMG, and UMG (UMA NA) were weighed by the update.

EARNINGS:

- **Cadence Design Systems (CDNS)**: Q4 results beat w/ firm FY profit outlook.
- **HF Sinclair (DINO)**: Adj. EPS & rev. beat.
- **Global Payments (GPN)**: Q metrics beat w/ outlook strong; to purchase \$2.5bn of shares.
- **Global-E Online (GLBE)**: Q metrics & guidance topped.
- **Palo Alto (PANW)**: Profit guidance missed.
- **Verisk Analytics (VRSK)**: Adj. EPS & rev. beat.
- **Wingstop (WING)**: Profit beat.

13-Fs:

- **Applied Digital (APLD)**: Nvidia dissolved its stake in the Co.
- **New York Times (NYT)**: Berkshire Hathaway initiates a stake.
- [Click here for full Newsquawk details of Quarterly 13-F filings.](#)
- [Click here for full Newsquawk details of Mag-7 breakdown of 13-F filings.](#)
- [Click here for full Newsquawk details of Sector breakdown of 13-F filings.](#)

FX

The Dollar was broadly firmer against peers as US yields rose. The move in the dollar accelerated following the US durable goods report, which saw the headline decline less than expected, resulting in US yields continuing their gradual march higher. Another factor in the background, likely adding to upside in yields, was the renewed strength in oil prices as an Axios report put a dent in recent optimism regarding a diplomatic US-Iran solution. "Trump admin is closer to a major war with Iran than people realise", sources said. This brought increased geopolitical risk and upside risks to inflation, both dollar positives. Elsewhere, the focus was on FOMC Minutes, where the release largely encapsulated the statement in the January meeting and commentary from Fed officials since the meeting. One point for FX was that the rate checks conducted on USD/JPY amid dollar weakness due to reports that the NY Fed had made requests for indicative quotes were conducted solely on behalf of the US Treasury, not the NY Fed. DXY broke above Tuesday's high of 97.55, now trading around 97.69 from the open of 97.14.

NZD led G10 weakness following dovish commentary within the RBNZ statement, as well as commentary from first-time Governor Breman. The central bank held the OCR at 2.25% as widely expected, with the statement noting policy is likely to remain accommodative for some time. Also, conditional on the central economic outlook, the OCR is projected to remain around its current level in the near term before increasing from late 2026. Governor Breman is not planning to hike until we see a stronger economy and more inflationary pressure. NZD/USD fell on the rate decision from 0.6042 to 0.6019, before gradually hitting lows 0.5962 around the time of writing.

In the UK, CPI was mixed, with headline matching expectations but with core and services coming in hot. **GBP** was nonetheless weaker, a function of USD strength, while **CHF** and **JPY** failed to capitalise on haven status amid increased geopolitical risks. **NOK** relatively outperformed against USD, with marginal losses while seeing decent strength against **EUR**.

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