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UPDATE

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Global Macro Commentary | Global

May 11: US-Iran Discussions Stall

US-Iran talks stalled; oil and yields rose; UK political risk hit gilts; yuan rallied pre-Trump-Xi; EM FX weakened; S&P 500 +0.2%; Brent +3.1%; DXY at 97.95 (+0.1%); US 10y at 4.41 (+5.9bp).

Middle East supply risk pushed inflation risk premia higher, lifting global yields and the USD while equities held up on earnings and AI-linked momentum.

Developed Markets

- **US rates sold off across the curve as oil prices rose and traders repriced inflation risks tied to the ongoing Middle East conflict (2y: +6.9bp; 10y: +5.9bp; 30y: +5.2bp).** The move began in Asia after President Trump and Iranian officials rejected each other's latest proposals, reinforcing concerns that disruptions around Hormuz could persist longer than previously expected. Treasury losses accelerated after a weak $58bn 3y auction, which tailed at 3.965% versus a 3.959% when-issued level. The bid-to-cover fell to 2.54 from 2.68 previously, while dealers absorbed 16.9% of the sale, above recent averages. Market participants also pointed to heavy IG corporate issuance and rising oil-driven inflation expectations as additional headwinds for duration. Inflation-linked pricing moved higher across the curve, led by the front end, with the US 2y breakeven up 8.6bp and the 5y breakeven up 5.5bp. SOFR and Fed pricing also shifted modestly hawkish, with traders continuing to trim expectations for near-term easing amid resilient labor-market and earnings data.

- **US equities remained resilient despite the rise in yields and crude prices (S&P 500: +0.2%; Nasdaq: +0.1%; VIX: +6.9%).** Energy and materials outperformed as Brent and WTI both rose 3.1%, while communications lagged amid higher discount rates. The market narrative continued to center on AI-driven earnings resilience offsetting macro concerns. Reports that the White House was considering additional military options against Iran briefly pressured risk sentiment intraday, though equities recovered into the close. Gold rose 0.4%, silver gained 7.1%, and copper advanced 2.6% as commodity markets continued to price tighter supply conditions.

- **The dollar strengthened modestly against most G10 peers as higher Treasury yields and oil prices reinforced the USD's relative carry advantage (DXY: +0.1%).** USD/JPY rose 0.3% to 157.19 as the yen underperformed on widening rate differentials and Japan's sensitivity to higher imported energy costs. Sterling weakened into the New York afternoon, with GBP/USD falling 0.2% to 1.3610 as political pressure on Prime Minister Starmer rose after local election losses. EUR/USD finished broadly unchanged near 1.18, though intra-session price action remained heavy as euro-area rate expectations repriced higher alongside energy

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markets. Commodity-linked currencies generally outperformed within the G10 space despite the stronger USD backdrop, with CAD roughly unchanged as firmer crude offset the broader dollar move. FX options markets also reflected higher macro uncertainty, with implied volatility in several major pairs remaining elevated ahead of this week's CPI releases and the Trump-Xi summit.

- **In Japan, JGBs opened cheaper in the Tokyo morning session.** As there was no progress toward ending the conflict between the US-Iran and oil prices rose again, JGBs also faced selling pressure. The long-end, where the auction is scheduled this week, remained relatively weak. The BoJ's JGB purchase operations saw particularly strong selling pressure in the 25y+ sectors. Ultimately, JGB curve bear-steepened; 2y JGB sold off by 1.5bp to 1.385%, 10y JGB sold off by 4.5bp to 2.52%, 20y JGB sold off by 5.0bp to 3.405% on a simple yield basis. 10y JGB auction is scheduled for Tuesday. Amid concerns about both inflation and growth due to energy shocks, even though the 2.5% threshold has been exceeded, concerns about higher yields are likely to weigh on the market amid uncertainty among Middle East conflict and energy prices.

- **UK gilts underperformed as political risk added to the global rates selloff (2y: +8.1bp; 10y: +8.6bp; 30y: +9.3bp).** Pressure increased after more Labour lawmakers reportedly urged Prime Minister Starmer to set out a departure timeline following local election losses. The pound weakened late in the session, erasing earlier gains. Bunds also sold off, though less than gilts (Germany 10y: +3.5bp). ECB hike expectations were supported by higher energy prices and survey revisions showing higher euro-area inflation.

Emerging Markets

- **Most AxJ currencies and rates sold off amid a renewed move higher in crude oil prices (~6%) during the Asia session.** China FX and rates outperformed; CNH gained 0.1% while 5y CNY NDIRS yield rose just 1bp amid China's lower exposure to energy prices, upside surprise in April inflation, and confirmation of the Trump-Xi meeting on May 13-15. TWD also gained as much as 0.2% intraday amid a continued rally in tech stocks before finishing the Asia session unchanged, in line with only $23.6mn of foreign equity inflows.

- **Elsewhere in Asia, Oil-sensitive currencies and rates (PHP, INR, THB, and KRW) underperformed.** PHP and INR were both down 0.9%, with 10y bonds selling off ~5bp, as India PM Modi urged fuel and FX reserves conservation measures. THB also weakened as much as 0.9% alongside a 1.5% decline in gold prices, while 5y THB NDTHOR yield rose 3bp in a bear-steepening move. KRW weakened 0.6% despite the 4% rally in KOSPI given its high beta and continued foreign equity outflows for the third session ($1.8bn), while KRW 1y1y yield rose 2bp as outgoing BoK member Shin who previously supported lower rates acknowledged that "it would be quite difficult to discuss rate cuts at this point" and Korea University professor Kim was recommended to succeed Shin.

- **LatAm Currencies in the region traded mixed after the US and Iran failed to agree on a clear path forward.** CLP was the largest underperformer, depreciating ~0.91% despite copper rising almost 3.00%, while COP also weakened ~0.48% after Colombia's April inflation accelerated to 5.68%, moving further away from BanRep's 3% target and reinforcing expectations for additional hikes following last month's unexpected pause.

- **Elsewhere in LatAm, Colombia also remained in focus after board member Cesar Giraldo said that rate hikes would not tame inflation and that officials need to resort to other instruments.** Pension-related headlines added noise after the Council of State suspended additional parts of a government decree tied to private pension fund transfers. PEN was the sole outperformer in FX in the region, appreciating ~0.15%. Rates for the most part underperformed today. The Brazilian DI curve led losses, with Jan 29 and Jan 31 DIs moving ~15bp higher, while most other curves also sold off. COP IBR was the only curve that rallied, with the 2y tenor moving ~5bp lower.

Central Bank Monitor

Developed Markets

- In the UK, **BoE external member Greene** said the risks to inflation are "entirely on the upside," though she noted it's worth waiting to see how the Iran conflict develops before deciding whether to hike interest rates. She warned that progress on inflation was stalling even before the conflict erupted, though Britain's weak economy and loose labor market should limit second-round price effects from the global energy shock.
- In the Euro Area, **ECB Vice President Guindos** urged rate "prudence" when considering raising interest rates, as the full impact of the Iran conflict on economic expansion is still to be felt. He expects incoming data on activity "are not going to be good," noting that an energy shock is usually reflected in inflation indicators much more rapidly than in growth indicators.
- In the Eurozone, **ECB Governing Council Member Kocher** said the ECB must raise interest rates soon if the situation around energy prices doesn't improve markedly. He stated that "if the situation does not improve significantly, an interest-rate hike will be unavoidable in the near future," citing the risk of stagflation.

Emerging Markets

- In Korea, **Outgoing BoK board member Shin** said that “it would be quite difficult to discuss rate cuts at this point” as “inflationary pressure is very strong, and uncertainty over future inflation is also extremely high”. He believes that it is "appropriate to prioritize concerns about inflation” if it is possible that inflation could move above 2%, even in a situation where growth and inflation are in conflict. He highlighted that if high oil prices persist through year-end, producers will find it increasingly difficult to absorb costs, which could make the fight against inflation “much more intense” than currently expected. He sees the recent rise in KTB yields as being driven by higher UST yields and growing concerns over inflation and fiscal pressures domestically, and expects the undervalued KRW to gradually stabilize if geopolitical tensions ease.

Exhibit 1: G4 Rates Closes

	US			Germany			UK			Japan		
Tenor	11-May	1d Δ (bp)	2wk	11-May	1d Δ (bp)	2wk	11-May	1d Δ (bp)	2wk	11-May	1d Δ (bp)	2wk
2y	3.878	0.9		2.640	(10.0)		4.414	(3.5)		1.380	0.9	
3y	3.977	8.6		2.646	(10.1)		4.483	1.7		1.602	0.0	
5y	4.073	6.7		2.746	(8.8)		4.547	2.3		1.884	(0.1)	
7y	4.241	5.1		2.855	(8.1)		4.728	0.1		2.281	(1.3)	
10y	4.413	4.3		3.039	(7.0)		4.997	(1.4)		2.509	(0.8)	
20y	4.977	2.0		3.498	(3.4)		5.608	(1.8)		3.393	0.2	
30y	4.986	2.0		3.574	(1.4)		5.672	(1.9)		3.751	2.8	

Exhibit 2: Macro Closes

Majors				EM				Equities / Commodities			
Spot	11-May	1d Δ (%)	2wk	Spot	11-May	1d Δ (%)	2wk	Index	11-May	1d Δ (%)	2wk
DXY	98.23	0.2		CNH	6.83	(0.0)		S&P	7230.12	0.3	
EUR	1.178	0.4		INR	95.31	0.4		Stoxx	5895.45	0.2	
GBP	1.361	0.0		THB	32.42	(0.5)		FTSE	10269.43	(1.1)	
JPY	157.19	0.4		KRW	1472.50	(0.3)		Nikkei	62417.88	5.3	
CHF	0.778	(0.4)		ZAR	16.43	(1.4)		VIX	18.38	8.8	
AUD	0.725	0.7		MXN	17.19	(1.6)		Gold (S)	4736.17	2.6	
CAD	1.368	0.7		BRL	4.89	(1.3)		WTI (Fut)	98.42	(6.3)	

Exhibit 3: Inflation Closes

US TIPS				10y Real Yields, BEI							
Tenor	11-May	1d Δ (bp)	2wk	10y	11-May	1d Δ (bp)	2wk	10y	11-May	1d Δ (bp)	2wk
5y	1.297	0.0		DBRi	0.504	(10.1)		BTPi	1.658	(7.6)	
BEI	2.684	(1.7)		BEI	2.241	(10.9)		BEI	2.207	(3.7)	
10y	1.926	4.6		UKTi	1.507	4.2					
BEI	2.484	(0.4)		BEI	3.490	(9.9)					
30y	2.702	1.4		JGBi	0.523	4.6					
BEI	2.281	0.6		BEI	1.986	3.7					

Exhibit 4: G4 Central Banks

Central Bank OIS															
Fed	Implied	1d Δ (bp)	Total Δ	ECB	Implied	1d Δ (bp)	Total Δ	BOE	Implied	1d Δ (bp)	Total Δ	BOJ	Implied	1d Δ (bp)	Total Δ
EFFR (5/8)	3.630	0.0	--	EONIA (5/8)	1.929	0.0	--	SONIA (5/8)	3.729	0.0	--	TONAR (5/8)	0.727	0.0	--
06/17/26	3.624	0.5	(0.6)	06/11/26	2.148	1.7	21.9	06/18/26	3.840	2.2	11.1	06/16/26	0.916	0.4	18.9
07/29/26	3.618	1.0	(1.2)	07/23/26	2.297	3.2	36.8	07/30/26	4.041	5.4	31.2	07/31/26	0.968	0.6	24.1
09/16/26	3.637	3.0	0.7	09/10/26	2.479	3.5	55.0	09/17/26	4.205	7.1	47.6	09/18/26	1.017	(0.7)	29.0
10/28/26	3.658	3.5	2.8	10/29/26	2.587	6.6	65.8	11/05/26	4.334	8.7	60.5	10/30/26	1.098	(0.3)	37.1
12/09/26	3.694	4.6	6.4	12/17/26	2.640	7.6	71.1	12/17/26	4.407	11.6	67.7	12/18/26	1.178	0.8	45.1
01/27/27	3.717	6.0	8.7					02/04/27	4.440	12.0	71.0				

Economic Releases

Developed Markets

- **US April Existing Home Sales**: 4.0m (C:4.1m; P:4.0m). Existing home sales rose only slightly (+0.2% m/m) to 4.02mn in April. Multifamily sales picked up while single-family sales were flat m/m at 3.64mn. Housing activity remains muted as affordability improvements have yet to spark demand. We expect 2Q residential investment up 1.0% (q/q ar) after -8.0% in 1Q. Our housing strategists expect minimal growth in home sales this year as recent volatility and moves in rates have eroded potential upside.
- **Norway April CPI**: 3.4% y/y (MSe: 3.5% y/y; C: 3.5%; P: 3.6%); **April CPI-ATE**: 3.2% y/y (MSe: 3.1% y/y; C: 3.2%; P: 3.0%). Headline inflation came in slightly below expectations at 3.4%, while underlying inflation (CPI-ATE) accelerated to a three-month high of 3.2%, matching consensus. On a monthly basis, CPI rose 0.4% and CPI-ATE rose 0.7%, both in line with expectations.

Emerging Markets

- **China April Trade Balance:** $84.8bn (C: $83.7bn; P: $51.1bn); **Exports**: 14.1% y/y (MSe: 8.0%; C: 8.4%; P: 2.5%); **Imports**: 25.3% y/y (MSe: 16.0%; C: 20.0%; P: 27.8%).
- **Korea First 10 Days of May Exports**: 43.7% y/y (P: 36.7%) and **Imports**: 14.9% y/y (P: 12.7%)
- **China April Headline CPI**: 1.2% y/y (MSe: 0.8%; C: 0.9%; P: 1.0%); **Core CPI**: 1.2% y/y (P: 1.1%); **PPI**: 2.8% y/y (MSe: 1.9%; C: 1.8%; P: 0.5%)
- **Indonesia April Consumer Confidence**: 123.0 (P: 122.9)

The Day Ahead

Developed Markets

- Monday, 9:30pm EST - **Australia May Consumer Sentiment.** We expect consumer sentiment to see a small headline bounce in May, reflecting the recent pullback in petrol prices. However, we expect any improvement to be small, with confidence constrained by high rates. Unemployment expectations will be in focus, after rising sharply last month.
- 9:30pm EST - **Australia April Business Sentiment**. We expect business confidence to see a modest bounce in April, following last month's outsized weakness. Conditions will be in focus after holding up relatively well in March. We watch employment intentions, which were surprisingly strong last month, as well as input costs, which rose sharply.
- Tuesday, 7:00am BST - **Germany April HICP (final)** (MSe: 2.9% y/y; C: 2.9%; P: 2.9%)
- 7:00am BST - **Germany April CPI (final)** (MSe: 2.9% y/y; C: 2.9%; P:

2.9%)

- 9:00am BST - **Italy March Industrial Production** (MSe: 0.2% m/m; C: 0.1% m/m; P: 0.1% m/m). We expect another mild increase in industrial production, driven by durable consumer goods and energy production.
- 10:00am BST - **Germany May ZEW Survey Expectations** (MSe: -17.5; C: -19.9; P: -17.2). We expect ZEW expectations for the next six months to be a touch down at low levels, reflecting elevated energy prices and continued geopolitical uncertainty.
- 10:45am BST - **Norway Revised National Budget 2026**. The government will present its proposal for a Revised National Budget for 2026.
- 8:30am EST - **US April CPI m/m** (MSe: 0.64% m/m; C: 0.6%; P: 0.9%). Core CPI will be firm in April, we forecast 0.36% m/m, 2.7% y/y (vs. 0.20% in March). Tariffs keep core goods inflation positive, while services accelerate on shutdown payback in shelter and oil pass-through to airfares. Headline is expected at 0.64% m/m, 3.8% y/y, NSA Index: 332.832. This would be consistent with core PCE at 0.22% m/m in April. See here for more detail.
- 1pm EST - **Chicago Fed President Goolsbee** speaks at Greater Rockford Chamber of Commerce.

Emerging Markets

- 11:45am HKT - **Thailand April Consumer Confidence** (P: 51.8)
- 6:30pm HKT - **India April CPI** (MSe: 3.7% y/y; C: 3.8%; P: 3.4%). Our economists expect CPI to edge up y/y as food and core prices tick up and expect a similar uptrend on m/m basis as well.
- **Between May 11-15 - China April New TSF** (MSe: RMB1250.0bn; C: RMB1250.0bn; P: RMB5227.1bn); **New CNY Loans** (C: RMB300bn; P: RMB2990bn); **Money Supply M2** (C: 8.5% y/y; P: 8.5%). Our economists expect corporate bond issuance improved amid ample liquidity and improved institutional demand, offsetting somewhat slower government bond issuance and continued subdued private sector credit demand.
- 8:00am EST - **Brazil April IPCA** (Mse: 0.74% m/m; P: 0.88%; C: 0.67%) Our economists expect the print to be driven by less pressure from food and fuel inflation, though both should remain at elevated levels. Investors will focus on whether services and core measures continue to show persistence given the recent repricing higher in the DI curve. Markets are pricing in less than 100bp of cuts for the cycle now, with an implied terminal rate near 13.43% in August of 2027.
- 8:00am EST - **Mexico March Industrial Production** (P: -1.3% y/y; C: -1.3%) Markets expect activity to remain broadly flat. Attention will center on whether manufacturing and construction continue to show weakness amid softer external demand signals.

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- US Rates Strategy: Inflation Forwards Relative Value (11 May 2026)
- EM Sovereign Credit Strategy: Fiscal Risk Premia Update (11 May 2026)
- US Rates Strategy: Stable Rates Markets Rest on Fragile Energy Equilibrium (11 May 2026)
- G10 FX Strategy: FX Positioning Indicated Investors Increased Short DXY Positions Post-NFP (11 May 2026)

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