

Stocks hit on memory concerns and escalating geopolitics

- **SNAPSHOT:** Equities down, Treasuries down, Crude up, Dollar up.
- **REAR VIEW:** Iran said that the Strait of Hormuz would be closed until further notice; Trump reinforces blockade; Trump to charge for Hormuz usage; Houthi hit Saudi Arabia after Saudi hit Yemen airport; Fed Waller said if core CPI is hot, Fed will need to consider a near term rate-hike; SK Hynix earning concerns.
- **COMING UP:** **Data:** UK BRC Retail Sales (Jun), Chinese Balance of Trade (Jun), German Wholesale Prices (Jun), Chinese M2 Money Supply (Jun), US NFIB Business Optimism Index (Jun), US CPI (Jun). **Events:** Fed Discount Rate Minutes (Jul), ECB President Lagarde-US Treasury Secretary Bessent meeting. **Speakers:** Fed Chair Warsh, Goolsbee, Barr, Cook, Bowman; BoE Governor Bailey. **Supply:** Australia, Japan, Netherlands, Germany. **Earnings:** Citi, Goldman Sachs, JPMorgan, Bank of America, Wells Fargo, Fastenal, Ericsson.
- **WEEK IN FOCUS:** Highlights include: US Inflation and Retail Sales, Fed Chair Warsh Testimony, BoC, China Activity Data, and UK GDP. [Click here for the full report.](#)
- **WEEKLY US EARNINGS ESTIMATES:** Earnings season begins with big financials set to report. [Click here for the full report.](#)

MARKET WRAP

Stocks were lower on Monday, with the Nasdaq the clear underperformer as Technology led the broader market lower. The weakness in Tech was driven by sharp losses in memory names (DRAM -c. 9%) and semiconductor stocks (SOXX -5%) amid concerns surrounding SK Hynix's upcoming earnings. The stock also gave back some of Friday's gains following SK Hynix's US listing.

Broader risk sentiment was also weighed down by ongoing geopolitical tensions between the US and Iran after further military strikes over the weekend. President Trump announced that the US would reinstate the blockade on Iran and assume control of the Strait of Hormuz, adding that the US would impose a 20% charge on cargo vessels transiting the Strait in exchange for safe passage.

The developments pushed crude prices higher throughout the session, with benchmarks settling near their highs after the US military confirmed the blockade on Iran would take effect from Tuesday. Meanwhile, retaliatory strikes between Saudi Arabia and Yemen were seen, adding to concerns that the conflict could broaden across the region.

Fed commentary also influenced markets after Governor Waller struck a hawkish tone. He said another firm core inflation reading in Tuesday's CPI report would force the Fed to consider a near-term rate hike, adding he would view such an outcome as a genuine signal rather than noise. Conversely, a softer reading would not be sufficient on its own, with Waller saying he would need to see several months of cooler inflation before becoming confident that price pressures were moving back towards target.

The combination of higher oil prices and Waller's hawkish comments pushed Treasury yields higher across the curve, with the front end yields leading as markets increased expectations for additional Fed tightening.

In FX, the Dollar outperformed as higher Treasury yields and safe-haven demand supported the Greenback. The Canadian Dollar also gained on the back of stronger oil prices, while the traditional low-yielding currencies, the Japanese Yen and Swiss Franc, lagged.

Attention now turns to Tuesday's CPI report and Chair Warsh's testimony before the House. Markets will be particularly focused on the core inflation reading following Waller's comments, while investors will also be listening for any indication of how Warsh interprets the latest inflation data, although he is expected to continue avoiding explicit forward guidance.

FIXED INCOME

T-NOTE FUTURES (U6) SETTLED 10+ TICKS LOWER 108-22+

T-notes sold in response to rising oil prices and a hawkish Waller ahead of CPI and Chair Warsh. At settlement, 2-year +5.7bps at 4.269%, 3-year +5.7bps at 4.304%, 5-year +6.1bps at 4.367%, 7-year +6.4bps at 4.487%, 10-year +5.5bps at 4.616%, 20-year +4.8bps at 5.118%, 30-year +4.3bps at 5.102%.

THE DAY: Treasuries were weaker across the curve on Monday, with the curve bear flattening as renewed geopolitical tensions and hawkish Fed commentary lifted inflation expectations. Overnight, continued US-Iran tensions supported crude prices, while President Trump announced the US would take control of the Strait of Hormuz and impose a 20% charge on all cargo vessels transiting the waterway. Trump also said the US would reinstate its blockade on Iran, providing further support to energy prices. Crude was additionally underpinned by ongoing attacks involving Yemen and Saudi Arabia, reinforcing concerns over regional energy security.

Alongside the geopolitical backdrop, hawkish remarks from Fed Governor Waller added further pressure to Treasuries. Waller warned that another firm core inflation reading this week would see him consider a near-term rate hike, adding that he would need

to see several months of softer core inflation before becoming confident that price pressures were moving back towards target.

The combination of higher oil prices, rising inflation expectations and Waller's comments saw yields rise as markets priced a greater probability of additional Fed tightening. Short-term interest rate futures increased the implied probability of a July rate hike to around 45%, from roughly 35% before his remarks.

Attention now turns to Tuesday's CPI report, which will provide the next major test for Fed pricing. A stronger-than-expected core inflation reading would likely reinforce expectations of a near-term rate hike, while a softer print could unwind some of Monday's hawkish repricing.

Markets will also be watching Chair Warsh's testimony before the House. Although his prepared remarks will have been finalised before the CPI release, investors will be listening closely to the Q&A to see whether he is pressed on the latest inflation data. That said, Warsh has consistently avoided providing explicit forward guidance, suggesting he is unlikely to offer any firm indication on the policy outlook.

SUPPLY

Bills

- US sold 3-month bills at a high rate of 3.760%, B/C 2.84x; sold 6-month bills at a high rate 3.860%, B/C 3.11x

STIRS/OPERATIONS

- Fed Pricing: Dec 35bps (prev. 33bps)
- EFFR at 3.62% (prev. 3.62%), volumes at USD 126bln (prev. USD 126bln) on July 10th
- SOFR at 3.55% (prev. 3.53%), volumes at USD 3.056tln (prev. USD 3.126tln) on July 10th
- NY Fed RRP op demand at 0.80bln (prev. 0.55bln) across 2 counterparties (prev. 3) on July 13th

CRUDE

WTI (Q6) SETTLED USD 6.73 HIGHER AT 78.14/BBL; BRENT (U6) SETTLED USD 7.29 HIGHER AT 83.30/BBL

The crude complex saw gains to start the week as US/Iran tensions escalated, and surged into the close as US confirmed it is to reinstate the Iranian blockade while Saudi Arabia was hit by the Houthis. Overall, tensions between the US and Iran are once again flaring as over the weekend US CENTCOM said it had "completed" its latest round of strikes in Iran, in response to Iran targeting commercial ships in the Strait of Hormuz. Following this, and prompting benchmarks for another leg higher, was US President Trump announcing the US will be reinstating the blockade, adding that the Strait of Hormuz will remain open, with or without Iran, but the US will be reimbursed at a rate of 20% on all cargo ships transiting the strait as a payment for providing safety and security. Pushing the energy space further, and showing the conflict encompassing further regions, there was an attack on Abha International Airport in southern Saudi Arabia, and also reports of an explosion in Jeddah from the Houthis after the Saudi's attacked an airport in Yemen to prevent an Iranian jet from landing there. Further, and heading into settlement, which prompted benchmarks to settle at highs and soar into the close, was the US-Navy Led JMIC confirming the blockade on Iran will resume. The US military will begin enforcement of a naval blockade of all Iranian ports and Iranian coastal areas at 20:00 GMT on 14th July; while the blockade will not impede neutral transit passage through the Strait of Hormuz to or from a non-Iranian destination. For the record, WTI traded between USD 72.61-78.45/bbl and Brent USD 77.28-83.54/bbl, settling at highs.

OPEC MOMR (Jul): Global oil demand is forecast to grow by 0.8mln BPD Y/Y in 2026; global oil demand in 2027 is forecast to grow by about 1.9mln Y/Y BPD.

EQUITIES

CLOSES: SPX -0.78% at 7,517, NDX -1.88% at 29,264, DJI -0.26% at 52,499, RUT -0.78% at 2,955.

SECTORS: Energy +3.16%, Utilities +0.67%, Financials +0.61%, Consumer Staples +0.59%, Real Estate +0.50%, Health +0.25%, Consumer Discretionary -0.73%, Materials -0.79%, Industrials -0.89%, Communication Services -0.98%, Technology -2.07%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.01% at 6,269, Dax 40 +0.08% at 25,087, FTSE 100 +0.01% at 10,498, CAC 40 +0.31% at 8,365, FTSE MIB +0.37% at 52,809, IBEX 35 -0.30% at 19,327, PSI +0.30% at 9,134, SMI +0.25% at 14,271, AEX +0.11% at 1,085

STOCK SPECIFICS:

- **Apple (AAPL)** sued OpenAI & two former employees for alleged theft of trade secrets
- **SK Hynix (SKHY)** Seoul-listed shares tumbled by more than 15% overnight amid earnings concerns.
- **MGM Resorts International (MGM)** negotiating a potential deal with Barry Diller's People after receiving a takeover offer.
- **Shopify (SHOP)** upgraded at Jefferies to 'Buy' from 'Hold'.
- **First Hawaiian (FHB)** and **TriCo Bancshares (TCBK)** agreed to an all-stock merger in which FHB will acquire TCBK, creating a bank with approximately USD 34bln in assets.
- **Samsung Electronics** begun preparations to manufacture Tesla's AI5 chip using its 2nm process at its Texas plant

FX

The Dollar was firmer against all G10 peers amid the broad based risk off sentiment, and hawkish comments from Fed's Waller. For the former a few factors weighed, such as concerns ahead of SK Hynix's earnings, but the more pressing issue was the US/Iran relationship worsening once again and the Middle East threatening to break out across the whole region again, with explosions

heard in numerous Saudi Arabia locations. Yemen's Houthis attacked an airport in response to Saudi bombing an airport in Yemen. On the Fed footing, and ahead of CPI & Fed Chair Warsh tomorrow, Waller stated if there is another hot reading on core inflation this week, the Fed will need to consider rate hike in near term, and that they would need to see several months of lower core inflation to feel inflation is moving in right direction. The influential Waller added that if he gets another higher reading on inflation, he will treat that as signal, not noise.

CAD was the relative G10 outperformer and was flat vs. the Buck given the rally in oil prices on aforementioned US/Iran woes. **NZD** was once again seeing gains, before reversing as sentiment soured, and it continued to initially benefit from RBNZ last week. Funders **JPY** and **CHF** were lower throughout the day, and lagged as US yields rose. For the Yen, it had a couple stories which sparked two-way action; initial upside for USD/JPY came as source reports suggested that Japan has no immediate plan to change target asset allocations of its state pension funds but could work within existing allowable ranges to direct more investment to domestic assets. As a reminder, Japanese Finance Minister Katayama said they are to pursue steps to promote investment in Japanese assets by GPIF and others. However, USD/JPY pared as Chief Cabinet Secretary Kihara stated GPIF to tweak its basic portfolio as needed.

Elsewhere, currency-specific newsflow was light as geopolitics once again dominated the tape, as participants await any further updates and eye turn to US CPI and Fed Chair Warsh on Tuesday.

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