

First to Market

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CHINA HELPED HOLD DOWN OIL PRICES. IS IT ABOUT TO GO SHOPPING?



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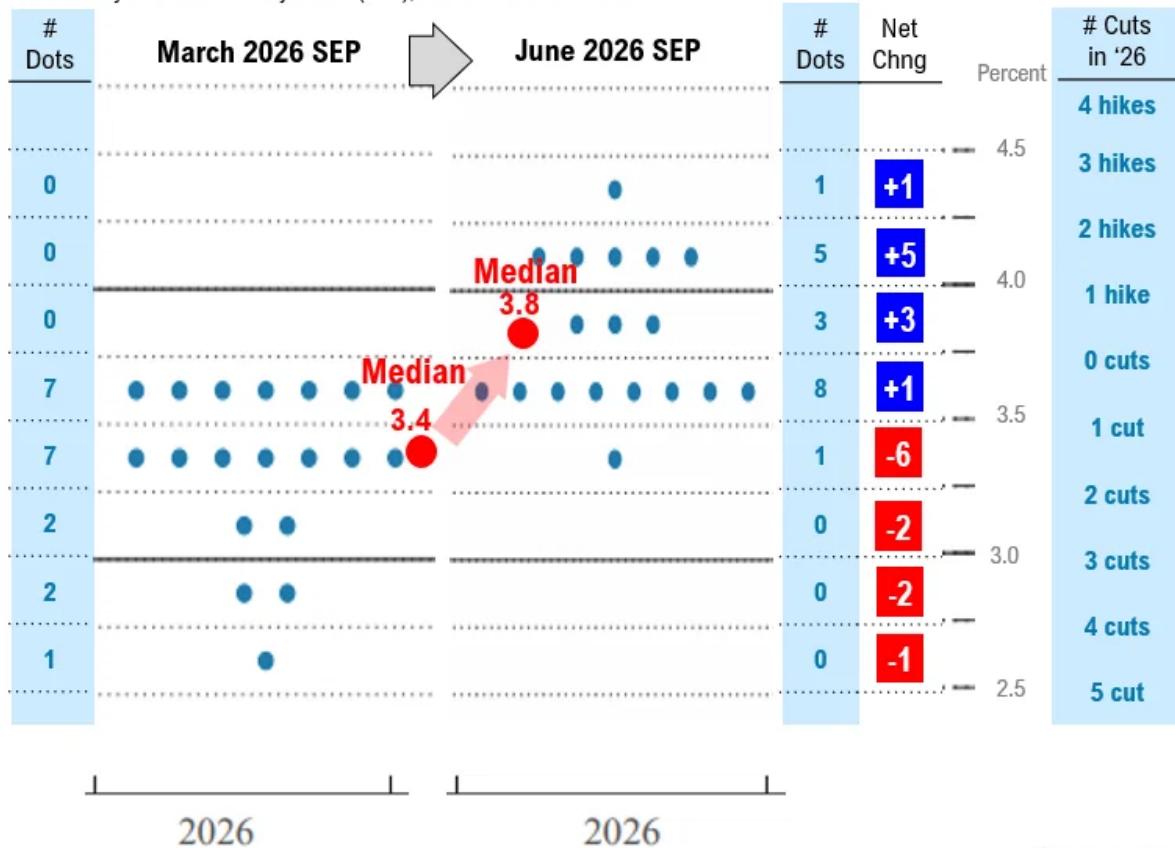
"In preparing for battle I have always found that plans are useless, but planning is indispensable." — Dwight D. Eisenhower

Chart of the Day

FED: Higher rates in YE Projections

FOMC Participants' Assessments of *Target Level for Fed Funds Rate by YE2026*

FOMC Summary of Economic Projections (SEP), Mar 2026 vs. Jun 2026



Source: Fundstrat, the Federal Reserve

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Good morning!

It should go without saying that we are opposed to war for moral reasons. Yet it's also true that one of the more eagerly anticipated impacts of the resolution of the Iran war is a return of oil prices to their pre-war levels – and perhaps even back to prices at the beginning of the year, when uncertainty about President Trump's course of action toward Iran began pushing oil prices higher. It's telling that the agreement will not only allow Tehran to immediately sell oil, but also clear away the banking/financial and shipping impediments that had previously been put in place to further hinder any attempts at illicit sales by Iran. Basically, the president appears to very much want oil to flow again and for the oil-price spike he caused to recede.

The consensus seems to be that the price of crude will indeed decline in the event that tomorrow's signing ceremony in Geneva takes place (after weeks and literally dozens of fluctuating claims from both Iran and the U.S., I personally will believe it when I see it), and this certainly seems like a reasonable thesis. Yet the path downward might not be a straight line down – and not just because a lot of energy infrastructure in the region was damaged or destroyed during the war, requiring significant time to repair or rebuild.

Why, then? It's the same reason that crude never even came close to hitting \$200 a barrel – as the most pessimistic had feared might happen during the first month of the war. The Armageddon-scenario didn't happen because throughout the conflict, one of the world's largest consumers of oil – China – actually scaled back its oil imports, dampening the price spike. In fact, China's daily oil *imports* fell by a volume roughly equivalent to the total daily oil *consumption* of Japan. Notably, this import reduction was not due to a proportional slowdown in the Chinese economy, which appears to have been largely flat in recent months.

China's longtime commitment to shift toward electric vehicles and sustainable energy almost certainly played a role in this, but not enough to explain all of the oil-import decline. Some experts now believe that the most likely explanation is that China's oil reserves were significantly underestimated by intelligence experts.

Since the conflict began, China has not even begun to tap into the government's official strategic petroleum reserve. Instead, it tapped into its massive commercial inventories, and while the rest of the world was somewhat aware that the Middle Kingdom had other reserves stockpiled (that's how we rationalized China's high level of oil imports back in mid-2023 despite a faltering economy at the time), it now appears clear that satellite-based intelligence did not provide a true picture of their extent.

However, just like you need to restock your refrigerator after an extended period of binge-eating (or so I've heard), China will want to replenish its reserves. Maybe not right away, maybe after prices have declined a bit more than they have already. But eventually, all the oil that China continued to use during the war will need to be

replaced. Some analysts estimate that China has tapped about 1 million barrels a day in the 110 days since the war began – no small amount to replace.

What's more, while China could opt to gradually replenish supplies as prices decline, it has another option: if it so desires, it could engage in large block purchases that shock global oil markets and artificially prop up prices. This seems counterintuitive – why would China want higher oil prices, after all? There are, in fact, a few potential strategic reasons why.

Such purchases could create economic pain for Western economies – and the subtle threat of them could thus provide negotiating leverage. It could also supercharge domestic and global demand for sustainable energy, a sector in which China enjoys a substantial lead. Such a strategy could even – if you squint a little – advance China's ambition to steer the developing world toward adoption of petroyuans instead of petrodollars.

WTI crude was trading around \$57 at the beginning of 2026. A signed agreement with Iran is far from a guarantee of a speedy straight-line return to those price levels, and it's not just because of the broken energy infrastructure in the Persian Gulf region.

Economic data summary: The Retail Sales Report showed that retail and food services sales rose to \$763.7 billion in May– up 0.9% since April, and 6.9% YoY– indicating increased continued consumer spending momentum heading into the summer. Nonstore retailers remain strong, up 12.2% annually, reflecting the ongoing shift toward convenient online shopping. Sporting goods and miscellaneous retailers also reported strong gains, both increasing annual sales by ~10%. Some weak sectors include furniture stores– down 1.2% since May 2025 – and food and beverage stores, which stayed relatively flat this month. Department stores were down 1.1% YoY, consistent with ongoing struggles of brick-and-mortar businesses. As expected, gasoline stations saw an increase this month, up 3.4% from April, and up 12.2% annually. However, with crude oil prices stabilizing since news of the U.S.-Iran proposed ceasefire broke – reaching \$76.74, the lowest it's been since early March – it appears likely that the elevated gas prices during the war will start to decline. — *Dean Park*

The Federal Reserve held its target range of 3.50%-3.75%, as expected. Stocks notched sharp losses, with the S&P 500 down 1.2%, thanks to nine of the 19 Fed officials signaling at least one interest-rate hike by the end of 2026. In March, no official had projected an increase in rates. At the same time, the number of officials estimating a cut this year tumbled to one from 12. In response, the 2-year treasury yield, which tracks short-term rate expectations, jumped to 4.201%, the highest level since February 2025.

It's important to note that the new Fed Chair Kevin Warsh didn't participate in the dot plot projections, one of the first signs that he is looking to remake the Fed and challenge its long-standing tradition of sharing forward guidance. The Fed raised its inflation projections for this year to 3.6%, up from 2.7% in March, while leaving unemployment estimates barely unchanged at 4.3%. That means that increasing inflation arguably warrants a more hawkish take. But if it slows down, then the current resilience of the job market allows the Fed to hold where it is now, and rates could even decrease. – *Kieran McBride*

Share your thoughts

When do you think crude prices will return to prewar levels? Click [here](#) to send us your response.

Here's what a reader commented

Q: Can Pizza Hut be saved?

A: I love the work you all do. But you may want to steer clear of the subject of pizza [...] The idea that you refer to any of the "restaurants" in this piece as pizza is amazing. This stuff isn't pizza, man. It's all just a fat and carb delivery system. Economics is finally coming for them! I knew a few people who owned pizzerias in the 80's and 90's and the economics were insane. They printed money. Not so much anymore.

Catch up with Fundstrat

We discuss our five takeaways from today's FOMC presser. While many view Warsh as hawkish, our careful review of the presser suggests he is not a hawk or a dove, but rather dynamically navigating.

Technical

SPX has pulled back from Monday's high near 7,560 to trade around 7,420 by Wednesday's close, settling right into the 0.5 to 0.618 Fibonacci retracement support of the early-June rally between 7,447 and 7,356. This appears like "backing and filling" in the wake of yesterday's FOMC, not a trend break, with price holding well above the early-June low near 7,240.

Crypto

In terms of looking for bullish takeaways amidst what was unequivocally a hawkish output from the yesterday's Fed meeting, I think it is that right now, the 2Y yield is rising while 2Y inflation swaps are moderating alongside a commodity complex that is showing signs of relief. This suggests that the rise in yields is being driven by real growth rather than inflation.

News We're Following

Breaking News

- US Treasuries rebound after Warsh's debut at Fed stoked selloff BBG

Markets and economy

- CME chief Terry Duffy to step down after reshaping global derivatives trading FT
- A first-ever default shakes an \$80 billion corner of muni market BBG

- BOE holds rates as central banks react to Iran peace hopes BAR

Business

- Intel surges 9% after Trump says company will partner with Apple on U.S. chip design CNBC
- US banks face scrutiny in DOJ probe of Iran supreme leader's money flows BBG
- JPMorgan Chase cuts off Anthropic access for its Hong Kong staff FT

Politics/U.S.

- Trump and Thune's dynamic turns the Senate 'very chaotic' SEM
- Defense contractors would be barred from buying back their stock in bill approved by Senate panel CNBC
- Pete Hegseth unveils six-month review of US military presence in Europe FT

Overseas

- First tankers cross strait after Iran deal; Israeli strikes stir doubt in Lebanon REU
- AI CEOs talk global standards at G7 SEM
- Ukraine hits Moscow oil refinery and disrupts commercial flights with major drone attack AP

Of Interest

- NY Knicks fans pay \$950 to hold spots at free parade BBG
- An ancient oak tree said to have sheltered legendary Robin Hood has died AP

[Editor's Note: U.S. markets and Fundstrat offices will be closed tomorrow, June 19, 2026, in observance of the Juneteenth holiday. Normal publication will resume on Monday, June 22, 2026.]

Overnight

S&P Futures	+65 ▲ point(s) (+0.87% ▲)
overnight range:	+12 ▲ to +76 ▲ point(s)

APAC

Nikkei	+1.65% ▲
Topix	+1.37% ▲

China SHCOMP	-0.43% ▼
Hang Seng	-1.59% ▼
Korea	+2.25% ▲
Singapore	+0.70% ▲
Australia	-0.62% ▼
India	+0.32% ▲
Taiwan	+1.28% ▲

Europe

Stoxx 50	+0.02% ▲
Stoxx 600	-0.48% ▼
FTSE 100	-0.90% ▼
DAX	-0.01% ▼
CAC 40	+0.01% ▲
Italy	-0.23% ▼
IBEX	-0.33% ▼
Canada	-0.75% ▼
Mexico	-0.26% ▼
Brazil	-0.70% ▼

FX

Dollar Index (DXY)	+0.48% ▲ to 100.57
EUR/USD	-0.17% ▼ to 1.1482
GBP/USD	-0.36% ▼ to 1.3245
USD/JPY	-0.06% ▼ to 160.75

USD/CNY	-0.11% ▼ to 6.7681
USD/CNH	+0.08% ▲ to 6.7711
USD/CHF	-0.35% ▼ to 0.8025
USD/CAD	-0.15% ▼ to 1.4121
AUD/USD	+0.06% ▲ to 0.7018

UST Term Structure

2Y-3M Spread narrowed	-0.7bps ▼ to 41.7bps
10Y-2Y Spread narrowed	-2.6bps ▼ to 27.2bps
30Y-10Y Spread narrowed	-1.3bps ▼ to 42.9bps

USD HY OaS

All Sectors	-6.3bps ▼ to 294bps
All Sectors ex-Energy	-5.4bps ▼ to 289bps
Cons Disc	-6.6bps ▼ to 464bps
Indu	-3.6bps ▼ to 238bps
Tech	-3.9bps ▼ to 218bps
Comm Svcs	-5.1bps ▼ to 286bps
Materials	-5.3bps ▼ to 246bps
Energy	-8.0bps ▼ to 276bps
Fin Snr	-8.3bps ▼ to 194bps
Fin Sub	-6.3bps ▼ to 293bps
Cons Staples	-2.6bps ▼ to 442bps
Healthcare	-6.0bps ▼ to 307bps
Utes	-5.7bps ▼ to 200bps *

DATE	TIME	DESCRIPTION	ESTIMATE	LAST
6/18 4:00 PM		Apr Net TIC Flows	n/a	150.696
6/23 9:45 AM		Jun P S&P Srvcs PMI	51.2	50.7
6/23 9:45 AM		Jun P S&P Manu PMI	54.8	55.1
6/24 10:00 AM		May New Home Sales	640	622
6/24 10:00 AM		May New Home Sales m/m	n/a	-6.2

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