

Crude sees two-way trade amid conflicting US/Iran reports, meanwhile Waller goes hawkish

- **SNAPSHOT:** Equities up, Treasuries flatten, Crude up, Dollar up, Gold down
- **REAR VIEW:** Negotiations in Tehran have reportedly reached an understanding on broad outlines regarding the nuclear issue, however, differences between sides are very deep; Trump said to be frustrated and may decide on "decisive action" against Iran; Qatari and Pakistani officials arrive in Tehran to help secure a deal; Fed's Waller goes hawkish, and pushes for easing bias in statement to be removed; UoM consumer sentiment hits record low; Kevin Warsh sworn in as new Fed Chair; China launches major crackdown on cross-border stock trading
- **COMING UP:** US/UK Cash Equity Markets closed all day. **Desk remains open as usual.** **Holidays:** US Memorial Day, UK Spring Bank Holiday, EU Whit Monday.
- **WEEK AHEAD:** Highlights include US PCE, Australian CPI, Tokyo CPI, ECB Minutes and rate decisions from RBNZ, SARB, BoK. [Click here for the full report.](#)
- **WEEKLY US EARNINGS ESTIMATES:** Earnings quieten down with CRM, MRVL, COST the highlights. [Click here for the full report.](#)

MARKET WRAP

US equities ended the day higher amid broad strength (RSP +0.9%). Healthcare, Industrials, and Utilities outperformed, while Communications was the only sector notably in the red. Hardware names (DELL +16.8%, HPQ +15.3%) surged on Lenovo reporting its highest quarterly growth rate in five years amid strong consumer demand for PCs. Separately, Fed's Waller shifted to hawkish from his dove stance at the start of the year, arguing against the easing bias in the statement, adding that it is "crazy" given recent data (hot CPI, PPI, and NFP in Apr), to be talking about rate cuts in the near future. The remarks resulted in short-end underperformance in treasuries, leaving money markets pricing in one 25bps rate hike by year-end. Meanwhile, Kevin Warsh was sworn in as the 17th Fed Chair, albeit remarks had little impact.

Geopolitics continued to dominate the tape, albeit with conflicting reporting. The main takeaways are that Pakistani and Qatari officials are in Iran to try and finalise an agreement between the US. Sky News Arabia, via a source, boosted optimism, noting that negotiations in Tehran have reached an understanding on broad outlines regarding the nuclear issue. However, an Iranian FM Spokesperson said the differences between Iran and the United States are deep and significant. Ultimately, oil settled slightly firmer as markets remain jittery over the future; Axios reported "A source close to Trump claimed that Trump had grown increasingly frustrated over the past several days and has raised the possibility of a final major military operation".

In FX, the dollar was broadly firmer against peers, supported by Waller. CHF and GBP saw modest strength.

US data saw UoM Sentiment hit a record low and inflation expectations (1yr & 5yr) rise from April. The cost of living remained the top concern, with 57% of consumers spontaneously citing high prices as eroding their personal finances.

US

WALLER: Gave a very hawkish set of remarks, especially given his usual tone, as the influential Governor noted that they should remove easing bias from the statement, although he is not advocating for a hike at the moment. Note, in the prior meeting, Waller did not dissent in re. the removal of the language. Waller said do not expect to support a change in the policy rate in the near term, and the outcome will depend heavily on the length of the Iran conflict. Waller noted that if expectations start to become unanchored "would not hesitate" to support a rate hike, and cannot rule out hikes if inflation does not abate soon. On the dual mandate, he said the labour market is in balance and no longer the chief concern in determining the path of policy, and he is concerned about climbing expectations as the Fed's inflation miss enters its sixth year. In the Q&A section, Waller said if expectations over the next 2/3/4 years rise, that is a problem. Want to run an ample reserve type system, and do not want to go back to a scarce reserve system. It is "crazy" given recent data to be talking about rate cuts in the near future.

MICHIGAN: Final UoM for May saw disappointing downward revisions, as sentiment was revised down to 44.8 (prev. & exp. 48.2), conditions 45.8 (prev. & exp. 47.8), and expectations 44.1 (exp. 48.5, prev. 48.1). In addition, 1yr inflation expectations moved up to 4.8% from 4.7%, above the expected 4.5%, with the longer-term 5yr jumping to 3.9% from 3.4%, which was also the consensus. Overall, Oxford Economics notes US/Israel-Iran war continues to depress consumer sentiment, with low-income consumers feeling the most pessimistic about further increases in gas prices. OxEco adds that a sustained rise in long-run inflation expectations would limit the Fed's ability to view the oil price shock as a one-off.

FIXED INCOME

T-NOTE FUTURES (M6) SETTLED HALF A TICK HIGHER AT 109-08

Treasuries flatten as hawkish Fed Waller leaves markets fully pricing one 25bps hike by year end. At settlement, 2-year +4.4bps at 4.123%, 3-year +3.5bps at 4.171%, 5-year +1.4bps at 4.258%, 7-year -0.4bps at 4.399%, 10-year -1.6bps at 4.556%, 20-year -

2.9bps at 5.073%, 30-year -3.2bps at 5.063%.

THE DAY: Treasuries saw mixed price action to end the week, with the short end sold and the long end bid. 2yr yields eked out new YTD highs following a hawkish speech and Q&A from Fed's Waller, with money markets now pricing in one 25bps hike by year-end. Governor Waller, who was on the dove side in early 2026, has now notably shifted his stance following the latest FOMC meeting, amid both CPI and PPI coming in hot and NFP topping expectations in April. His concerns over the jobs market have eased: "Labour market is in balance and no longer the chief concern in determining path of policy". He has joined the "many" policymakers who would have preferred to remove the easing bias from the policy statement and noted it is "crazy" given recent data, to be talking about rate cuts in the near future. Waller did note he is not advocating for a hike at the moment, but cannot rule out hikes if inflation does not abate soon. On the balance sheet, he wants to run an ample reserve type system, not going back to a scarce reserve system.

US data showed UoM Sentiment hitting a record low, down three months in a row. 1yr inflation expectations were 4.8% for May (prev. 4.7%) and the 5yr rose to 3.9% from 3.5%; price action at the time was driven by Waller's speech.

Geopolitical updates were many to end the week, ultimately leaving crude prices slightly higher on the day, and perhaps providing some relief on the long end. As it stands, Qatari and Pakistani officials have arrived in Iran to close in on a deal. Sky News Arabia reported that negotiations in Tehran have reached an understanding on the broad outlines regarding the nuclear issue; however, the Iranian FM spokesperson said the differences between the sides are deep and significant.

STIRS/OPERATIONS

- **Fed Pricing: Dec 26.2bps (prev. 19.9bps)**
- EFR at 3.62% (prev. 3.62%), volumes at USD 120bln (prev. USD 119bln) on May 21st
- SOFR at 3.51% (prev. 3.50%), volumes at USD 3.077tln (prev. USD 3.082tln) on May 21st
- NY Fed RRP op demand at 0.965bln (prev. 3.281bln) across 5 counterparties (prev. 9) on May 22nd

CRUDE

WTI (N6) SETTLED USD 0.25 HIGHER AT USD 96.60/BBL; BRENT (N6) SETTLED USD 0.96 HIGHER AT USD 103.54/BBL

The crude complex settled with marginal gains, amid non-stop Middle East reporting, which was conflicting at times. All in all, the Pakistani Army Chief has reportedly arrived in Tehran, before source reports gave different indications on the progress of negotiations and the likelihood of a breakthrough, which saw two-way trade. Highlighting this and garnering risk-on trade was Sky News Arabia, citing sources that negotiations in Tehran have reached an understanding on broad outlines regarding the nuclear issue. However, and around the same time, Fars reported, citing an Iranian Foreign Ministry Spokesperson, that differences between Iran and the US are so deep and numerous that it cannot be said that we will definitely reach a conclusion with several visits or negotiations within a few weeks. Tasnim added that one cannot necessarily say that have reached a point where an agreement is close. Elsewhere, headlines to be aware of were Al Araby saying Pakistan's army chief's visit to Tehran may be a last-ditch effort to prevent the region from returning to war, and that both Washington and Tehran are not showing sufficient flexibility on key issues. Ahead of tomorrow, Al Arabiya said a meeting tomorrow will bring together the Pakistani army chief and the commander of the IRGC. Into the long weekend, participants will be awaiting any update, either way, regarding the progress of talks and a deal upon returning on Tuesday. For the record, WTI traded between USD 94.73-99.43/bbl and Brent USD 101.34-106.36/bbl.

EQUITIES

CLOSES: SPX +0.37% at 7,473, NDX +0.42% at 29,482, DJI +0.58% at 50,585, RUT +0.91% at 2,869

SECTORS: Communication Services -0.68%, Consumer Staples -0.09%, Real Estate +0.10%, Consumer Discretionary +0.20%, Financials +0.33%, Materials +0.35%, Energy +0.44%, Technology +0.52%, Industrials +0.68%, Utilities +0.80%, Health +1.19%.

EUROPEAN CLOSES: European Closes: Euro Stoxx 50 +0.99% at 6,019, Dax 40 +1.31% at 24,928, FTSE 100 +0.22% at 10,466, CAC 40 +0.37% at 8,116, FTSE MIB +0.70% at 49,511, IBEX 35 +0.06% at 17,985, PSI -0.66% at 9,167, SMI +0.42% at 13,503, AEX +0.97% at 1,045.

STOCKS SPECIFICS:

- **AMD (AMD):** CEO said it is working w/ Taiwan partners to increase prod. capacity as stronger-than-exp. demand tightens the global CPU market.
- **Workday (WDAY):** Stronger than exp. results, upgraded margin forecast w/ mgmt. citing strength in AI & rising use of its AI agents.
- **Zoom (ZM):** EPS & rev. topped alongside raising FY27 outlook.
- **Ross Stores (ROST):** Stellar Q1 report, supported by strong comp. sales, higher customer traffic, better margins & raised FY outlook.
- **Take-Two Interactive (TTWO):** Metrics beat & as it reiterated 19th Nov. release date for GTA6; note, next Q & FY guidance disappointed.
- **Alcoa (AA):** Upgraded at UBS to 'Buy' from 'Neutral'.
- **Inspire Medical (INSP):** Downgraded at BofA to 'Underperform' from 'Neutral'.
- US President Trump praised **Eli Lilly (LLY)** and **Pfizer (PFE)**.
- **Micron (MU)** CEO sees memory chip shortages lasting beyond 2026.
- **Lantheus (LNTH)** said to weigh sale following offer from Curium.

FX

The **Dollar** saw mixed performance against G10 peers on Friday, in which was a day, yet again, dominated by Middle East headlines ahead of further US/Iran at the weekend. There have been plenty of conflicting reports surrounding the progression and likelihood of a deal, but the most recent update, via N12; Ravid said, via a US source, the President is frustrated and may decide on "decisive action" against Iran, which would allow him to declare victory and end the conflict. Away from the Middle East, the new Fed Chair, Warsh, was sworn in, but did not say much of importance in his first address. Further on the Fed footing, Governor Waller gave some hawkish remarks as he said should remove easing bias from the statement, if expectations start to become unanchored, "would not hesitate" to support a rate hike, and cannot rule out hikes if inflation does not abate soon. Although he did note he is not advocating for a hike at the moment, and does not expect to support a change in the policy rate in the near term.

As mentioned, **G10 FX** was mixed vs. the Greenback with only the Swissy and Pound eking out gains, albeit in thin currency-specific newsflow. EUR was flat, while CAD, JPY, and Antipodeans saw losses to differing degrees, with the latter also weighed on by pressure in metals prices. Looking at global data, Japanese inflation was cooler than expected, while UK retail sales disappointed, but had little sway on Cable. In Canada, retail sales impressed. As mentioned, the state of play was dictated by US/Iran rhetoric as participants await any de/escalation over the weekend.

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