US Market Wrap - 5th August 2026

Stocks mixed and oil chops to reports around Hormuz deal

- **SNAPSHOT**: Equities mixed, Treasuries flat, Crude flat, Dollar down, Gold up
- **REAR VIEW**: Gulf official tells CNN "50:50" chance US and Iran could reach deal by Friday; US reportedly nears a Hormuz deal; Houthis hit Saudi oil tanker in the Red Sea; US ISM PMI Services misses on headline; US ADP eases more than anticipated in July; Fed's Schmid says current policy is not restrictive; EIA commercial crude stocks build, SPR draws; NZ u/e rate unexpectedly ticks higher; GOOGL DeepMind CEO stepping down w/ veterans departing.
- **COMING UP**: **Data:** Australian Trade Balance (Jun), Swedish Inflation Prelim. (Jul), German Factory Orders (Jun), US Challenger Job Cuts (Jul), Initial Jobless Claims (Aug/01), Revelio PLS (Jul), Atlanta Fed GDP (Q3). **Events:** CNB Policy Announcement (Aug), Banxico Policy Announcement (Aug). **Speakers:** Fed's Daly, Musalem. **Supply:** Japan, Spain, France. **Earnings:** ConocoPhillips, Fiserv, Siemens, Deutsche Telekom, Rheinmetall, Merck, Commerzbank, Diageo.

MARKET WRAP

Stocks were mixed on Wednesday, with weakness in Communication Services, led by Google (GOOGL), seeing the Nasdaq underperform, while the S&P 500 closed little changed and the Dow Jones outperformed. Market breadth was slightly negative, with the equal-weight S&P 500 (RSP) edging lower. On a sector basis, Communication Services lagged after Google (GOOGL) tumbled during US trading on reports of further AI brain drain, with chief scientist Jeff Dean reportedly leaving the company to launch his own startup. Technology, however, was among the outperformers, supported by gains in Nvidia (NVDA) after SpaceX said it will no longer purchase AMD (AMD) chips, instead building its AI infrastructure solely on Nvidia hardware. The comments weighed on AMD, despite the company reporting strong earnings, although capital expenditure exceeded expectations.

Crude prices were choppy, with early gains fading as optimism grew around a potential agreement between Iran and Oman regarding the Strait of Hormuz. Reports suggested the framework would see Iran oversee inbound and outbound shipping through the Strait. However, Iranian officials stressed the agreement does not imply the Strait would fully reopen. Reports also suggested the framework would exclude tolls or transit fees, although Iran may seek compensation for providing maritime security. If agreed, attention could then shift back towards negotiations over Iran's nuclear programme. Notably, neither the US nor Gulf states have yet signed on to the proposed framework.

Treasuries largely tracked swings in crude prices, with early upward pressure on yields fading alongside oil to leave the curve little changed by the close. Economic data had little lasting impact. ADP Employment Change disappointed ahead of Friday's nonfarm payrolls report, with analysts suggesting it adds downside risk to the private payroll component. Meanwhile, the ISM Services PMI was little changed in July but came in below expectations despite improvements in business activity and new orders. The employment component slipped back into contractionary territory, while the prices paid index accelerated, leaving the report mixed overall. Fed commentary from Kashkari and Schmid also maintained a hawkish tone. Treasury quarterly refunding had no surprises, resulting in little price impact.

In FX, the Dollar softened against most G10 peers as front-end Treasury yields edged lower following the retreat in oil prices, while the Kiwi underperformed after weaker-than-expected employment data overnight.

Gold rallied, reclaiming USD 4,250/oz at its intraday peak, supported by lower yields and a softer Dollar.

Attention now turns to Friday's nonfarm payrolls report, the week's key macro event.

US

ISM SERVICES: The ISM Services PMI was little changed at 54.1 in July (exp. 54.5, prev. 54.0), remaining firmly in expansion territory for a 25th consecutive month, although beneath expectations. Under the hood, the report was mixed. Business Activity jumped to 59.1 from 55.4, its second-highest reading since May 2024, while New Orders accelerated to 57.2 from 55.1, suggesting demand remained robust. However, the Employment Index fell back into contraction at 47.4 from 51.2, marking the 12th contractionary reading in the last 18 months and reinforcing signs of a largely jobless expansion. Meanwhile, the Prices Paid Index climbed to 70.3 from 67.7, topping 70 for the fourth time in five months and highlighting persistent cost pressures, although supplier deliveries continued to ease and order backlogs slowed, indicating few broader supply chain strains. Respondents noted tariff impacts and Middle East tensions were mentioned less frequently than in prior months, while concerns remained around inflation, mortgage rates and higher petroleum costs. ISM noted the survey is historically consistent with annualised real GDP growth of around 1.9% in Q3, while Oxford Economics said the report reinforces its view that the economy remains on a solid footing at the start of Q3, with a weighted average of the manufacturing and services ISMs pointing to GDP growth of just above 2% annualised.

ADP: The ADP's employment data for July reported 44k payroll increases, missing expectations for 70k, while the prior for June was revised down to 95k from an initially reported 98k. Within the data, the median change in annual pay for job-stayers was again unchanged at 4.4% Y/Y, while the pay change for job-changers jumped to 7.0% Y/Y (from 6.6%). ADP said "job-changers are highly sensitive to real-time economic conditions, and their rapid pay growth implies supply constraints in parts of the labour market," adding that "typical hiring patterns, meanwhile, are changing as employers react to shifting macroeconomic conditions." Pantheon Macroeconomics said that the data suggests that the risks to the July private payrolls figure is skewed to the downside (exp. is for 80k), though notes that the official data has typically been slightly stronger than ADP's numbers recently.

QRA: The Treasury maintained next quarter's coupon auction sizes, in line with both expectations and its prior guidance. Forward guidance was also left unchanged, with the Treasury continuing to anticipate "maintaining nominal coupon and FRN auction sizes for at least the next several quarters." Within the TBAC Minutes, dealers generally expect nominal coupon auction sizes to increase sometime in 2027 (prev. early 2027), while also anticipating the Treasury will adjust its forward guidance several quarters ahead of any such move. The Committee similarly continues to believe higher coupon issuance could be warranted during FY2027 and discussed potential changes to the Treasury's forward guidance for future consideration. Regarding TIPS, auction sizes were left unchanged, with the August 30-year reopening at USD 8bln, the September 10-year reopening at USD 19bln, and the October 5-year new issue at USD 26bln. FRN auction sizes were also maintained. Next week, the Treasury will offer USD 125bln of coupon securities to refund approximately USD 96.3bln of privately held notes and bonds maturing on 15th August, raising USD 28.7bln in new cash. The refunding will consist of USD 58bln of 3-year notes on Tuesday, USD 42bln of 10-year notes on Wednesday, and USD 25bln of 30-year bonds on Thursday. Regarding bills, the Treasury expects to maintain current benchmark bill auction sizes over the coming weeks and anticipates potentially issuing a short-dated Cash Management Bill (CMB) around the end of August to help meet cash management needs. It then expects to reduce short-dated bill auction sizes in September, before increasing auction sizes across the bill curve in October to accommodate seasonal fiscal outflows. The Treasury reiterated it will continue to evaluate near-term borrowing needs and adjust bill auction sizes as appropriate. The Treasury continues to assume a USD 950bln cash balance at the end of September but now expects the Treasury General Account (TGA) to peak at around USD 1.05tln (±USD 50bln) in late October, compared with the previous estimate of USD 1.0tln. Finally, the Treasury left its quarterly buyback caps unchanged, maintaining limits of up to USD 38bln for liquidity support and USD 25bln in the one-month to two-year bucket for cash management.

FED's SCHMID (2028 voter) argued that the current stance of Fed policy is not restrictive and that tight monetary policies are needed to get inflation back to the 2% target, and that inflation is currently too high and is worrisome. He noted that recent relief on energy prices may prove temporary. Schmid described the economy as performing well overall with resilient growth, while he welcomes recent inflation data, but says it's too soon to say if it's easing. The 2028 voter sees the PCE price index as the best way to measure inflation, and the Fed should not ignore inflation even if driven by a supply shock. Lastly, he noted that the job market appears to be roughly in balance, and AI investment is driving up inflation, which the Fed should not ignore.

Fed's Kashkari (2026 Voter, Hawkish dissenter) says he was undecided whether to vote for a hold or hike into the FOMC meeting. Now, he believes to start slowly moving rates up, aiming to bring inflation to the 2% target, not slow the economy down. Kashkari isn't calling for a dramatic increase in rates, but there is more work to get inflation back to target. The 2026 voter would rather get going in small steps than wait. Kashkari said he is open-minded and does not have a strong opinion.

FIXED INCOME

T-NOTE FUTURES (U6) SETTLED 1+ TICKS HIGHER AT 108-28+

Treasuries continued to track swings in oil prices as economic data had little lasting impact. At settlement, 2-year -1.5bps at 4.179%, 3-year -0.7bps at 4.234%, 5-year -0.2bps at 4.324%, 7-year -0.1bps at 4.463%, 10-year +0.2bps at 4.617%, 20-year +0.7bps at 5.174%, 30-year +0.1bps at 5.173%.

THE DAY: Treasury yields were little changed by settlement after a session largely driven by swings in crude prices. Yields began the day with a firmer bias, tracking oil higher. However, as crude prices pared their gains on hopes of progress towards reopening the Strait of Hormuz—with reports suggesting Iran and Oman are close to an agreement—Treasuries recovered, leaving yields little changed across most of the curve by the close.

There was little reaction to the Quarterly Refunding Announcement, which contained few surprises. The Treasury maintained coupon auction sizes and left its forward guidance unchanged, while the TBAC minutes showed dealers now generally expect coupon auction sizes to increase 'sometime' in 2027, compared with 'early' 2027 previously.

Economic data had little lasting impact. ADP Employment Change disappointed ahead of Friday's nonfarm payrolls report, with analysts suggesting it adds downside risk to the private payroll component. Meanwhile, the ISM Services PMI was little changed in July but came in below expectations despite improvements in business activity and new orders. The employment component slipped back into contractionary territory, while the prices paid index accelerated, leaving the report mixed overall.

Fed speak saw further hawkish commentary. Schmid (2028 voter) said restrictive policy is still needed to return inflation to the 2% target, stressing that inflation remains too high and is still concerning. He suggested current policy is not particularly restrictive, warned that the recent relief in energy prices may prove temporary, and said the labour market appears broadly in balance. Schmid also argued that AI-related investment is adding to inflationary pressures, which the Fed should not ignore. Meanwhile, Kashkari (2026 voter, hawkish dissenter) reiterated that now is the time to begin gradually raising rates, stressing he is not calling for aggressive tightening but would rather start with small increases than wait until larger moves become necessary.

Overall, economic data has taken a back seat this week, with swings in oil prices continuing to dictate Treasury price action. However, Friday's nonfarm payrolls report will provide the next major test for the rates market. A weaker-than-expected report could see yields extend their recent decline, while a stronger print may reinforce hawkish Fed expectations and push yields higher, particularly at the front end of the curve.

Supply

Quarterly Refunding: Treasury maintains coupon and FRN guidance.

Bills

- US sold 17-week bills at a high rate of 3.785%, B/C 3.19x
- US to sell USD 110bln of 4-week bills and USD 100bln of 8-week bills on August 6th; to settle August 11th

STIRS / OPERATIONS

- **Fed Pricing via CME Fed Watch: Sept 13.7bps (prev. 14.2bps), Dec 31.0bps (prev 32bps)**
- EFFR at 3.63% (prev. 3.63%), volumes at USD 117bln (prev. USD 111bln) on August 4th
- SOFR at 3.66% (prev. 3.65%), volumes at USD 3.036tln (prev. USD 3.055tln) on August 4th
- NY Fed RRP op demand at 1.65bln (prev. 2.25bln) across 2 counterparties (prev. 3) on August 5th

newsquawk

CRUDE

WTI (U6) SETTLES USD 0.55 LOWER AT USD 75.22/BBL; BRENT (V6) SETTLES USD 0.09 HIGHER AT USD 79.45/BBL

Crude prices pared initial upside as reports point towards an Iran-Oman deal being in its final stages. The WSJ, citing sources, noted that if a deal is announced, the US and Iran would return to the negotiating table to discuss issues including Iran's nuclear program and financial relief. Oman and Qatar are pushing to build in incentives like oil sanctions waivers into the deal. Meanwhile, CNN reported, citing a Gulf official, that there is a “50:50” chance the US and Iran could reach a deal by Friday. Negative developments include the Houthis announcing they attacked Saudi oil tankers in the Red Sea and Gulf of Aden, the former in response to an attempted navigation via the northern Red Sea to avoid the Bab Al-Mandab strait; "operations will continue and escalate in targeting Saudi oil tankers".

Separately, CPC oil loadings were reportedly suspended, after brief resumptions, because of safety concerns and tanker shortage after drone attacks.

The EIA weekly inventory report saw a commercial crude stocks build 2.479mln (exp. -1.85mln), Gasoline Stocks draw 1.643mln (exp. -1.21mln), Distillate Stocks draw 3.473mln (exp. 0.55mln) and Cushing crude stocks build 2.346mln (prev. -0.771mln); SPR drew 2.9mln barrels.

EQUITIES

CLOSES: SPX -0.17% at 7,723, NDX -0.83% at 29,488, DJI +0.49% at 54,354, RUT -0.59% at 3,019.

SECTORS: Communication Services -2.38%, Energy -2.03%, Utilities -1.00%, Consumer Discretionary -0.32%, Industrials -0.02%, Consumer Staples +0.05%, Technology +0.02%, Real Estate +0.15%, Financials +0.26%, Health +1.32%, Materials +1.54%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.10% at 6,480, Dax 40 -0.24% at 26,144, FTSE 100 +0.10% at 10,890, CAC 40 +0.03% at 8,669, FTSE MIB -0.19% at 53,441, IBEX 35 +0.17% at 20,057, PSI +0.08% at 9,176, SMI +0.52% at 14,539, AEX -0.10% at 1,111.

STOCK SPECIFICS

- **SpaceX (SPCX):** Higher-than-expected capital spending on its AI business offset an earnings beat
- **Eli Lilly (LLY):** Earnings and drug revenue beat; raised revenue guidance
- **Advanced Micro Devices (AMD):** Higher-than-expected Q2 capex outweighed an earnings beat
- **Uber Technologies (UBER):** Revenue slightly missed; guidance failed to impress
- **Shopify (SHOP):** Earnings beat with strong growth across GMV, revenue, gross profit and FCF
- **Booking Holdings (BKNG):** Earnings beat
- **CVS Health (CVS):** Adjusted EPS and revenue beat
- **Walt Disney (DIS):** Adjusted EPS beat
- **Lucid Group (LCID):** Losses and revenue missed expectations
- **Google DeepMind (GOOGL)** stepping down as CEO to become Chair; CTO Koray Kavukcuoglu to become new division head, WSJ reports. Jeff Dean and three veteran AI staffers depart Google to found a startup.
- US President Trump readies tariffs and price floors to boost US polysilicon, reports Bloomberg; Officials discussed at least a 15% tariff on polysilicon.
- **Meta (META)** debuts first AI coding agent to take on Anthropic and OpenAI, reports CNBC.
- **Microsoft (MSFT)** said AI sales mostly come from OpenAI, according to disclosures. OpenAI revenue reached USD 24.1bln in FY 26; OpenAI accounts for c. 70% of AI sales.

FX

USD was once again weighed by a pullback in short-end US yields. The move came amid a slight decline in prices of crude and refined products in response to optimism about an imminent announcement of the Iran-Oman deal, which is expected to kickstart the path back to the reopening of the Strait of Hormuz. Earlier today, US President Trump said they will know regarding Iran in the next 48 hours. Separately, US data showed an ISM Services PMI miss, albeit still in expansion, while employment moved back into contraction and prices remained elevated. Ahead of NFP on Friday, the July ADP figure eased to 44k from June's 95k (exp. 70k), with Pantheon Macroeconomics in response noting it suggests that the risks to the July private payrolls figure are skewed to the downside. At the Fed, Schmid (2028 voter) remains a hawk, describing current policy as not restrictive enough to get inflation back to 2%; meanwhile, Kashkari (2026 voter) continues to advocate for slowly hiking rates.

NZD underperformed amid the unemployment rate unexpectedly moving higher to 5.6% in Q2 (exp. 5.4%, prev. 5.3%) despite better-than-expected employment growth, 0.5% Q/Q (exp. 0.1%, prev. 0.2%). NZD/USD hit lows of 0.58598 before paring most losses to around 0.58870.

CAD, **CHF**, and **AUD** outperformed vs USD with currency-specific newsflow light. **EUR/USD** is modestly firmer, showing no reaction to EZ PMIs, which did not deviate enough from prelim figures to spark a reaction. EUR/USD briefly breached above the August high of 1.1590 to 1.1594 before trimming to around 1.1548.