

European Market Wrap - 2nd March 2026

- Global equities hit amidst the Middle East conflict; Energy names buoyed, alongside Defence, whilst Travel stocks slip.
- DXY firmer, benefiting from haven demand higher US yields.
- Crude benchmarks soar, alongside nat gas; XAU benefits from haven flows.

EQUITIES

- **European bourses (STOXX 600 -1.9%)** traded in the red, with many of the indices set for their worst day since November 2025. The worst performing indices were the **EuroStoxx 50 (-2.4%)** and **DAX 40 (-2.6%)**. With the focus mainly on Middle Eastern geopolitics, markets overlooked the positive set of EZ manufacturing PMIs, albeit the final prints.
- Other than **Energy (+1.6%)**, sectors slipped lower with **Banks (-3.6%)** and **cyclicals (Autos -4.2%, Consumer Products and Services -3.8%)**. Worries for banks are the fact that growth could slow due to the war and that war-risk claims might potentially rise. Another sign of worrying global growth was the weakness in cyclical sectors, such as Consumer Products and Services and Autos.
- Other beneficiaries of the Gulf war, outside of energy companies, were **defence** and **shipping** names. Shippers like **Maersk (+6.5%)** benefit from higher freight rates while the former is supported by increased need for missiles and drones (**BAE Systems 4.1%, Leonardo +3.1%**).
- Some of the biggest losers in Europe were **airlines (Lufthansa -4.9%, Accor -9.7%, IAG -4.9%)**. The rise in oil prices, and hence jet fuel prices, in conjunction with the delay of flights due to closures of airspaces, have weighed on the sector.
- **US equity futures (ES -0.8%, NQ -0.7%, RTY -0.9%)** have opened softer, in line with global peers. Cruise liners and lodging stocks are among the underperformers, while defence, fertiliser and shipping companies gain (similar to their European counterparts)

FX

- **USD – DXY** strengthened on haven demand after the initial US–Israel strike on Iran broadened across the Gulf and Middle East, though it eased off intraday highs. ING flagged three USD-supportive channels: (1) the US is less energy-import dependent than Europe/Asia (European nat gas opened ~25% higher), (2) markets trimmed Fed cut expectations with a bearish flattening in US yields, and (3) potential EM outflows on higher energy and fewer Fed cuts. DXY rose above its 200 DMA (98.352) and 100 DMA (98.556) notch an intraday range between 97.768 and 98.566.
- **EUR – EUR/USD** fell from near 1.1800 to 1.1698 (its 100 DMA) as energy prices surged, then trimmed losses. Further losses were seen as gas prices spiked on reports that QatarEnergy is reportedly to stop the production of LNG, with the pair hitting fresh lows of 1.1695. ING sees scope toward 1.1575–1.1600 if escalation persists.
- **GBP – Sterling** underperformed after reports that an RAF base in Cyprus was struck by an Iranian drone. The UK said it is not conducting offensive operations but permits defensive use of bases. GBP/USD seems to have found some support near the 17th Dec low earlier in the session and then rose as the USD was coming off its best levels. GBP also sees some cushion from the EUR/GBP cross slipping as the EUR is weighed by rising energy prices. GBP/USD slid from 1.3456 to 1.3314.
- **JPY – The yen** softened despite its haven status as USD demand dominated amid energy dynamics and higher US yields. USD/JPY rose ~0.9% within 155.94–157.60.
- **Antipodeans – AUD and NZD** declined on risk aversion and high-beta sensitivity.
- **JPMorgan suggests that Iran escalation challenges the bearish USD view, and recommends tactically unwinding EUR/USD longs today.**
- **JPMorgan reduces overweight sized on Middle East risks and reduces the size of its top-down emerging market FX position in half.**

FIXED

- **Global fixed benchmarks** initially opened higher, but slipped into the red as the APAC session got underway. The narrative quickly shifted from haven-related inflows to traders assessing the inflationary impacts of the war in the Arab peninsula. In brief, the US-Israel launched a joint attack on Iran, whilst Iran responded with counter missiles on neighbouring countries; focus has also been on the Strait of Hormuz, which has effectively been closed. It is worth highlighting that the inflationary impact is **made evident in the short-end of the yield curve, which is currently outperforming.**
- **USTs** have continued to extend on early morning losses, and trades at the bottom end of a 113-12+ to 114-12 range. As mentioned above, **USTs** benefited from haven demand before gradually bleeding as the session progressed. From a yield perspective, a flatter curve today, as traders price in the inflationary impacts of the US/Israel-Iran war. Notably, the **US 10yr yield has found itself back above the 4.00% mark.**
- **Bunds** also extended losses throughout the European session, and look to end the day off by around 50 ticks – and at the lower end of a 129.52 to 130.53 range; the peak for the day was made soon after the cash open as traders initially flocked to the haven. Across peripheries, Italian bonds are underperforming; the theme across Europe has broad angst that the net-importer may struggle to get a grip on inflation, in the midst of stagnating/cooling growth. Earlier, commentary via **ECB's Kocher** provided little new information and instead suggested that the Bank should be ready to act in either direction.

- **Gilts** underperformed, and look to end the session off by around 58 ticks within a 92.96 to 93.64 range. As with EGBs, traders are fearing the inflationary impacts of the war in the Middle East – as such, the 2yr yield is on course for its biggest daily rise since May 2025. It currently trades at 3.611%. Earlier, **BoE's Taylor** said that they are going to have to keep an eye on how the situation evolves in the Middle East; too soon to tell the impact of shocks.

COMMODITIES

- **Crude** – Crude futures surged on the reopen following the sharp escalation in the Middle East, including strikes on Iran, retaliation across the Gulf, and Tehran's announcement of the closure of the Strait of Hormuz. Prices later pulled back from extremes, with **Brent May '26** trading within USD 74.54–80.82/bbl (+7.3%) and **WTI Apr '26** within USD 71.88–75.33/bbl (+7.3%). ING noted sustained disruption would leave further upside risk and keep trade headline-driven. SEB flagged scope for USD 100–120/bbl if regional infrastructure is significantly impacted. The retracement likely reflected positioning adjustments and concerns that higher energy prices could turn central banks more hawkish. Separately, **OPEC+** confirmed a 206k bpd April output increase, despite weekend speculation of a larger 441k bpd hike.
- **European Nat Gas** prices surged amid a double whammy from the weekend US-Iran headlines, alongside reports that QatarEnergy is reportedly to stop the production of LNG, due to military attacks on operating facilities in Ras Laffan industrial city and Mesaieed industrial city. Dutch TTF +46% intraday at the time of writing.
- **Precious Metals** – Spot gold rallied on haven demand, briefly stalling below USD 5,400/oz before pushing to a USD 5,419.15/oz peak and then succumbing to USD strength. Spot silver reached USD 92.42/oz from a USD 92.02/oz trough. ING argued the escalation reinforces gold's safe-haven appeal, particularly with constructive investor positioning and ongoing central bank buying underpinning the market.
- **Base Metals** – Copper weakened overnight but traded broadly flat during early European hours before succumbing to a stronger USD and broader risk aversion. **3M LME copper** held within a USD 13,184.00–13,444/t range. Desks noted that persistent energy disruption and USD strength could pressure cyclical metals via growth concerns, while contained tensions could allow copper to stabilise alongside broader risk assets.
- **QatarEnergy is reportedly to stop the production of LNG, due to military attacks on operating facilities in Ras Laffan industrial city and Mesaieed industrial city.**
- **QatarEnergy will reportedly declare force majeure, according to source reported.**
- **EU Commission gas coordination group to meet on Wednesday to discuss Iran situation.**
- **EU Commission Spokesperson** said the EU will convene oil coordination group meeting within 48 hours to assess impact. EU has imports are well diversified. Gas storage filling levels in the EU are within adequate levels. Not taking any emergency measures.
- **Tengizchevroil** said oil production at Tengiz is not yet at full capacity, according to Ifax.
- **Chevron (CVX)** said it was instructed by Israel's Ministry of Energy to temporarily shut-in production at the Leviathan gas production platform.
- **IAEA Director General Grossi** said we have no indication that any of Iran's nuclear installations have been damaged or hit.
- **The limited fire at Ras Tanura refinery** was due to shrapnel falling during an interception operation, Al Hadath reported.
- **Iran's Ahwaz oil refinery has reportedly been struck in a suspected US airstrike.**
- **JPMorgan** said that a spike in oil prices will result in a revision of near-term inflation forecasts.
- **Saudi Arabia's Ras Tanura refinery shuts down after a drone strike, Bloomberg reported.**
- **Gulf Keystone temporarily shuts in output operations in Shaikan field.**

EUROPEAN DATA

- **Portuguese Industrial Production YoY (Jan) Y/Y 1.2% (Prev. 1.7%, Rev. From 2.3%).**
- **Portuguese Industrial Production MoM (Jan) M/M 4.2% (Prev. -2.2%, Rev. From -1.9%).**
- **UK Mortgage Approvals (Jan) 60.00K vs. Exp. 62K (Prev. 61.01K).**
- **UK Net Lending to Individuals MoM (Jan) M/M 5.9B vs. Exp. 6.2B (Prev. 6.1B).**
- **UK BoE Consumer Credit (Jan) 1.812B vs. Exp. 1.7B (Prev. 1.652B, Rev. From 1.524B).**
- **UK Mortgage Lending (Jan) 4.08B (Prev. 4.49B, Rev. From 4.6B).**
- **UK S&P Global Manufacturing PMI Final (Feb) 51.7 vs. Exp. 52.0 (Prev. 52.0, Rev. From 51.8). "**
- **UK Nationwide Housing Prices MoM (Feb) M/M 0.3% vs. Exp. 0.3% (Prev. 0.3%).**
- **UK Nationwide Housing Prices YoY (Feb) Y/Y 1.0% vs. Exp. 0.7% (Prev. 1.0%, Rev. From 1%).**
- **EU HCOB Manufacturing PMI Final (Feb) 50.8 vs. Exp. 50.8 (Prev. 49.5).**
- **German HCOB Manufacturing PMI Final (Feb) 50.9 vs. Exp. 50.7 (Prev. 49.1).**
- **German Retail Sales YoY (Jan) Y/Y 1.2% (Prev. 1.5%).**
- **French HCOB Manufacturing PMI Final (Feb) 50.1 vs. Exp. 49.9 (Prev. 51.2). "**
- **Italian HCOB Manufacturing PMI (Feb) 50.6 vs. Exp. 49.5 (Prev. 48.1).**
- **Spanish HCOB Manufacturing PMI (Feb) 50.0 vs. Exp. 50.1 (Prev. 49.2). "**
- **Swedish Swedbank Manufacturing PMI (Feb) 56.1 (Prev. 55.9, Rev. From 56.0).**

NOTABLE HEADLINES

- **UK Chancellor Reeves** plans to slow down increase to youth minimum wage, according to FT. Chancellor plans to water down Labour manifesto pledge for same rate for all workers over 18.

TRADE/TARIFFS

- **India's Foreign Ministry** announces that they have signed an uranium supply agreement with Canada.

CENTRAL BANKS

- ECB's Kocher said the ECB should be prepared to move rates quickly in either direction, according to WSJ.
- ECB's Kocher said "inflation is exactly where you want it be"; sees no indication that President Lagarde would step down early.
- ECB's Wunsch said the first inclination is to look through the mid-east situation but if higher oil prices last, ECB would have to reassess.
- ECB's Makhoulf said the Middle East situation creates uncertainty.
- BoE's Taylor (Dove) said they are going to have to keep an eye on how the situation evolves in the Middle East; too soon to tell impact of shocks. For the UK, US tariffs will be a source of disinflation.
- BoE Taylor (Dove) said energy shocks have an outsized role on inflation, energy shocks are faster than what Central Banks can respond to. Confident the disinflation process is in tact. There is a risk of entering a realm of deficient demand. Restrictiveness has been baring down in the last year.
- BoC's Kozicki said sometimes, monetary policy needs to be tightened even when the economy is weak. Supply-side developments have become more important in the fight against inflation.
- SNB states that in view of the international situation, we are more prepared to intervene in the FX market.

GEOPOLITICS

RUSSIA-UKRAINE

- **French President Macron** said new times require a hardening of our nuclear doctrine, and that Russia has not stopped making new nuclear weapons. France could move temporarily nuclear warheads abroad for the first time, as a pledge to increase the size of the country's arsenal.
- **Ukrainian President Zelensky** said talks with Russia were not cancelled, but cannot confirm Abu Dhabi as the location.
- **Ukraine's SBU** said Ukrainian drones hit Russian warships in the Black Sea port of Novorossiysk.
- **A fuel terminal in Russia's Novorossiysk** is on fire, according to local authorities.

MIDDLE EAST

- **Israeli military** says it has begun additional strikes on Tehran .
- **Qatar Defence Ministry** says it intercepted two Iranian drones, which targeted energy facilities; one drone headed towards QatarEnergy's Raf Laffan facility
- "Israel army said there is no reason for Lebanon ground invasion for now", via Al Arabiya citing AFP.
- Israel's IDF said "We are discussing the option of carrying out a ground operation inside Lebanon", via Al Jazeera.
- Iran's ambassador to the IAEA said Israel and the US attacked Iranian nuclear facilities on Sunday.
- Iran's Larjani said they will not negotiate with the US.
- Iran's Secretary of the Supreme National Security Council Larjani said US President Trump has brought chaos to the region with "false whims" and is now worried of more casualties among US forces. Trump is sacrificing American soldiers for Israel's quest for power.
- **Iran warns that those responsible for killing Supreme Leader Khamenei will face consequences.**
- **US President Trump said he could lift sanctions on Iran if its next leader proves pragmatic, according to New York Times. said:He had three very good choices for next Iran leader.**
- US President Trump said the people he considered for Iran's next leader died in the air attacks, according to ABC News.
- US President Trump said Iran does not want to go quite far enough and it's too bad and are not happy with Iran negotiation.
- **Cyprus Government spokesperson** said that Cyprus was never a target, but the UK base was.
- **"All British military bases in Cyprus evacuated"**, according to Al Jazeera citing Cypriot media; comes amidst siren sounded.

NOTABLE NORTH AMERICAN NEWS

- **China Foreign Ministry** said they are in communication with the US about exchanges between their leaders.

NOTABLE NORTH AMERICAN DATA

- **US S&P Global Manufacturing PMI Final (Feb) 51.6 vs. Exp. 51.2 (Prev. 51.2, Rev. From 52.4)**

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