

Middle East conflict weighs on sentiment with stocks, gold hit & dollar, crude bid

- **SNAPSHOT:** Equities down, Treasuries flat, Crude up, Dollar up, Gold down.
- **REAR VIEW:** Middle East conflict escalates with attacks expanding over the region; UAE considering taking military action to stop Iranian missile & drone strikes on the country; Trump announces action for Strait of Hormuz, US to provide political risk insurance and guarantees for financial security of all maritime trade travelling through the Gulf & if necessary, US Navy will begin escorting tankers through the Strait of Hormuz; Hotter than expected EU inflation; QatarEnergy to stop output of some downstream products, including urea, polymers, methanol, aluminium and others; Strong TGT earnings.
- **COMING UP: Data:** Australian GDP (Q4), Chinese NBS PMIs (Feb), Swiss CPI (Feb), Global Final Composite/Services PMIs (Feb), EZ Unemployment (Jan), PPI (Jan), US ISM Services PMI (Feb) **Events:** NBP Policy Announcement **Speakers:** ECB's Cipollone; de Guindos; BoC's Macklem **Supply:** Australia, Germany **Earnings:** Broadcom.

MARKET WRAP

US indices were sold on Tuesday, albeit closed off lows, as the escalating Middle Eastern conflict continues to dominate trade, and newsflow. The Israel/Iran/US war shows no signs of slowing down, as from all sides the attacks continued far and wide, with Iran continuing to attack US bases in the Middle East; Axios reported that the UAE is considering taking military action to stop Iranian missile and drone strikes on the country. Note, reports suggested Iran hit the US consulate in Dubai. As such, WTI and Brent saw extensive gains, but are currently well off earlier peaks as US President Trump confirmed actions to attempt to resume shipping in the Strait of Hormuz, which is currently "closed". Trump said, effective immediately, US is to provide political risk insurance and guarantees (at a very reasonable price) for financial security of all maritime trade, especially energy, travelling through the Gulf, and if necessary, US Navy will begin escorting tankers through the Strait of Hormuz, as soon as possible. Prior to this, and in this morning trade, Bloomberg's Javier Blas wrote an article titled, "The US Has to Reopen the Strait of Hormuz as Soon as Possible", and within it said, "whether Trump wins the Third Gulf War will depend a lot on whether the Pentagon can effectively reopen the Strait of Hormuz for oil shipping, and soon. The American military doesn't have weeks to do so — only days". Elsewhere, the Dollar saw heavy gains, again, to the detriment of G10 FX peers as Antipodeans lagged given the risk environment and also heavy metal selling, while the CAD was the clear G10 outperformer, and even eked out gains vs. the Buck amid the surge in oil prices. As mentioned, spot gold was heavily sold, and briefly breached USD 5k/oz to the downside. Treasuries ultimately settled flat in two-way trade as eyes remain glued to the Middle East, and while there was no data today, there was plenty of Fed speak, but for obvious reasons took a back seat. In summary, Williams (voter, neutral) said further cuts will be warranted if inflation ebbs, policy is currently well-positioned. Schmid (2028 voter, hawk) opposes further cuts. Kashkari (2026 voter, neutral) said policy is in a good place; it is too soon to assess the impact of the Iran conflict on inflation, but it could have an impact on monetary policy. Meanwhile, reports in FT suggested that Fed Chair Nominee Warsh's attempt to shrink the balance sheet would proceed only slowly due to resistance over his plan. However, he would be unlikely to push for a return to the size of the Fed's balance sheet before it ballooned in response to the 2008 financial crisis. For the record, all sectors were in negative territory with Materials and Industrials sitting at the bottom of the pile. Ahead, traders, of course, await Middle Eastern updates which shows no sign of slowing down.

FIXED INCOME**T-NOTE FUTURES (M6) SETTLED 2 TICKS LOWER AT 113-00+**

T-notes ultimately settle flat in two-way trade as eyes remain glued to the Middle East . At settlement, 2-year +1.3bps at 3.500%, 3-year +1.2bps at 3.505%, 5-year +0.9bps at 3.631%, 7-year +0.8bps at 3.830%, 10-year +0.4bps at 4.056%, 20-year +0.5bps at 4.648%, 30-year +0.1bps at 4.700%.

THE DAY: T-notes saw two-way trade on Tuesday with the initial pressure from Monday continuing to weigh overnight and through to the US morning. 10-year T-note futures bottomed out at 112-16+ from an overnight peak of 113-07+ but as US trade progressed, T-notes clawed back a lot of the losses, eventually reclaiming 113-00. T-notes have largely been trading off the inflationary angle of the war. Oil prices initially continued to surge, but ultimately moved well off the earlier peaks as Trump confirmed sources earlier on that the US will be providing insurance and guarantees (at a very reasonable price), as well as US Navy Escorts to tankers through the Strait of Hormuz. T-notes were little phased by the update, however, with the 10-year moving around 4+ ticks higher before paring. Meanwhile, amid the recent volatility, the MOVE index is currently at YTD peaks, Bloomberg reported that most issuers are expected to hold off on raising fresh capital for the second consecutive day, as the war in Iran shows no signs of de-escalation. There was no data today, but there was plenty of Fed speak; to surmise: Williams (Voter, neutral) said further cuts will be warranted if inflation ebbs, policy is currently well-positioned. Schmid (2028 voter, hawk) opposes further cuts. Kashkari (2026 voter, neutral) said policy is in a good place; it is too soon to assess the impact of the Iran conflict on inflation, but it could have an impact on monetary policy. Meanwhile, reports in FT suggested that Fed Chair Nominee Warsh's attempt to shrink the balance sheet would proceed only slowly due to resistance over his plan. However, he would be unlikely to push for a return to the size of the Fed's balance sheet before it ballooned in response to the 2008 financial crisis.

SUPPLY**Bills**

- US sells 6-week bills at a high rate of 3.640%, B/C 2.88x
- US to sell USD 105bln of 4-week bills and USD 95bln of 8-week bills on March 5th, to sell USD 69bln of 17-week bills on March 4th; all to settle March 10th

STIRS/OPERATIONS

- NY Fed RRP op demand at 1.20bln (prev. 0.63bln) across 5 counterparties (prev. 4) on March 3rd
- SOFR at 3.71% (prev. 3.68%), volumes at USD 3.404tln (prev. USD 3.252tln) on March 2nd
- EFRF at 3.64% (prev. 3.64%), volumes at USD 97bln (prev. USD 107bln) on March 2nd
- NY Fed Reserve Management T-Bill Purchases (Maturity range: April 2nd-July 2nd 2026): Accepts USD 8bln of 51.8bln offered, O/C 6.48x

CRUDE

WTI (J6) SETTLED USD 3.33 HIGHER AT 74.56/BBL; BRENT (K6) SETTLED 3.66 HIGHER AT 81.40/BBL

The crude complex once again surged higher amid the ongoing, and escalating Middle East conflict, albeit settling off highs .

Overnight, throughout the European session, and into the US cash open, it was once way traffic for WTI and Brent, which soared to peaks of USD 77.98 and 85.12/bbl, respectively, amid the escalating Israel/Iran/US war. From all sides, the attacks continued far and wide, with Iran continuing to attack US bases in the Middle East, which led to Axios, citing sources, reporting that the UAE is considering taking military action to stop Iranian missile and drone strikes on the country. The Strait of Hormuz remains "closed", and Bloomberg's Javier Blas wrote an article titled, "The US Has to Reopen the Strait of Hormuz as Soon as Possible", and within it said, "Whether Trump wins the Third Gulf War will depend a lot on whether the Pentagon can effectively reopen the Strait of Hormuz for oil shipping, and soon. The American military doesn't have weeks to do so — only days". As such, attention resides on measures made by the US to help ease the impact on shipping. The crude complex reversed from highs of a couple of source reports surrounding this topic. 1) US considering oil tanker insurance support to help with Middle East crude shipments; 2) US reportedly considers military protection for Hormuz tankers. As a reminder, Bessent and Wright are set to announce steps to mitigate oil costs on Tuesday. Ahead, and while it will take a back seat, private inventory metrics are due after-hours, whereby current expectations are (bbls): Crude +2.3mln, Distillate -2.6mln, Gasoline -0.8mln.

NOTE: Post-energy settlement, US President Trump confirmed he will be providing (at a very reasonable price), political risk insurance and guarantees for the the financial security of all maritime trade, especially energy, travelling through the Gulf. He also noted that if necessary, the US Navy will escort tankers through the Strait of Hormuz, as soon as possible. This saw oil prices sold aggressively from the settlement levels with WTI now trading at USD 72.70/bbl (hit a low of 71.75) and Brent at USD 79.60/bbl (hit a low of 78.40)

EQUITIES

CLOSES: SPX -0.94% at 6,817, NDX -1.09% at 24,720, DJI -0.83% at 48,501, RUT -1.75% at 2,609.

SECTORS: Materials -2.69%, Industrials -1.96%, Health -1.14%, Technology -1.05%, Consumer Staples -0.97%, Energy -0.94%, Consumer Discretionary -0.86%, Utilities -0.65%, Real Estate -0.59%, Communication Services -0.27%, Financials -0.18%.

EUROPEAN CLOSES: Euro Stoxx 50 -3.64% at 5,774, Dax 40 -3.59% at 23,753, FTSE 100 -2.75% at 10,484, CAC 40 -3.46% at 8,104, FTSE MIB -3.92% at 44,468, IBEX 35 -4.55% at 17,062, PSI -4.24% at 8,879, SMI -2.88% at 13,418, AEX -2.55% at 990.

STOCK SPECIFICS:

- **Cruise liners (NCLH, CCL)** extend on Monday's heavy selling.
- **Drone makers (ONDS, UMAC), Defense names (LMT, RTX), and Energy stocks (OXY, XOM, CVX)** continue benefit from the Middle East conflict.
- **Supertankers (FRO, DHT, ECO)** hit.
- **Nvidia (NVDA), AMD (AMD):** US considers capping H200 sales at 75k per Chinese customer & shipments of AMD's MI325 chips would also count toward the cap.
- **Amazon (AMZN):** AWS warned of prolonged service disruptions after drone strikes damaged 3 data centres in the Middle East.
- **MongoDB (MDB):** Guidance disappointed.
- **Cigna (CI):** COO Brian Evanko to succeed David Cordani as CEO; backed FY26 adj. EPS view.
- **Target (TGT):** EPS & rev. beat w/ better-than-exp. FY profit view.
- **Best Buy (BBY):** Profit topped & comp. sales declined less than anticipated.
- **AT&T (T):** Reiterated FY26 & multi-year financial guidance.
- **Sea Limited (SE):** While rev. topped, a sharp rise in expenses weighs as total expenses rose 28% Y/Y.
- Soros is reportedly buying public BDCs, where the firm likes the loans, according to Bloomberg.
- **Alphabet (GOOGL)** affirms CapEx of USD 175-185bln for the year and just over half of Cos. ML compute this year is expected to go on Cloud.

FX

The Dollar, once again, surged as it was buoyed by the ever-escalating Middle Eastern conflict which continues across to expand across the region, with Axios sources saying that the UAE is considering taking military action to stop Iranian missile and drone strikes on the country. However, the Dollar was off best levels as US President Trump announced measures to ease the impact of

the war on the economy. Trump has said the US will offer (at a very reasonable price), political risk insurance and guarantees for financial security of all maritime trade, especially energy, travelling through the Gulf. He will also provide US Navy exports to tankers if necessary. As expected, geopolitical rhetoric is dominating the tape, and will do for the foreseeable, with eyes on any new updates, whether it be further escalations, any indication of talks, or the war coming to an end, albeit the latter two seem very unlikely for the time being. Rabo writes that, they expect that the desire for liquidity will ensure that the USD maintains a safe haven bid as a consequence of current uncertainties.

Whilst seeing little move, a couple of Fed speakers were on the wires; Schmid (2028 vote) noted they are positioned pretty well and opposes further rate cuts, Williams notes further reductions in policy rate will eventually be warranted if inflation ebbs and that policy 'well positioned'. Kashkari (2026 voter) said Powell has done a great job, and would love it if he stayed on as governor.

As expected, given the broad Dollar strength and risk off trade, the vast majority of **G10 FX** peers weakened vs. the Buck, with **Antipodeans** lagging and also hit hard by the selling of metals. **EUR** and **GBP** continue to remain pressured by aforementioned ongoing Iranian war, both are net-importers of energy, and as such, continue to be considerably pressured. Away from geopolitics, the Euro saw some very modest upticks on the hotter-than-expected HICP, while the UK Spring Statement was largely a non-event. Summarising, the OBR downgraded its 2026 growth & inflation view; the implied headroom is estimated at 23.6bln (exp. 20-25bln).

CAD was the considerable G10 outperformer, and even edged out slight gains vs. the Greenback, given the soaring energy prices.

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