European Market Wrap - 1st July 2026

- **European bourses were broadly in the red; US equity futures follow suit, though Meta (+6%) gains after reports that it is building a cloud business to sell excess AI compute.**
- **DXY gained heading into the ECB Sintra panel, but then waned off best levels as Fed Chair Warsh avoided any overt hawkish language.**
- **A preliminary agreement has been reached to release USD 3bln to Iran, Al Hadath reported, citing sources.**

EQUITIES

- **European bourses** (STOXX 600 -0.6%) are to end Wednesday's trade with broad losses, outside of Germany's **DAX 40** (+0.3%) as the index found support from its defence names (see more below). France's **CAC 40** (-1.0%) was the underperformer, weighed on by shares of **Schneider Electric** (-3.6%) after the Co. bought Cognite for USD 3.1bln in cash.
- **Sectors** held its negative bias throughout the session. **Autos** (+0.4%) topped the sector pile, with **Financial Services** (+0.4%) and **Chemicals** (+0.2%) the only other sectors that printed modest gains. **Travel & Leisure** (-1.6%), **Utilities** (-1.6%) and **Energy** (-1.4%) were the biggest sector laggards.
- **Upside in German defence names** (Rheinmetall +4.7%, MTU Aero +0.9%) came following an FT report stating that Germany is pushing the US to allow more US weapons to be built in Germany. German officials are reportedly to ask their US counterparts to agree to a co-production deal ahead of the NATO summit next week. Other key movers included: **Shell** (-1.6%), driven by lower energy prices and agreeing to sell its interests in the Na Kika platform for USD 1.7bln; **Sanofi** (-1.3%), disclosed that Q2 2026 currency impact is expected at -2% on sales and -3% on business EPS; **Renault** (+4.0%), confirmed FY guidance that sits above market consensus.
- **US cash equities** begin Q3 with decent losses, with underperformance seen in the **NDX** (-0.8%). Downside in cloud names was seen pre-market and extended lower after **Meta** (+6%) announced that it is building a cloud business to sell excess AI compute.

FX

- **Snapshot**: G10s were broadly lower against the USD, throughout the European session. The JPY fared a bit better vs peers, whilst the EUR, AUD and CHF lagged.
- **DXY** started the London session on a firmer footing. Domestic data included ADP Employment Change (printed a touch below expectations), whilst the Revelio Labs NFP jumped to 258k (prev. 123k); the latter spurred some mild strength in the index at the time. Thereafter, headline ISM Manufacturing printed below expectations, with a notable pull-back in the Prices component. Very slight pressure was seen in the index following this report.
- Focus was also on the ECB Sintra, which saw a panel of Fed Chair Warsh, ECB President Lagarde, BoE Bailey and BoC's Macklem. The central banks touched a number of different things, but the bulk of the move came after BoE Governor Bailey stated that the soft UK economy was the reason to hold rates. This saw Cable fall by c. 20 pips, which in turn lifted the Dollar index. For the index specifically, Chair Warsh seemed to avoid any overt hawkish language, which saw the USD wane off best levels.
- Earlier in the session, the **EUR** had inflation and activity data to contend with. The EZ HICP report printed below expectations, and cooled from the prior, on all, headline, core and services metrics. Some very mild pressure was seen in the EUR, and plays in favour of a hold in July. On the activity side of things, today's Manufacturing PMI finals were subject to mild upward revisions, and the accompanying commentary was upbeat.
- **JPY** continued to remain in focus, with another jawboning attempt proving impotent. The latest attempt was by Top FX Diplomat who stated that Japan is in touch with US counterparts more than most imagine and that a US official made supportive remarks about FX action. This spurred some very mild pressure in the pair (05:30 BST / 00:30 EDT), falling from 162.79 to 162.56, before retracing about half of that move. On the domestic data front, the Japanese Tankan Survey was solid, indicative of growing optimism across firms. Do note that c. 70% of respondents answered before the signing of the US-Iran MoU.
- **BofA** said it is maintaining a long USD bias. The bank said that DXY has formed a head-and-shoulders bottom and broken to new 52-week highs, with upside targets of 102.86 and 104.60. Elsewhere, BofA remains bearish on EUR, and flags upside risks in USDJPY, USDCAD, USDKRW and USDTHB.

FIXED

- **Global fixed income benchmarks** traded on the softer side throughout Wednesday's trade, with the majority of the downside seen in the latter half of the European session.
- **USTs** (-9+ ticks) continued to sell off, but off worst levels, resulting in the steepening of the 2s10s curve led by the longer end (currently at 32bps). Amidst the lack of a driver, analysts think it could still be quarter-end repositioning. On the data front, US ADP employment change printed softer than expected (98k vs exp. 110k), while Revelio Labs NFP printed at +258.5k, rising from +123.7k. This comes ahead of the jobs report on Thursday; NFP is expected at 110k from 172k, while the unemployment rate is expected to hold steady at 4.3%. ISM Manufacturing PMI was also released, in which the headline

figure missed estimates (53.3 vs exp. 53.9); minimal reaction seen in USTs. Fed Chair Warsh said little at Sintra, which was expected. He reiterated that he would not give forward guidance and stated that we must think about a new conduct for monetary policy decisions. Overall, his tone seemed less hawkish in comparison to the tone in the post-FOMC press conference.

- **Bunds** (-32 ticks) traded in a 127.00-127.23 range in the European morning but were dragged lower as USTs continued to sell off. EZ inflation cooled in June (HICP: 2.8% Y/Y vs exp. 3.0%), which would be a good sign for ECB policymakers to remain on hold or push out its next rate hike, if needed. In terms of market pricing, a 24% chance is priced in for a hike in July, while a 72% chance of a hike is expected in September. Similar to Fed Warsh, ECB President Lagarde did not say much of note, but highlighted that the risks to the economy are more balanced than they were a few weeks ago.
- **Gilts** (-30 ticks) sold off at the start of trade as it needed to catch up to the selling seen in the late part of Tuesday's session. Not much to report in terms of data or key drivers for the UK debt market. At the Sintra policy panel, BoE Governor Bailey highlighted the softening economy and labour market and stated that it was the reason not to raise rates. However, Bailey followed up by stating that rate cuts are off the table at the moment.
- **Germany sold EUR 2.673bln vs exp. EUR 3.5bln 2.50% 2032 Bund: b/c 1.15x (prev. 2.4x), avg. yield 2.68% (prev. 2.8%), retention 23.6% (prev. 23.94%).**
- **UK sold GBP 1.25bln 0.125% 2031 I/L Treasury Gilt: b/c 4.26x (prev. 3.75x), real yield 0.933% (prev. 0.651%).**

COMMODITIES

- **A softer session for the energy complex**. **WTI and Brent** started the morning modestly on the backfoot, and have faded across the day. Initial pressure was a function of the tone from US President Trump yesterday, who indicated potential support to a deadline extension rather than further strikes.
- Thereafter, the bearish bias extended in anticipation of the indirect US-Iran talks. Pressure was exacerbated by reporting that the talks had commenced and the sides were speaking with respective mediators. Newsflow unrelated to the talks included sources that OPEC+ is likely to increase its oil output quotas for August.
- **WTI and Brent** are set to end the European day in proximity to but just off respective USD 68.14/bbl and USD 71.62/bbl troughs.
- **Metals under pressure**, base metals follow the risk tone lower, and while spot gold is back above the USD 4k/oz mark it once again lost overnight; largely thanks to the pull-back seen in the Dollar index.
- **For the base space**, 3M LME Copper continued to slip, down to a USD 13.1k base with action at the whim of the broader risk tone. As a reminder, the APAC handover was mixed, though we did see strength in mainland China (note, Hong Kong was closed), given the Communist Party anniversary and the latest expansionary PMI. However, amidst the USD pull-back surrounding the lack of hawkish commentary from Fed Chair Warsh, the metal finished the EU session off worst levels.
- **Petrobras (PBR) will** cut jet fuel prices by 14.5% effective July 1st.
- **Russia's Deputy PM Novak** said there are disruption of fuel supplies related to logistic's disruptions from oil refineries, but problems are quickly being solved. On the whole, domestic market is well supplied by gasoline and diesel. Oil majors are keeping fuel prices in check. We expect prices to level out and that fuel prices impact on inflation will be minimal.
- **OPEC+ is likely to raise oil output quotas for August by 188k BPD at Sunday meeting, according to Reuters source reported.**
- **Hungary extends temporary exemption for Paks nuclear power plant from downstream cold water temperature regulations.**
- **Aramco and Sonatrach** cut July LPG prices; Rising global supply prompted Aramco to cut July LPG OSPs by 24-27%. Aramco lowered propane OSP by USD 180/ton to 580/ton and butane OSP by USD 220/ton to 600/ton. Algeria’s Sonatrach trimmed July LPG OSPs about 2–10%, with propane down USD 57/ton to 518/ton and butane down USD 10/ton to 600/ton.
- **World Gold Council base case sees gold trading near USD 4,100/oz this year.**
- **Saudi Aramco reportedly** sold millions of barrels of oil spot in Asia; sold at least 6mln bbls of crude to customers across South Korea, Japan, and China.
- **Agricultural lobbyists in the US** warned President Trump that an executive order calling for pest-killing alternatives would cost him support from farmers and associated areas, Axios reported citing sources.
- **Guangzhou Futures Exchange** said it will adjust daily price limits for platinum and palladium futures to 14% and set trading margin requirements at 16%, effective at settlement on July 3rd.
- **Urals crude differential for delivery to India have fallen to a four-month low, sources report; driven lower by supply and competition.**

EUROPEAN DATA

- **EU Inflation Rate MoM Flash (Jun) M/M -0.1% vs Exp. 0.1% (Prev. 0.1%).**
- **EU Inflation Rate YoY Flash (Jun) Y/Y 2.8% vs Exp. 3.0% (Prev. 3.2%, Low. 2.9%, High. 3.2%); Services 3.2% (prev. 3.5%).**
- **EU HICP ex-Food & Energy Y/Y Flash (Jun) 2.2% (prev. 2.3%).**
- **EU HICP ex-energy, food, alcohol & tobacco Y/Y Flash (Jun) Y/Y 2.4% vs. Exp. 2.6% (Prev. 2.6%).**
- **EU S&P Global Manufacturing PMI Final (Jun) 51.4 vs. Exp. 51.3 (Prev. 51.6, Low. 51.3, High. 51.6).**
- **UK S&P Global Manufacturing PMI Final (Jun) 52.5 vs. Exp. 53.1 (Prev. 53.9).**
- **UK** Nationwide Housing Prices MoM (Jun) M/M 0% vs. Exp. 0% (Prev. -0.6%).
- **UK** Nationwide Housing Prices YoY (Jun) Y/Y 2.2% (Prev. 1.7%).
- **German S&P Global Manufacturing PMI Final (Jun) 50.3 vs. Exp. 50 (Prev. 50.1, Low. 50, High. 50.1).**
- **French S&P Global Manufacturing PMI Final (Jun) 51.2 vs. Exp. 50.7 (Prev. 49.7, Low. 50.7, High. 50.7).**
- **Italian** S&P Global Manufacturing PMI (Jun) 52.2 vs. Exp. 52.6 (Prev. 52.9).
- **Spanish** S&P Global Manufacturing PMI (Jun) 49.7 vs. Exp. 51 (Prev. 51.2).
- **Swedish** Swedbank Manufacturing PMI (Jun) 58.3 (Prev. 57.3).

NOTABLE HEADLINES

- **UK PM Starmer** announces that the GBP 1bln annual shortfall in defence spending has been covered using the budget's headroom.
- **EU antitrust regulators say Paramount (PKSY)** has offered remedies to secure EU approval for the Warner Bros (WBD) deal.
- **UK Labour MPs reportedly want Burnham to appoint McFadden as Chancellor, in order to block Miliband, Huffington Post reported citing sources.**

TRADE/TARIFFS

- **US** is seeking alternative tungsten supplies to reduce reliance on China, NYT reported. NYT noted that China produces about 85% of global supply, and the US imposed export controls last year. Almonty Industries' Sangdong mine in South Korea, with 58mln tons of tungsten, could supply around 40% of non-China global demand, NYT said. US contractors already face a Chinese tungsten ban next year.

CENTRAL BANKS

- **Fed Chair Warsh said must think about a new conduct for monetary policy and we'll be charting a new course so the Fed can make better decisions.** Exciting, consequential time to be a central banker. FOMC/Guidance: Reiterates not going to give forward guidance. Wants to have good debate with his colleagues on FOMC, and he values their views. Doesn't want to make any judgements now, the Fed is set to meet in four weeks. We'll be an independent central bank, and no changes in independence. If there are obstacles that prevent them from having healthy debate at meetings, should get rid of it, was referring to forward guidance. Would not be surprised if in 12 months in a better path to deliver the mandates of the central bank. AI: AI boom is showing itself first and very prominently in the US, trying to monitor these developments, and up to the Fed to decide if AI is inflationary. In terms of the inflationary impact in the near term, can observe it on the demand side. Whether that finds its way into a broader set of goods, Warsh doesn't have any news on that front. Monetary policy spills over between their economies. US likely to be a big winner from AI. Suggests only in the first or second innings of this revolution. Dual Mandate:. Fed wants to deliver price stability. Fed must deliver on both sides of its mandate. Labour markets are steady. Supply side solid, and in the price stability business. Looked around, and see that prices are too high. Expectations of inflation over the first four weeks have come down. If anyone thought we'd be happy with inflation above 2%, they'll be disappointed. Economy:Volatility is down, yields are down.Task Force:Next week will likely have news on the leaders on the task force that he's appointed.
- **ECB President Lagarde said the risks to the economy are more balanced than they were a few weeks ago.** Reiterates language around stagflation. Stagflation is not the correct way to describe the current economic situation. Seeking price stability.
- **ECB President Lagarde speaks about past monetary policy decisions; wants to go away from forward guidance, and towards "framework guidance".**
- **ECB's Wunsch tells Econostream that the case for further tightening is receding and any surprise in EZ inflation before the July meeting is more likely to be on the downside,.** Would need stronger second-round effects to justify further tightening. One hike could suffice if shock fades before significant second-round effects. More than one hike to depend on more persistence and stronger second-round effects.
- **ECB's Nagel pushes back on a "insurance hike" narrative, Bloomberg TV; inflation will stay high in 2026 and remain above target in 2027.** Stresses data dependency and a meeting-by-meeting approach. Keeps options open for July and September. States that the first round effects continue, which increases the chance of second round effects. Not currently seeing pass-through of first round effects on wages. Other: Welcomes the German pension reform. (Bundesbank have been pushing to have an increased role on the matter).AI:. AI could be inflationary in the short term, but longer-term the growth benefits could then be seen from a productivity standpoint. Also highlights the better prospects on the jobs market (in relation to AI).
- **BoE Governor Bailey said he is cautious on forward guidance as it is easier to put it in place than to remove it, must be careful of getting tied into views and where rates must go.**
- **BoE Governor Bailey said we have a softening economy and labour market and was the reason to not raise rates; focused on the risks of the pass-through of the energy crisis.** Energy prices have come down quite substantially. Have a delayed reaction to energy prices. Rate cuts are off the table at the moment. Jury is out on whether Ai is a job creator or killer.
- **BoC Governor Macklem said we are comfortable where we are in regards to interest rates.** All economies are facing similar shocks, but starting from different bases. Canadian economy is soft. There is slack in the labour market. Inflation is clearly above target. That is a dilemma for monetary policy. Reiterates BoC at bottom end of natural range (2.25-3.25%). About the right level to keep inflation contained. On forward guidance, we have to be humble, there are a lot of risks out there. If situation changes, we are prepared to take action. Trade continues to be a headwind. AI investment in US leads to headwinds and competitive pressure. It is an open question when AI driven disinflation kicks in. Short term saw an increase in computer prices.

GEOPOLITICS

RUSSIA-UKRAINE

- **Russia's Deputy PM Novak** said there are disruption of fuel supplies related to logistic's disruptions from oil refineries, but problems are quickly being solved. On the whole, domestic market is well supplied by gasoline and diesel. Oil majors are keeping fuel prices in check. We expect prices to level out and that fuel prices impact on inflation will be minimal.

MIDDLE EAST

- **Iran's Minister of Agricultural Jihad** said no obligation to source essential goods from the US; open to using blocked assets for imports, Mehr reported.
- **US President Trump on Iran, said very good meetings and getting along very well; denuclearisation of Iran is moving along well.**
- **US Ambassador to Israel tells Jerusalem Post "If the Iranian won't change their ambitions the President has made it clear that he keeps all of his options on the table".**
- **A preliminary agreement has been reached to release USD 3bln to Iran, Al Hadath reported, citing sources; Indirect negotiations are still ongoing in Doha.** Tehran has linked any progress in the technical negotiations to receiving USD 3bln. Discussions regarding the Strait of Hormuz according to a new plan proposed by Oman. Delegations will return to their capitals regarding the Omani proposal for the Strait of Hormuz.
- **UKMTO has received a report of an incident 76nm south of Balhaf, Yemen; UKMTO have been informed that the suspicious small craft has now departed from the vessel but remains active in the area and could possibly be a risk to other vessels.**
- **Iran Official Gharibabadi** said no negotiations on final agreement have started. "Working groups to follow up on the implementation of the Memorandum of Understanding and negotiate for a final agreement have been formed, but negotiations in these formats have not yet begun. ".
- **Iran has deployed special forces to western borders after a wave of terrorist attacks, according to Press TV.**
- **Iran** is reportedly insisting on retaining control over the Strait of Hormuz, according to sources citing a senior Iranian official; could see a recommence charging ships to transit from mid-August. Not going to discuss other points until Hormuz is agreed.
- **Israeli Defense Minister** said "we struck Iran twice and we will strike it a third time if necessary".
- **UKMTO** said it received a report of an incident 76NM south of Yemen; the vessel being approached by multiple small craft but the crew reported safe.
- **Israeli Defence Minister Katz** said the IDF will remain in the security zones in Lebanon, Syria and Gaza.
- **Indirect US-Iran technical talks are reportedly underway in Doha, with Qatar and Pakistan acting as mediators; sessions involve chief negotiators and specialist teams, sources suggest.** US envoy Witkoff and Kushner met with the Qatari PM on Tuesday to lay out the baseline of the talks, but will not be attending the talks themselves.
- **Iran State Media said that a foreign container ship ran aground in the Strait of Hormuz after using a route which was undesignated by Iran.**
- **Iran's acting Defence Minister Al-Reza** said missile and drone capabilities remain non-negotiable red lines.
- **Iranian Deputy Foreign Minister** said consultations to determine the date and location of negotiations are ongoing on the part of the mediators, Al Jazeera reported. If the appropriate conditions are met, negotiations will begin at the working committee level.
- **Iranian Foreign Minister Araghchi said the terms of the MoU are crystal clear and that US President Trump has committed the US to muzzling its pets in Tel Aviv, Any threat against our people will receive an immediate and powerful response.**
- **NATO Secretary General Rutte** said NATO's message to the defence industry is to scale up.
- **US and France recently conducted a joint training mission in the US, Axios reported.**
- **"US delegation begins talks with Qatari mediator", Al Arabiya reported citing sources; Iranian delegation is now speaking with the mediator from Pakistan.**

NOTABLE NORTH AMERICAN NEWS

- **US President Trump** said we're building a lot of car plants and AI sites in the US; we could have 50% of chip market by time I leave office.
- **US President Trump praises falling oil prices and stock market; praises Qatar for gifting new Air Force One.**
- **NEC Director Hassett expects roughly 4% US growth in H2.** Hormuz traffic is heading up again after some hiccup days. Would be a mistake to raise interest rates. Warsh has to heard some cats, he has a difficult job.

NORTH AMERICAN DATA

- **Revelio Labs Nonfarm Payrolls (June): +258.5k (prev. +123.7k, rev. +110.8k).** This gain was driven by significant job gains in the Public Administration, Health Care and Social Assistance, and Professional and Business Services sectors.
- **US ADP Employment Change (Jun) 98K vs Exp. 110K (Prev. 122K, Low. 78K, High. 134K).** Median change in annual pay Y/Y. Job stayers: 4.4% (prev. 4.4%). Job changers: 6.6% (prev. 6.5%). Commentary" The pace of hiring is telling a story of both supply and demand. We know it's taking people longer to find work, but there also are signs of labor supply constraints in certain industries. For now, the overall effect is a slowdown in job creation.".
- **US** MBA 30-Year Mortgage Rate (Jun/26) 6.57%.
- **US** MBA Mortgage Applications (Jun/26) 0%.
- **US Challenger Job Cuts (Jun) 45.849K (Prev. 97.006K); cuts remain concentrated in tech, with AI continuing to reshape how companies think about headcount.**
- **US ISM Manufacturing PMI (Jun) 53.3 (Prev. 54.0, Low. 53, High. 54.6)**
- **US ISM** Manufacturing Employment (Jun) 49.7 (Prev. 48.6)
- **US ISM** Manufacturing Prices (Jun) 73.0 (Prev. 82.1, Low. 72, High. 84)