

Stocks rally and crude slumps as hopes build towards end of war

- **SNAPSHOT:** Equities up, Treasuries up, Crude down, Dollar down, Gold up
- **REAR VIEW:** US and Iran are reportedly closing in on one-page memo to end war; Iran still working on its response; Iranian reports downplay reports that US & Iran are close to an agreement; Trump says that Project Freedom will be paused for a short period to see whether or not the agreement with Iran can be finalised and signed, blockade will remain; Iranian and Saudi Arabian Foreign Ministers stressed continuing diplomacy; Israeli strikes Beirut for first time in weeks; Japan is reportedly to purchase 20mln barrels of UAE oil; AMD surges on earnings beat; ADP beats
- **COMING UP: Data:** Australian Balance of Trade (Mar), German Factory Orders (Mar), French Balance of Trade (Mar), EZ Construction PMI (Apr), EZ Retail Sales (Mar), US Challenger Job Layoffs (Apr), US Jobless Claims (May 2), Atlanta Fed GDP, Mexican Inflation (Apr). **Events:** Norges Bank Policy Announcement (May), Riksbank Policy Announcement (May), CNB Policy Announcement (May), Banxico Policy Announcement (May), CBR Minutes (May), UK Local Elections, BoJ Minutes (Mar). **Speakers:** ECB's de Guindos, Elderson, Schnabel, Lane; BoE's Lombardelli, Mann, Taylor; Fed's Hammack, Williams, Kashkari; Norges Bank's Bache; Riksbank's Thedeen. **Supply:** Spain, France. **Earnings:** CoreWeave, IREN, Coinbase, Cloudflare, DraftKings, ACM Research, Datadog, McDonald's, Shell, Enel, Rheinmetall.

MARKET WRAP

Stocks rallied while crude prices tumbled on Wednesday as reports throughout the session suggested the US and Iran are moving closer towards a deal to end the war. US and Pakistani media remained notably more optimistic than Iranian outlets, although progress still appears to be building. President Trump said talks have gone well and suggested he wants a deal completed before travelling to China next week, although he later added there is "never a deadline".

The improving geopolitical backdrop saw Brent crude slump from highs near USD 109/bbl to below USD 97/bbl at lows, although prices later pared some of the decline to settle back above USD 100/bbl.

The sharp move lower in oil prices supported Treasuries across the curve in a steeper fashion, with front-end yields leading the decline as inflation expectations eased and markets priced in greater Fed easing expectations.

In FX, petro currencies such as CAD and NOK underperformed amid the sharp decline in crude, while the Dollar lagged as haven demand unwound. Gold prices rose as yields and the dollar declined, while Bitcoin posted modest gains.

In equities, sectors were broadly firmer outside of Energy and Utilities. Technology rallied, buoyed by gains in semiconductors after AMD rallied post-earnings.

US

US ADP: The monthly ADP National Employment Report showed jobs rose by 109k in April, above the 79k forecast and up from 62k previously. The reading was within the analysts' forecast range of 40-170k. Dr Nela Richardson, chief economist at ADP, said: "Small and large employers are hiring, but we're seeing softness in the middle. Large companies have resources to deploy, and small ones are the most nimble, both important advantages in a complex labour environment." Goods-producing industries added 15k jobs, while services added 94k. On wages, the median change in annual pay for job stayers rose 4.4%, versus 4.5% previously, while pay for job changers rose 6.6%, unchanged from before. Despite the strong report, analysts at Pantheon Macroeconomics said the data was too unreliable to bank on a labour market upturn.

Fed's Musalem (2028 voter, hawk) said tailwinds from accommodative financial conditions currently outweigh headwinds facing the US economy. He noted uncertainty around tariffs and war remained headwinds. There are also plausible scenarios at this point that would lead to both rate cuts and rate hikes. On inflation, Musalem warned it remained meaningfully above target. Alongside tariff and oil shocks, he said there was underlying inflation the Fed needed to address. Nonetheless, he said risks existed to both mandates, though risks had shifted more towards inflation. Musalem described current policy settings as either neutral or slightly accommodative in real terms. Elsewhere, the St Louis Fed president said consumers and companies alike were struggling with higher and rising prices. He stressed that achieving the Fed's 2% inflation target was the best thing it could do for growth and employment. Returning inflation to 2% would allow rates to come down further. Firms, meanwhile, are not hiring because of the ongoing uncertainty.

FIXED INCOME

T-NOTE FUTURES (M6) SETTLED 14+ TICKS HIGHER AT 110-25+

T-notes bull steepen led by the front-end as reports hint at progress towards the end of the war. At settlement, 2-year -8.3bps at 3.863%, 3-year -8.7bps at 3.887%, 5-year -8.8bps at 3.995%, 7-year -8.4bps at 4.170%, 10-year -7.6bps at 4.350%, 20-year -6.7bps at 4.926%, 30-year -5.2bps at 4.939%.

THE DAY: T-notes rallied across the curve with yields tumbling, particularly in the front-end, amid reports that the US and Iran are working towards a proposal to end the war. Optimism was echoed across the US and Pakistani media, although the Iranian press attempted to downplay the progress. Nonetheless, reports suggest the two sides are discussing a 14-point framework, although negotiations still appear ongoing.

Markets reacted positively to the headlines, with equities rallying, crude prices tumbling, and Treasuries surging. The sharp decline in oil prices helped ease inflation concerns while also boosting expectations that an end to the conflict could be nearing. Officials have repeatedly warned that the longer the war persists, the greater the upside risks to inflation.

US data once again took a back seat to geopolitics. ADP employment showed 109k private payrolls added in April, above both the prior 62k and the 79k forecast. However, Pantheon Macroeconomics reiterated that ADP remains an unreliable guide for Friday's NFP report and cautioned against reading too much into the stronger print.

The Quarterly Refunding Announcement was largely in line with expectations, although the TBAC minutes hinted at a potential guidance adjustment as soon as the next refunding cycle (more below).

Overall, the ADP report and refunding details had a limited impact on Treasury trade, with price action continuing to be dominated by geopolitics and the sharp decline in crude prices. T-notes ultimately settled firmly in the green, albeit off session highs.

SUPPLY

Quarterly Refunding

Auction sizes were left unchanged, in line with expectations, while the Treasury also maintained its forward guidance, continuing to state that "based on current projected borrowing needs, Treasury anticipates maintaining nominal coupon and FRN auction sizes for at least the next several quarters." Some desks expected a tweak to the language, with Barclays looking for guidance to shift to "at least the next few quarters." Although no change was made at this meeting, the TBAC minutes imply the guidance could be adjusted as soon as next quarter. [For full review, please click here.]

Bills

- US sold 17-wk bills at high-rate 3.605%, B/C 3.13x

STIRS/OPERATIONS

- **Fed Pricing: Dec +2.8bps (prev. +7.9bps)**
- EFRR at 3.64% (prev. 3.64%), volumes at USD 113bln (prev. USD 111bln) on May 5th
- SOFR at 3.62% (prev. 3.63%), volumes at USD 3.148tln (prev. USD 3.113tln) on May 5th
- NY Fed RRP op demand at 1.633bln (prev. 1.12bln) across 7 counterparties (prev. 6) on May 6th

CRUDE

WTI (M6) SETTLED USD 7.19 LOWER AT USD 95.08/BBL; BRENT (N6) SETTLED USD 8.60 LOWER AT USD 101.27/BBL

The crude complex saw significant losses on Wednesday, given the seemingly improved US/Iran dialogue. In the European morning which catalysed oil plummeting, Axios reported, citing officials, that the US and Iran are reportedly closing in on a one-page memo to end the war, and the White House believes it is close to an agreement to end the war and establish a framework for detailed nuclear negotiations. Following these upbeat reports, which Pakistani journalist Mallick echoed, saying "US - Iran are close to an "agreement" to end the war with Pakistan's mediation...", Iran continually poured cold water on the closeness of a deal, which saw benchmarks come off extremes, but still significantly lower on the session. Highlighting this, Al Araby, citing Iranian sources, said: "What US media outlets are publishing about the details of the negotiations does not reflect the reality of what is happening". All in all, while the US, in the main, and Pakistan seem more positive on a resolution, Iran does not, and the US seemingly wants to avoid any restarting of widespread strikes, but Trump did threaten, "If they don't agree, the bombing starts, and it will be, sadly, at a much higher level and intensity than it was before". As such, focus resides on any further diplomatic solution or any breakthrough in the 14-point peace plan. Elsewhere, and for the record, crude and distillates saw shallower draws than anticipated in the weekly EIA data, with gasoline a larger-than-expected draw. Overall, crude production was down 13k W/W to 13.573mln. Highlighting the breadth of energy moves, WTI traded between USD 88.66-102.70/bbl and Brent USD 96.75-109.02/bbl.

EQUITIES

CLOSES: SPX +1.46% at 7,365, NDX +2.08% at 28,599, DJI +1.24% at 49,911, RUT +1.47% at 2,887

SECTORS: Energy -4.07%, Utilities -1.45%, Health +0.08%, Consumer Staples +0.08%, Financials +0.50%, Real Estate +1.35%, Consumer Discretionary +1.37%, Materials +1.88%, Communication Services +2.05%, Technology +2.56%, Industrials +2.60%.

EUROPEAN CLOSES: Euro Stoxx 50 +2.52% at 6,018, Dax 40 +2.24% at 24,949, FTSE 100 +2.15% at 10,439, CAC 40 +2.94% at 8,299, FTSE MIB +2.35% at 49,697, IBEX 35 +2.47% at 18,104, PSI +1.12% at 9,267, SMI +1.77% at 13,283, AEX +1.67% at 1,031

STOCK SPECIFICS:

- **AMD (AMD):** EPS & rev. beat w/ better than exp. guidance driven by accelerating data centre growth & strong demand for processors and GPU shipments
- **Super Micro Computer (SMCI):** Profit beat w/ stellar next Q & FY outlook as demand for AI servers remained robust
- **Corning (GLW)** announced long-term partnership w/ **NVDA** to strengthen US manufacturing for AI infrastructure.
- Anthropic committed to spend \$200bln w/ **Google Cloud (GOOGL)** over 5yrs under recent agreement.

- **Occidental Petroleum (OXY):** Rev. light & lowered FY26 production outlook.
- **Novo Nordisk (NVO):** Net sales, EBIT & Wegovy sales all beat.
- **CVS Health (CVS):** Top & bottom-line surpassed Wall St. exp. alongside lifting FY profit view
- **Cencora (COR):** Q metrics light
- **Disney (DIS):** Solid Q report
- **Uber (UBER):** Stellar outlook offsets quarterly metrics
- **GlobalFoundries (GFS)** upgraded at Susquehanna to 'Positive' from 'Neutral'
- **Arista Networks (ANET):** Q1 metrics beat, as did guidance, but persistent supply constraints, near-term growth challenges & steep valuation prompted investors to step back.

FX

The dollar was broadly lower as geopolitical reporting pointed towards the US and Iran nearing a deal to end the war. USD tracked oil lower, on two main updates. US President Trump announced that Project Freedom will be paused for a short period to see whether or not the agreement with Iran can be finalised and signed, and Axios reported that US and Iran are reportedly closing in on a one-page memo to end the war. That said, Iranian media, via sources, downplayed the Axios report; the US blockade remains, a gap remains on the nuclear issue, and Iran's response still awaits, all of which casts doubts on a deal being finalised. Separate from geopolitics, ADP showed 109k private jobs added to the economy above the expected 79k, ahead of the NFP report on Friday. Fed 2028 voter, Musalem, noted that plausible scenarios at this point could lead to both rate cuts and rate hikes. Attention on the Trump meeting with Chinese President Xi on 14-15th this month, in which Trump said today a deal with Iran may be reached before then, but later said that there is never a deadline on Iran, but a deal will be done. DXY troughed at 97.625 before bouncing alongside the oil move to just above 98.00.

CAD and **NOK** weakened against USD, dragged down by the slump in oil prices, which slumped on geopolitical optimism. USD/CAD rose marginally to ~1.3635 despite the Canada Ivey PMI rising to 57.7 (exp. 49.9), its highest level in seven months.

NZD rallied the most amongst G10 FX as risk sentiment, while USD/JPY hit lows of 155.03, beneath last week's low of 155.56 in the wake of the JPY intervention. Continued sharp drawdowns have been seen; however, no confirmation of further invention has been issued. USD/JPY trimmed some of the swift downside, now trading around 156.37.

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