

Markets swing from geopolitical optimism to pessimism

- **SNAPSHOT:** Equities down, Treasuries down, Crude settled lower, Dollar up, Gold up
- **REAR VIEW:** Explosions heard in Iran; Some Iran sources say UAE behind attacks; Some sources say US filed at Iran oil tanker; US official rejects reports that the US looking to restart Project Freedom to unblock Strait of Hormuz; US intelligence says Iran can outlast Trump's Hormuz blockade for months; Arabic sources reportedly say a breakthrough regarding the Strait of Hormuz is coming in 'next hours'; US Challenger job cuts accelerate in April; Norges Bank hikes as expected; OpenAI's AI chip deal with AVGO reportedly hits financing snag.
- **COMING UP:** **Data:** Japanese Services PMI Final (Apr), German Balance of Trade (Mar), German Industrial Production (Mar), Brazilian Inflation (Apr), Canadian Jobs Report (Apr), US Jobs Report (Apr), University of Michigan Survey Prelim. (May)
Speakers: ECB President Lagarde, de Guindos, Cipollone, Schnabel; BoE's Breen, Bailey; Fed's Cook, Waller, Bowman
Supply: Australia. **Earnings:** Commerzbank, Wendy's

MARKET WRAP

Stocks ended lower while crude futures rose as markets swung from early optimism on Hormuz negotiations to renewed pessimism on escalating geopolitical risks. Early trade saw crude prices pressured after reports suggested the US and Iran were nearing an agreement on reopening the Strait of Hormuz, with some reports indicating a breakthrough could come within hours. Reports also noted Iran may hand over its response to the latest US proposal later in the session.

However, sentiment deteriorated through the day after Iran's Foreign Minister said Tehran was still reviewing the proposal, while Senior Military Officer Rezaei said Iran would not accept an "unrealistic" US plan regarding Hormuz. Crude prices then reversed higher after the WSJ reported Saudi Arabia and Kuwait had lifted restrictions on the US using regional bases and airspace for "Project Freedom", potentially opening up the bases used as targets for Iran. In post-settlement trade, reports of explosions in Iran further lifted geopolitical tensions, with some sources pointing to IRGC naval warning shots at ships, while others suggested a UAE strike on the Bahman pier in Qeshm. Israel reportedly said it was not involved, however.

The reversal higher in crude weighed on risk sentiment, seeing equities close lower across the board while Treasuries sold off with the curve bear flattening as front-end yields led the move amid renewed inflation concerns.

In FX, the Yen lagged as higher US yields pressured the currency, while the Dollar and CAD outperformed in the risk-off environment as crude prices rose. Gold prices firmed amid the geopolitical uncertainty.

Sector performance was mostly weaker, although Technology outperformed with software names supported after a strong Datadog (DDOG) earnings report, while Microsoft (MSFT) also saw gains. Energy lagged despite the turnaround in crude.

US

NY FED SCE: In the April NY Fed Survey of Consumer Expectations, short-term inflation expectations rose in the short-term but remain unchanged in the medium and long-term horizons. Showing this, 1yr printed 3.6% (prev. 3.4%), with 3yr and 5yr at 3.1% and 3.0%, respectively. Median year-ahead gas price growth expectations tumbled sharply by 4.3ppts to 5.1% from a spike in March. Looking at pay, one-year-ahead earnings growth expectations rose to 2.7% from 2.4%, but mean unemployment expectations also rose to 43.9% from 43.5%, which is the highest reading of the series since April 2025. Moreover, perceptions about credit access vs. a year ago and expectations for future credit availability both deteriorated, while the average perceived probability of missing a minimum debt payment over the next three months decreased to 11.4% (prev. 10.5%), the lowest reading in more than two years.

JOBLESS CLAIMS: Initial Jobless Claims rose to 200k from the prior multi-decade low of 190k, in line with the 199k forecast. The four-week average fell to 203.25k from 207.75k. Unadjusted claims totalled 181k, little changed from the prior week, while seasonal factors had expected an 8.7k decline. The largest increases in claims were in Michigan (1,815) and California (2,523), while the largest declines were in Rhode Island (-1,815) and Arizona (-736). For the preceding week, Continued Claims fell to 1.766m from 1.78m, below the 1.8m forecast. On initial claims, Pantheon said the rise back to 200k "suggests that part of the drop to a multi-year low of 190k in the previous week was noise, although the big picture remains that initial claims are very subdued, with the trend grinding even lower over the past few months".

UNIT LABOR COSTS/PRODUCTIVITY: Unit labour costs rose 2.3% in Q1, easing from 4.4% previously. The increase reflected a 3.1% rise in hourly compensation and a 0.8% increase in productivity. Nonfarm productivity rose 0.8%, below expectations for 1.0%, after a previous 1.8%. Output rose 1.5%, while hours worked increased 0.7%. Pantheon Macroeconomics said the productivity growth reading was underwhelming, but the numbers are volatile each quarter and the trend still looks solid. The firm added that solid productivity growth is restraining unit labour cost growth, providing encouragement that underlying inflation will eventually fall back to the Fed's 2% target once the shock from tariffs and higher energy prices has worked through the economy.

FIXED INCOME

T-NOTE FUTURES (M6) SETTLE TICKS HIGHER AT 9 TICKS LOWER AT 110-16+

T-notes saw two-way trade as oil prices swung to a fluid geopolitical situation, but ultimately settled lower. At settlement, 2-year +4.7bps at 3.917%, 3-year +5.1bps at 3.944%, 5-year +4.4bps at 4.043%, 7-year +4.2bps at 4.216%, 10-year +4.2bps at 4.394%, 20-year +3.7bps at 4.963%, 30-year +3.7bps at 4.975%.

THE DAY: T-notes saw two-way trade as oil prices swung on fluid geopolitical developments, although Treasuries ultimately settled lower.

T-notes were bid through the European morning as crude prices declined on reports the US and Iran were nearing an agreement on reopening the Strait of Hormuz, with some reports suggesting a breakthrough could come within hours. Meanwhile, reports also noted Iran may hand over its response to the latest US proposal later in the day.

However, sentiment reversed as optimism faded. Iran's Foreign Minister said Tehran was still reviewing the proposal and would not accept an "unrealistic" US plan regarding Hormuz. Crude prices extended gains through the US session after the WSJ reported Saudi Arabia and Kuwait had lifted restrictions on the US using bases and airspace for "Project Freedom", potentially allowing the US to resume operations around the Strait. The development heightened geopolitical risks further by potentially bringing additional Gulf infrastructure into Iranian crosshairs. However, Al Jazeera later denied the reports.

As oil prices rebounded, Treasuries reversed lower, with the curve bear flattening as front-end yields led the move amid renewed inflation concerns.

Data and Fed speak once again took a back seat. Challenger layoffs accelerated in April ahead of Friday's NFP report, while the Revelio Labs payroll estimate showed job growth accelerating to 66k. Initial jobless claims rose back to 200k from the prior week's multi-decade low of 190k, although they remain consistent with a still-resilient labour market. Unit labour costs cooled to 2.3% from 4.4%, while productivity growth slowed to 0.8% from 1.8%. Elsewhere, NY Fed inflation expectations rose on the 1-year horizon to 3.6% from 3.4%, while the 3- and 5-year measures were unchanged.

Fed commentary saw Collins say she would have sided with the recent statement dissenters, while Hammack argued policy should be neutral amid uncertainty. Kashkari reiterated inflation remains too high.

SUPPLY

Notes

US to sell USD 58bln of 3-year notes on 11th May, USD 42bln of 10-year notes on 12th May and USD 25bln of 30-year bonds on 13th May

Bills

- US to sell USD 77bln of 26-week bills and USD 89bln of 13-week bills on May 11th, to sell USD 80bln of 6-week bills and USD 50bln of 52-week bills on May 12th; all to settle May 14th
- US sold 4-week bills at a high rate of 3.610%, B/C 2.59x; sold 8-week bills at high rate of 3.595%, B/C 2.91x

STIRS/OPERATIONS

- **Fed Pricing: Dec +5.6bps (prev. +2.8bps)**
- EFFR at 3.64% (prev. 3.64%), volumes at USD 118bln (prev. USD 113bln) on May 6th
- SOFR at 3.61% (prev. 3.62%), volumes at USD 3.129tln (prev. USD 3.148tln) on May 6th
- NY Fed RRP op demand at 0.77bln (prev. 1.63bln) across 6 counterparties (prev. 7) on May 7th

CRUDE

WTI (M6) SETTLED USD 0.28 LOWER AT USD 94.81/BBL; BRENT (N6) SETTLED USD 1.21 LOWER AT USD 100.06/BBL

The crude complex was choppy, but ultimately settled lower as mixed Middle East reporting saw two-way trade. In the European morning benchmarks saw losses, to hit initial intra-day lows, on two positive US/Iran reports: 1) Pakistani Foreign Ministry spokesperson, on US-Iran agreement, said "we would expect an agreement sooner rather than later", and 2) Arabic sources: Reaching understandings regarding easing the siege in exchange for the gradual opening of the Strait of Hormuz", and "coming hours will witness a breakthrough for the situation of the ships stuck in the strait". Initial positive rhetoric, which saw WTI and Brent continue to edge lower to troughs of USD 89.85/bbl and 96.03/bbl, respectively, was offset by later reports that were not quite as supportive. Iran, once again, will not bow to US/Trump pressure, it seems, which got even further legs as the Washington Post wrote that US intelligence said Iran can outlast Trump's Hormuz blockade for months, and a confidential US intelligence assessment added Iran could withstand a US naval blockade of the Strait of Hormuz for 90-120 days, and possibly longer. Moreover, Tasnim sources said Araghchi returned from China and did not go to Islamabad on the way back, which he was reportedly scheduled to do, while a Iran foreign ministry spokesman said it is reviewing the messages with the mediation of the Pakistani side and has not yet reached a conclusion. Accelerating the rebound, WSJ reported that Saudi Arabia and Kuwait lifted restrictions on US military access to bases and airspace, with the US looking to restart Project Freedom to unblock the Strait of Hormuz. This sent WTI into the green; however, a US official told Al Jazeera that the WSJ report is incorrect, resulting in the rally taking a break into settlement. Meanwhile, Iran's Foreign Minister Araghchi criticised the unilateral and provocative resolution submitted by the US and the Gulf on the situation in the Strait of Hormuz. As such, participants await Iran's response to dictate the next direction of trade.

EQUITIES

CLOSES: SPX -0.38% at 7,337, NDX -0.12% at 28,564, DJI -0.63% at 49,602, RUT -1.63% at 2,840

SECTORS: Materials -1.83%, Energy -1.78%, Industrials -1.62%, Utilities -1.34%, Real Estate -0.96%, Financials -0.57%, Health -0.48%, Consumer Discretionary -0.21%, Consumer Staples -0.14%, Communication Services +0.08%, Technology +0.08%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.99% at 5,967, Dax 40 -0.99% at 24,672, FTSE 100 -1.55% at 10,277, CAC 40 -1.17% at 8,202, FTSE MIB -0.82% at 49,291, IBEX 35 -0.29% at 18,052, PSI -1.43% at 9,134, SMI -1.11% at 13,135, AEX -1.17% at 1,019

STOCK SPECIFICS:

- **Albemarle (ALB):** Top & bottom-line surpassed exp.
- **Arm (ARM):** Q numbers beat w/ firm guidance, but concerns over AI chip supply offset enthusiasm for AI server opportunities.
- **Datadog (DDOG):** Stellar Q results w/ better than exp. next Q & FY outlook; Software names, such as Snowflake (SNOW), MongoDB (MDB), AppLovin (APP) surged.
- **Doordash (DASH):** Profit beat & sees order growth
- **Fortinet (FTNT):** EPS & rev. beat w/ strong next Q & FY guidance.
- **Howmet Aerospace (HWM):** Q1 numbers topped w/ stellar guidance
- **McDonald's (MCD):** EPS & rev. beat although comp. sales were light
- **Nutrien (NTR):** EPS & rev. fell short
- **Oracle (ORCL):** Upgraded at Arete to 'Buy' from 'Neutral'
- **Snap (SNAP):** Issued cautious guidance, the end of its Perplexity partnership & uncertainty from Middle East headwinds.
- **Whirlpool (WHR):** Surprise loss per shr., rev. missed & cut FY outlook
- The Trump administration plans to invite CEOs from Nvidia (NVDA), Apple (AAPL), Exxon (XOM), Boeing (BA), and other big companies to accompany the president on his trip to China next week, via Semafor citing sources
- **SoftBank (SFTBY)** in talks with **Nvidia (NVDA)** to build made-in-Japan AI servers, according to Nikkei.
- Bearcave negative on **Kinsale (KNSL)**.
- OpenAI's AI chip deal with **Broadcom (AVGO)** hits USD 18bln financing snag, via The Information.

FX

The dollar was slightly firmer as mixed developments regarding the Middle-East conflict saw oil prices settle little changed. Early USD weakness on lower oil prices amid optimism over a breakthrough on Hormuz was swiftly undone after the Washington Post reported that a US intelligence assessment said Iran could withstand a US naval blockade of the Strait of Hormuz for 90–120 days, and possibly longer, according to WaPo citing sources. Further upside was seen on WSJ reports that the US is looking to restart Project Freedom to unblock the Strait of Hormuz, and explosions are being heard in parts of Iran. Later, a US official rejected the WSJ report. Elsewhere, US initial claims were little changed W/W, while Challenger Job Cuts accelerated in April as technology companies continued to announce large-scale cuts and are leading all industries in layoff announcements. Friday will be centred on NFP as well as a potential response from Iran. We are also awaiting confirmation on the reason behind several explosives heard, with sources suggesting the UAE targeted an Iranian pier. Others suggest there was an attack by the US military on an Iranian oil tanker in Hormuz.

EUR, CAD, and NZD were little changed against USD on Thursday, while JPY underperformed. On EUR, the main news came late in the day, after US President Trump said a promise was made that the EU would deliver their side of the deal, and cut its tariffs to zero; however, the EU has until July 4th, or tariffs would immediately jump to higher levels. EUR/USD saw short-lived upside on the news.

JPY was weaker as oil prices climbed off lows, leaving USD/JPY firmer at 157.72 from earlier 156.02 lows.

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