

HARBINGER STRATEGIES

Trade & Geopolitical Update

Week of June 21, 2026 · CONFIDENTIAL — prepared for clients

EXECUTIVE SUMMARY

The Iran war may finally be over but questions remain about elements of the MOU and whether the 60-day negotiating window can truly meet its goals. Ongoing hostilities in Lebanon led to a supposed reclosure of the Strait of Hormuz over the weekend and public criticism—particularly from Israel, the U.S. media, and national security hawks—have cast doubt on the nascent negotiations.

Against that backdrop, oil prices have significantly retreated but the shock of the last three months now raises concerns in the opposite direction: a global oil glut in 2027. U.S. inflation hit a three-year high of 4.2% and the European Central Bank (ECB) became the first major central bank to raise rates. Just how quickly the roughly 600 ships trapped in the Persian Gulf can be cleared and production restarted will have a material impact on renewing consumers' purchasing power and providing sustainable global growth heading into the final two quarters of the year.

Beneath the war, three slower developing stories advance: the AI buildout, which is turning from an earnings story into a financing one; the durability of the American trade regime hardening through legal decisions; and a Western Hemispheric policy tapping into new methods to pressure realignment. All issues converged at last week's G7 summit and turned Fed Chair Kevin Warsh's first FOMC meeting into a more hawkish posture than expected.

THE FOUR TAKEAWAYS

TAKEAWAY 1: Iran MOU signed; negotiation window stalls then starts. From escalating ceasefire hostilities to a "complete" deal, the logistics of reopening of the Strait are just one of a number of unknowns as the 60-day negotiating window kicks off. Lebanon is the most immediate impediment to the negotiations, but congressional criticism is worth watching.

TAKEAWAY 2: The oil shock is an institutional fact but prices retreat. CPI hit a three-year high with energy representing more than 60% of the gain. The World Bank cut global growth to 2.5% and both the ECB and BoJ hiked. Chair Kevin Warsh's first FOMC set the tone for a more cautious approach to the post-war global recovery.

TAKEAWAY 3: AI buildout hits payday but financing creates leverage risk. Roughly \$4 trillion of private AI listings culminated in SpaceX's record-breaking IPO, ending two decades of U.S. equity scarcity. The five hyper-scalers have raised \$255 billion collectively in 2026, but the market penalized Oracle for its larger-than-expected capex bill. AI leverage will be watched closely as U.S. private debt finances a Western AI stack against an accelerating Chinese sovereign-funded effort.

TAKEAWAY 4: Trade and foreign policy agendas harden. As expected, President Trump has threatened to let USMCA lapse, but formal negotiations remain on track. Meanwhile, the Administration won a symbolic Section 122 tariffs appeal and IEEPA duties continue to be both refunded and contested. The Donroe Doctrine gained a win in Cuban reforms and continues to shower political endorsements throughout Latin America while escalating military operations against drug traffickers. The President's request for \$350 billion in defense supplemental funds via a third reconciliation bill will give Congress a seat at the foreign policy table.

KEY DATES AHEAD

The headline news of the week will be U.S. first-quarter GDP, providing more data on the Iran war's economic impact. Below is the full schedule of what to expect around the globe.

Week of June 21

- Tuesday: S&P Global PMI data (Eurozone, France, Germany, India, Japan, UK, U.S.); U.S. May State Employment and Unemployment figures; Fed's Fifth Conference on the International Roles of the U.S. Dollar (day two); MD, NY, UT primaries and SC Governor GOP runoff; NBA draft; 4th China International Supply Chain Expo in Beijing (thru Friday); China World Economic Forum's 17th annual meeting, "Summer Davos," (thru Thursday); Japanese Emperor Naruhito and Empress Masako state visit to Belgium; UK CBI Industrial Trends Survey
- Wednesday: U.S. new-home sales data; President Trump attends Senate GOP Steering lunch; President Trump meets with NATO chief Mark Rutte; Fed announces annual bank stress test results; Australia May CPI inflation rate data; Canada minutes from last Monetary Policy Committee meeting; Germany Ifo Business Climate Index; Japan May PPI data
- Thursday: U.S. Q1 GDP third estimate and PCE data (inflation measure closely watched by Fed); SCOTUS opinion day (Lisa Cook decision TBD); U.S. vs. Turkey (World Cup); Australia May labor force statistics; ECB General Council meeting and Economic Report; Mexican central bank (Banxico) decision; 2026 Ukraine Recovery Conference begins two-day conference (Gdańsk, Poland); UK ONS housing statistics and BRC Consumer Sentiment Monitor survey
- Friday: University of Michigan June Index of Consumer Sentiment; ECB Consumer Expectations Survey; UK Financial Policy Committee meeting
- Saturday: Louisiana primary run-off election

Look Ahead

- June 28-29: China Minister of Commerce Wang Wentao visit to Brussels
- June 29: CBP CAPE phase-two refund system deploys
- July 1: USMCA mandatory joint review
- July 4: America 250; Republican Planned Parenthood funding restrictions expire
- July 7-8: NATO summit
- July 14-15: Chair Warsh testimony on the Fed's "Semi-Annual Monetary Policy Report" before the House Financial Services Committee and Senate Banking Committee, respectively
- July 15: Likely Peru presidential election certification
- July 15-16: Senate Judiciary Committee confirmation hearings for Todd Blanche (GOP Leadership hopes to have Blanche confirmed as AG by the August Recess)
- July (TBD): Senate Finance Committee hearing with USTR Greer (before a third round of negotiations in Mexico City)
- July 20: Next round of USMCA negotiations between the U.S. and Mexico (Mexico City)
- July 23: House departs for the August Recess
- August 7: Senate departs for the August Recess
- Note: FISA Section 702 remains expired (Trump pushing for inclusion of the SAVE America Act)
- September (TBD): President Xi Jinping state visit to Washington, D.C.

GEOPOLITICAL UPDATE

Following weekly ceasefire-defying strikes and counter-strikes, President Trump announced on June 14 that a memorandum of understanding (MOU) between the U.S. and Iran had been finalized. The details were revealed last Thursday after President Trump

signed the deal Wednesday evening in France. As Vice President JD Vance briefed reporters at the White House on Thursday, the Administration sent the deal to Congress, though an all-Member briefing is not expected until later this week, at the earliest. Senior White House officials have held small-group and individual calls with select GOP lawmakers and reporters in the interim.

The President sees the MOU as “the beginning of a much larger deal all across the Middle East” calling again to expand the Abraham Accords. But economic realities were clearly a driving force for the President when deciding, saying: “The one thing I didn’t want to see is, I didn’t want to see economic catastrophe.”

Memorandum of Understanding

1. The U.S. and Iran agree to an immediate and permanent termination of military operations, including in Lebanon, and agree to not initiate any war or any military action against each other and to refrain from the threat or use of force against each other. The deal will ensure the territorial integrity and sovereignty of Lebanon.
2. The U.S. and Iran undertake to respect each other’s sovereignty and territorial integrity and refrain from interfering in each other’s internal affairs.
3. The two nations commit to negotiating and achieving a final deal in a maximum of 60 days, extendable by mutual consent.
4. Upon signing of the MOU, the U.S. will begin the removal of its naval blockade and any disturbances or impediments against Iran and will fully end the naval blockade within 30 days. Vessel traffic will be calibrated in proportion to pre-war traffic restored by Iran. The U.S. undertakes to remove its forces from the proximity of Iran within 30 days of a final deal.
5. Iran will make arrangements for the safe passage of commercial vessels with no charge for 60 days only between the Persian Gulf and the Sea of Oman. Iran will conduct dialogue with Oman to define the future administration and maritime services in the Strait of Hormuz in discussion with other Persian Gulf control states in line with applicable international law. Iran will begin de-mining the Strait of Hormuz within 30 days.
6. The U.S. with regional partners will develop a definitive, mutually agreed plan with at least \$300 billion for the reconstruction and economic development of Iran. The mechanism for the implementation of this plan will be finalized as part of a final deal within 60 days. All required licenses, waivers and permissions needed for the relevant financial transactions will be granted by the U.S.
7. The U.S. will move to terminate all types of sanctions against Iran, including the United Nations Security Council resolutions, International Atomic Energy Agency resolutions, and all unilateral US sanctions, primary and secondary, in an agreed upon schedule as part of a final deal.
8. Iran reaffirms that it shall not procure or develop nuclear weapons. The two countries have agreed to resolve the disposition of stockpile enriched material pursuant to a mechanism that will be mutually agreed upon — in accordance with the sanctions termination schedule referenced in point seven. The two parties also agreed to discuss the issue of enrichment and other mutually agreed matters related to Iran’s nuclear needs based on a satisfactory framework in a final deal. Nuclear issues will immediately be addressed in negotiations.
9. Pending the final deal, the U.S. and Iran agree to maintain the status quo. Iran will maintain the current status quo of its nuclear program, and the U.S. will not impose any new sanctions and will not deploy additional forces in the region.

10. The U.S. undertakes that immediately upon signing the MOU, the Department of Treasury will issue waivers for the export of Iranian crude oil, petroleum products, and derivatives, and all associated services, including banking transactions, insurance and transportation.
11. The U.S. undertakes to make fully available for use Iran's frozen or restricted funds and assets. Upon the implementation of the MOU, the two countries will mutually agree on the procedures related to the release of these funds during the negotiations. Such funds, whether retained in the original account or transferred, shall be made fully usable for payment to any ultimate beneficiary designated by Iran's central bank.
12. The U.S. and Iran agree that an executive mechanism will be established to monitor the successful implementation of this MOU and the future compliance of the final deal.
13. After signing the memo, points 1, 4, 5, 10, and 11 will be implemented. The U.S. and Iran will start negotiations regarding a final deal on the other points outlined in the accord.
14. The final deal will be endorsed by a binding UN Security Council resolution.

Ballistic Missiles

One key issue of divergence is Iran's ability to maintain its ballistic missiles program. Speaking from the G7, President Trump said multiple times last Wednesday that he's fine with Iran having ballistic missiles given regional neighbors have them, as well: "I'm saying that if other countries have them, it's a little bit unfair for them not to have some." He further opined that "Missiles are not the problem. They hurt a little location but they don't blow up the planet."

Nuclear

Other issues have been flagged by critics, including nuclear commitments by Iran in return for sanctions relief and the ability of the regime to tap frozen assets. Tehran and Washington will hold talks on how to dispose of Iran's stockpile of enriched uranium in the 60-day window but the minimum commitment would be for all uranium to be diluted on site under the supervision of the International Atomic Energy Agency (IAEA). Iran has a stockpile of more than 9,000kg of enriched uranium. Most of it is at low enrichment levels but 440kg is enriched to near weapons-grade. Tehran has always insisted its program is for peaceful civilian purposes, which President Trump seemingly confirmed at the G7, saying "It's also a little hard" to tell Iran it can't have a civilian nuclear energy program when "other people" have it in the region.

Frozen Assets

On frozen assets, President Trump commented: "We have taken their money, it's their money. If we didn't give it back, nobody would ever invest in the dollar again." The President made clear that the U.S. would not be contributing to the \$300 billion reconstruction fund, saying "We're not putting up 10 cents. We are not investing in it and we do not have a fund." He also denied that he had asked Gulf countries to create the fund. Instead, the reconstruction financing would be contingent on a final settlement, including a deal on Iran's nuclear program. Funding would not come from governments but would be created for companies seeking to invest in Iran's energy resources.

Lebanon

Both President Trump and Vice President Vance have directed increased criticism at Prime Minister Benjamin Netanyahu and his government. Trump reportedly said: "you can do a

little softer touch, Bibi, you don't have to knock down a building every time somebody walks into it that's from Hezbollah." Vance went even further, warning Israel against "attacking the only powerful ally" it has left and saying "Donald J. Trump is the only head of state in the entire world who is sympathetic to the nation of Israel at this moment in time."

The President meanwhile praised the leadership of Lebanon and announced another visit to Washington in "the next week or two." But demonstrating how big of an issue the Lebanon question is, Switzerland's Foreign Ministry announced last Friday morning that ceremonial signing talks in Geneva had been "postponed" following overnight clashes in Lebanon that resulted in the deaths of four Israeli soldiers, including a battalion commander.

Israeli Prime Minister Benjamin Netanyahu has been notably cut out of the final negotiated terms and was not included in last week's G7 meetings with Middle Eastern allies. Israel has insisted it will maintain troops in southern Lebanon until Hezbollah no longer poses a threat. While Administration officials point to the MOU's ceasefire in Lebanon, they acknowledge that "Israel will have the right to defend themselves."

Israel and Hezbollah reportedly signed a ceasefire headed into the weekend, but Iran again closed the Strait of Hormuz on Saturday due to what it called a violation by Israel. Iran's joint military command said the closure was its "first step" in response to Israeli strikes according to the semi-official Tasnim news agency. Iranian negotiators then balked at attending the official negotiating meetings.

After a flurry of intense mediation efforts by Qatar and Pakistan in co-ordination with the U.S., Tehran subsequently announced that it would attend the weekend meetings. Qatari officials had warned Iran that if it did not send a delegation it was giving Israeli Prime Minister Benjamin Netanyahu a "veto on the war." Thus, the U.S. and Iran formally kicked off the 60-day negotiating window on Saturday at a Swiss mountain resort in Bürgenstock, with the Lebanon question front and center.

Following intense weekend negotiations, Qatar and Pakistan, which are mediating the talks, issued a joint statement saying the parties had agreed to "the creation of a de-confliction cell" aimed at stopping fighting in Lebanon with a "mechanism to track violations." One challenge is determining which side is responsible for breaching the ceasefire as it's not always clear who has fired first. Iran Foreign Minister Abbas Araghchi also heralded "major progress," posting on X: "Tireless Pakistani and Qatari mediation has delivered major progress to end Lebanon War. Oil and petrochem exports are waived, blockade lifted, some frozen assets released, and major reconstruction & development plan launched for Iran."

Vice President JD Vance, who is leading the American delegation, similarly told reporters "We've already made great progress over just the last few hours and I expect that we'll make additional progress in the hours to come." In sign of the deep mutual distrust, however, the Iranian delegation led by Mohammad Bagher Ghalibaf, refused to appear for a photo opportunity with their U.S. counterparts. Just as crucial as the talks in Switzerland was the relative calm in Lebanon on Monday, where the ceasefire continued to hold, passing what Abbas described as the "1st real test" of the deal.

Monday's peace talks produced additional progress on multiple fronts. Most notably, Vice President Vance announced that Iran had agreed to allow inspectors from the International Atomic Energy Agency (IAEA) back into the country, ending a year of Iran blocking the inspectors from military nuclear enrichment locations. Vance touted this as "the first step in permanently denuclearizing or permanently ending a nuclear weapons program in Iran." President Trump's Truth post Monday afternoon affirmed Vance's

comments, with the President writing: “Everybody is fully aware that Iran will agree to have Major Weapons Inspections in order to ensure ‘Nuclear Honesty’ long into the future.”

Iran had a different take on Monday’s talks. Iranian Foreign Ministry Spokesperson Esmail Baghei told the Iranian state news agency that interactions with the IAEA would continue but that no new commitments were made. Vance responded by telling reporters to “mistrust” what Iranian social media says, calling Iran “confusing negotiators.”

In Washington, Treasury Secretary Scott Bessent issued a two-month sanctions waiver for Iranian oil sales on Monday as laid out in the MOU. The move bolsters Iran’s struggling economy (with upwards of 70% inflation), reconnecting it to the world, allowing payments with U.S. dollars, and adding supply to the global energy market. The State Department separately said that Secretary of State Marco Rubio would depart tomorrow for a trip through the UAE, Kuwait, and Bahrain, to discuss the agreement with Middle Eastern allies who’ve expressed discomfort with elements of the MOU.

Congressional Response

Congressional Republican reactions to the deal have been mostly negative. Senator Bill Cassidy (R-LA) called it “the worst foreign policy blunder in decades.” Senator Ted Cruz (R-TX) drew a negative parallel to the JCPOA last Wednesday: “Don’t suddenly come in with massive buckets of cash to let them rebuild and become a threat to America.” Most problematic for the Administration were comments from Senate Intelligence Committee Chairman Tom Cotton (R-AR) and Senate Armed Services Committee Chairman Roger Wicker (R-MS). Cotton said on Thursday that “certain aspects of this deal are a step in the wrong direction” and Wicker declared that the deal “negotiates away the victories of Operation Epic Fury.”

The House side has been more mixed, with Members taking dueling perspectives while not going on the record under their own names. An anonymous House Republican was quoted as saying that the President had “effectively acknowledged he lost the war” and that it was “no longer worth the economic price.” Another more hawkish House Republican added: “He promised total surrender. And here it is.”

The criticism is worth viewing through the lens of two congressional authorities: the power of the purse and the Senate’s “advice and consent” role. President Trump has asked for a \$350 billion defense reconciliation bill “3.0” combined with the SAVE America Act. The Wall Street Journal reports that Deputy Defense Secretary Stephen Feinberg told Hill appropriators in a phone call last week that the Pentagon would need approximately \$78 billion of the \$350 billion President Trump is asking for to specifically cover the costs of the Iran war. It’s unclear when the Administration will send the supplemental to the Hill, but lawmakers have previously warned that the Department of War will run out of money to fund Middle East operations by August. Senate Defense Appropriations Chairman Mitch McConnell (R-KY) has welcomed the Administration’s overall Defense spending topline but is cool to replacing the annual appropriations process with mandatory spending. In short, reconciliation 3.0 and the Administration’s spending ambitions face long odds.

Relatedly, President Trump will meet with senior Pentagon officials and defense contractors at the White House on Wednesday to discuss ramping up munitions production amid concerns about U.S. missile supply. Deputy Defense Secretary Feinberg notified industry leaders earlier this month to prepare for the meeting, which is expected to be contentious.

Meanwhile, MOU ratification procedures could very well hit a roadblock in the Senate. Secretary of State Marco Rubio conceded to Senator Lindsey Graham (R-SC) on June 3 that

any agreement must go to Congress under the 2015 Iran Nuclear Agreement Review Act (INARA). INARA provides either chamber with expedited procedures to move a privileged resolution of disapproval. Last Monday, Majority Whip John Barrasso (R-WY) told reporters that the MOU should face approval by the Senate, saying, "I want to make sure it's verifiable, enforceable." Similarly, Senator Graham said, "Under our law, any nuclear deal with Iran will be sent to Congress for review and a vote. I look forward to reviewing the final product and I believe... Vice President Vance... be part of the process in presenting the final deal to Congress."

The removal of Iranian sanctions creates more procedural issues. Under the 2024 Ukraine/Israel supplemental funding law, language limits the ability of the president to unilaterally remove the IRGC's existing designation as a Foreign Terrorist Organization (FTO). Lifting the designation would be required to ease sanctions and/or release assets. Under the 2024 law, the State Department is required to report to Congress every 180 days on IRGC drone attacks on American citizens. Should such a report be made, the IRGC cannot be removed from the FTO for at least four years. Last April, the State Department did just that, confirming to Congress that the IRGC had targeted Americans with drone strikes. Presumably, the statute has now been triggered. That said, the law also provides the Secretary of State with discretion to waive the four-year requirement, potentially putting Secretary Rubio in an unenviable position.

NATO

Secretary of War Pete Hegseth told his counterparts at last Thursday's NATO defense ministers meeting in Brussels that the Pentagon is beginning a six-month review of its troop levels on the continent as the U.S. looks to downsize its role. The announcement, which comes weeks before the upcoming NATO leaders' summit in Ankara, is directed at the "NATO Force Model," which is the alliance's pool of forces and equipment that can be deployed within 10 days to respond to a crisis. According to Hegseth, U.S. financial contributions will be contingent on other countries meeting their defense spending targets: "Where other allies do not spend with urgency, our dues contributions will go down. NATO will be a two-way street." Likely accelerating the review was the response of NATO to the war in Iran, which Hegseth told attendees was a "test" that they had "failed."

Providing further fuel to the U.S. perspective, UK Defense Secretary John Healey resigned a week ago in a two-page letter to embattled Prime Minister Keir Starmer, highlighting Europe's rearmament gap. Healey was unambiguous in his criticism, saying of Starmer: "you have been unable, and the Treasury has been unwilling, to commit the resources that the nation needs to defend the country at this time of rising threats." Healey completed a cross-government defense review in January that illuminated the readiness challenges facing the UK. Ultimately, his decision to resign was a result of the Government's "decisions that would reduce the readiness of our Forces and increase the risk to personnel on operations."

Healey's resignation caps a fight he had been losing in public for over a year as the UK continues to delay its 2.5% of GDP timeline. London's budget dispute is a symbol of the European alliance's overall security problem and puts into question whether NATO is truly capable to "step up now" as the U.S. drawdown moves forward.

BOTTOM LINE: *The Iran war may be ending but the reopening of the Strait hangs most immediately on the Lebanon question as Israel remains outside the negotiating room. Also outside the room is the U.S. Congress which is now being asked to carry a \$350 billion defense supplemental request with razor-thin Republican majorities in the House and Senate while Iran receives sanctions relief.*

ECONOMIC OUTLOOK

With his first FOMC meeting now in the books, Fed Chair Kevin Warsh and his colleagues held the central bank's benchmark rate steady last week (range of 3.5% to 3.75%) in a unanimous vote. Wednesday's FOMC meeting was the first without a dissenting vote since June of 2025, signaling more collaboration than outside observers predicted.

In their quarterly projections, nine of the 19 officials signaled at least one rate increase before the end of the year, up from zero in March. Just one official foresaw a cut, down from 12. While the dot plots were hawkish, Warsh declined to submit his own forecast and provided no balance sheet updates, indicating that public statements would be leaner going forward. Warsh's less is more approach has drawn comparisons to the Fed model set by former Chair Alan Greenspan who died on Monday at age 100.

Warsh was clear with reporters, however, in his focus as Chair: price stability. Speaking at the post-FOMC meeting press conference, Warsh said: "Persistently high prices are a burden for the American people. Members of the FOMC are unambiguous and unanimous: this committee will deliver price stability." Further on the policy front, Warsh announced the creation of a task force to examine the bank's \$6.7 trillion balance sheet and rein in the Fed's easing guidance. At its peak in June 2022, the balance sheet had swelled to as much as \$8.9 trillion from just \$800 billion nearly two decades earlier. In total, five task forces will be created: communications, data sources, balance sheet, productivity/jobs, and inflation mandates—all to be concluded by year-end.

Overall, Warsh's comments proved more hawkish than expected, triggering a sell-off in government bonds. The yield on the two-year Treasury, which reflects the market's bet on the direction of interest rates, rose as much as 17 basis points to 4.22%.

Resurgent Dollar

Wagers on a stronger dollar in the futures market also rose last week. The currency has climbed more than 2% against a basket of peers since the start of the Iran war given greater U.S. insulation to the conflict's supply chain shocks than Europe and Asia. A resurgence in the U.S. dollar has sent bets on the currencies of big emerging markets and major commodity producers into reverse. Currencies such as the Argentine peso and Norwegian krone have been hit in recent weeks as markets have begun to price in higher U.S. interest rates. The Fed funds futures market is now pricing in an 85% chance of an interest rate hike by the end of the year according to CME FedWatch.

Resilient Economy

Markets are now turning attention to the overall strength of the U.S. economy. According to Steven Englander, global head of G10 foreign exchange research at Standard Chartered, "The U.S. economy is doing just fine, the fears about the labor market were overblown." By contrast, traders were betting in January that the Fed would be forced to cut interest rates as the job market cooled. That employment weakness has not materialized. Instead, the U.S. added 172,000 jobs in May, more than double Wall Street expectations, reflecting a renewed belief in "U.S. exceptionalism."

These strong signals of U.S. resilience come as CPI rose to 4.2% in May, a three-year high and up from 3.8% in April. This was the third straight monthly acceleration, rising from 2.4% in January. Energy accounted for more than 60% of the monthly gain, with the energy index up 23.5% year-on-year, gasoline up 40.5%, and fuel oil up 58.9%. Excluding food and energy, core prices rose just 0.2% on the month, below the 0.3% forecast and half of April's pace. At a now 2.9% annual rate, core goods prices have actually fallen 0.1% signaling President Trump's tariffs have not become visible in goods. The soft core is the

Administration's best argument for a "transitory blip." And though a third consecutive headline acceleration is unwelcome, the MOU may provide a meaningful counter. For now, the Fed appears content to hold steady.

Retail sales rose 0.9% in May from the previous month to \$764 billion, beating Wall Street expectations. They were up 6.9% versus May of 2022. The bulk of spending was driven by prices at the pump, with gas station sales rising 3.4%. But underlying retail sales were also strong, with a core measure still gaining 0.7%. The rise suggests the aftereffects of large tax refunds from the OBBA are still reverberating throughout the U.S. economy. Thomas Simons at Jefferies said there was "little sign of fatigue from high gas prices" and that consumers were "showing yet another layer of resilience that keeps economic growth rolling."

U.S. employment has held steady in recent weeks despite the energy crisis and rising inflation. Initial unemployment claims decreased by 4,000 to 226,000 in the week that ended June 13, according to the Department of Labor. Continuing unemployment claims, a proxy for the number of people receiving benefits, rose to 1.81 million in the previous week. The four-week moving average of initial jobless claims, which helps smooth through week-to-week volatility, rose to 223,250, the highest since December.

The Administration's Case

House Ways and Means Committee Chairman Jason Smith's (R-MO) response to the latest CPI read was indicative of the Administration's argument: "Core inflation today is less than half what core inflation was at the same period in Joe Biden's" presidency. Indeed, core ran 2.9% in May against 6.0% in May 2022. But producer prices likely added to the Fed's decision to resist a cut, with PPI accelerating to 6.5% year-on-year, hotter than the 6.4% consensus.

The White House economic argument to the inflation narrative reads as follows: 172,000 May jobs; government employment down 17 straight months; small-business hiring up three months running and job openings near a two-year high; manufacturing expanding a fifth straight month at the fastest pace in four years; new home construction "surging" and home prices falling; steel imports down 30% as domestic mills add nearly five million tons; food-stamp rolls down more than 4.3 million; and drug prices falling, with the Most Favored Nation (MFN) initiative "projected to save Americans \$500 billion over the next decade."

The jobs print, openings, services streak, and the government-payroll decline are all objectively good. SNAP enrollment did fall nearly 4.3 million (42.8 to 38.6 million). That said, the NFIB shows hiring plans at their lowest since May 2020 with its small-business optimism index falling 0.6 points in May to 95.3. Capital-spending plans are at their lowest since March 2009 and labor costs are at the highest reading in the survey's 52-year history, leading the Uncertainty Index to rise to 91 against a historical average of 68.

While manufacturing construction is down, existing home sales accelerated to their fastest pace of the year, with closings up 3.2% in May to an annualized 4.17 million, beating every estimate in Bloomberg's survey. Housing data likely reflects buyers moving before post-war rates, however, prior to inflation accelerating. The small business data better reflects what operating costs are today.

Equity Scarcity Ends

U.S. markets, constrained by more than two decades of shrinking equity supply, found new investment opportunity in SpaceX's entrance into the public markets. A valuation target of roughly \$1.77 trillion resulted in high investor demand. More opportunity awaits

in OpenAI (last valued at \$852 billion) and Anthropic (valued at \$965 billion). Nearly \$4 trillion of private AI valuation will hit the market in the same year. As a result, Goldman Sachs estimates net U.S. equity supply will be approximately flat in 2026 after sitting negative since 2003.

Goldman Sachs has already surpassed \$1 trillion in M&A activity in 2026, the fastest pace ever to reach that mark this early in the year. And the surge in U.S. equities has investors starting to redeploy roughly \$8-9 trillion in money market funds, according to BlackRock's Rick Rieder. Exchange-traded funds (ETFs) are also attracting cash at a record-breaking pace. U.S.-listed ETFs have already taken in \$1 trillion this year, a mark that took nearly two years to hit from 2024 to late 2025. This year's haul will easily surpass last year's record of \$1.5 trillion. Vanguard's S&P 500 fund has thus far led the way with over \$110 billion.

But market opportunity comes with a cost. The five hyperscalers (Alphabet, Amazon, Meta, Microsoft, Oracle) have raised \$255.34 billion in 2026 through equity and debt, per S&P Global Market Intelligence. Datacenter spending will reach three-quarters of a trillion dollars by year-end. Capex is on pace to consume 90 to 100% of the group's operating cash flow this year. The risk is in the leverage as previous Fed minutes reveal concerns about systemic financial vulnerabilities. Several major companies, including Amazon, Walmart, and Uber, are all now placing limits on their AI usage to curb costs, with some already introducing spending caps or discouraging inefficient practices. Oracle became the first test case. While beating earnings and revenue, Oracle's stock still fell 6% in extended trading on the news of its capex hitting \$55.7 billion for the year against \$50 billion in previous guidance.

Earnings Rally

Goldman Sachs's chief U.S. equity strategist Ben Snider argued recently in the FT that the equity rally is built on earnings strength, not stretched valuations or speculative fervor. S&P 500 companies' Q1 growth was roughly 18% year-on-year. Even after stripping out the megacap technology firms, the median company grew about 14%. Forward estimates are climbing faster than prices, with the index up about 10% year-to-date and upgrades in every sector for both 2026 and 2027.

To be sure, the datacenter buildout is providing fuel for a hot market. Snider's caution is in the market concentration as the ten largest companies are 41% of index market cap. Moreover, long-term oil shocks will pressure margins and rates. But unlike the dotcom bubble when investors bid up multiples on future expected earnings, today's market is anchored on near-term earnings that have already delivered.

Consumer Sentiment

Consumer sentiment rose for the first time in four months, with the University of Michigan's preliminary June index at 48.9—up about 9% from May's 44.8 and beating the 46.0 consensus. Expectations jumped to 49.3 and both inflation-expectation series fell: year-ahead to 4.6%, long-run to 3.4%. The survey points to early-month easing in retail gasoline prices, an input that is likely to provide additional relief throughout the month as the Strait begins to open. UM's reading this Friday will show if the MOU propels sentiment farther upward. Privately-owned housing starts, however, were at a seasonally adjusted annual rate of 1,177,000 in May, below the revised April estimate of 1,392,000 and the May 2025 rate of 1,289,000, according to the Census Bureau.

Eurozone

At its developer conference early this month, Apple unveiled its long-awaited AI operating system. While U.S. consumers will get their chance to deploy AI-enabled iPhones this fall,

Europeans won't. Apple said Siri AI will not be available in the EU given its dispute with regulators. The episode was followed by Saudi Arabia's sovereign wealth fund criticizing EU regulations as "hurting" international investors, and is emblematic of a larger pattern impacting the Eurozone's downward economic trajectory.

If Europe slides into recession, the bloc is likely to reflexively blame Donald Trump's tariffs and decision to attack Iran. But the Eurozone drag in growth is largely of its own making, a combination of heavy regulation, anti-fossil fuel energy policy, capital rules that prevent the free flow of markets, and historic appeasement. The war may very well deepen Europe's downturn, but it did not create the structural conditions for it.

It is no surprise then that the ECB raised rates for the first time since September 2023, ending a seven-meeting pause and becoming the first major central bank to tighten. The central bank now projects inflation will not reach target until 2028, while growth dwindles. The bank's severe-scenario path shows just 0.5% growth through 2027. German central bank (Deutsche Bundesbank) president Joachim Nagel said a day after the decision that the ECB "stands ready to raise borrowing costs again," with markets pricing the next quarter-point in September. But there was dissent. UBS's Paul Donovan called the hike an "error" by a bank "stuck in an unhelpful 2022 mindset" of tightening an economy that is already contracting.

The UK supplied more cautionary data the same morning of the ECB's hike, showing its economy contracting 0.1% in April on a services slump. UK private sector wage growth continues its downward trajectory, slowing to its lowest rate in five years. Germany added to the data, with factory orders falling more than expected in April. But a separate report showed German industrial production rose for the first time since the war broke out; separately UK inflation unexpectedly held steady at 2.8% in May. As a result, the BoE diverged from the ECB, holding rates at 3.75% as oil price relief may be near. Forward-looking orders thus point down while current output is still ticking up, leaving Q2 contraction for the Eurozone an open-ended question.

Meanwhile, a resounding win by former Greater Manchester Mayor Andy Burnham in a key by-election returned him to Parliament on Monday, leading Prime Minister Keir Starmer to announce his resignation Monday morning. Starmer had previously said he would "not walk away" from Number 10 Downing Street and the five-year mandate Labour secured during the 2024 general election. His decision avoids triggering Labour's first divisive contest in its 126-year history while in power and comes a day before the 10th anniversary of the Brexit vote. Starmer said a new leader will be in place by September, but after Burnham's chief rival, former Health Secretary Wes Streeting, weighed in for the former mayor on Monday, the new premier is likely to take office by July 17.

Burnham will thus become the UK's fifth premier since 2022. Starmer's Labour Party has been under siege since its routing in May's local elections by Nigel Farage's Reform UK Party. While it's still too early to tell, the UK's troubles could point to a potential shift in political power in its next national election (likely no sooner than August of 2029). Yields on UK government bonds (gilts) are expected to continue rising as investors worry about the effects of Burnham's "business-friendly socialism" on public finances. Mohit Kumar, chief European economist at Jefferies, said UK currency trading "should get interesting over the coming weeks."

Latin America

Mexican inflation slowed far more than expected in May, returning to the central bank's target range. Consumer prices rose 3.94% year-on-year, below every estimate in

Bloomberg's survey and down from 4.45% in April. Prices fell 0.21% on the month, the first monthly decline in two years, and core slowed to 4.19%. Banxico's May 7 cut was framed as likely the end of the easing that began in 2024, but this week's decision could show otherwise. Mexico is, for now, the one major economy the oil shock has largely passed over.

Peru's central bank held at 4.25% on June 11, a ninth straight pause, with inflation easing to 3.9% but still above its 1-3% target; Argentina's May CPI stayed sticky near 32%. Both reflect the oil shock's slow fade across import-dependent Latin American economies, where fuel costs keep headline prints elevated even as activity holds.

Asia

Indonesia and the Philippines raised interest rates last Thursday in some of the most aggressive policy tightening in Asia since the start of the Iran war. Bank Indonesia raised its benchmark rate by 0.25 percentage points to 5.75%, following a rare off-cycle increase by the same amount the week before. That brought the total rise in interest rates in south-east Asia's largest economy to 1 percentage point in just four weeks. The bank said the rupiah was performing "worse than expected" and tied the move to lifting yields and drawing foreign inflows. The currency is at a record low against the dollar and down roughly 9% on the year. Jakarta's equity index has fallen more than 35%, among the worst-performing markets globally. The proximate cause is not entirely inflation-driven, however. Foreign investors are increasingly wary of President Prabowo Subianto's populist turn and spending, including free school meals, expanded state control, and a plan to route commodity exports like coal and palm oil through a state agency.

Bangko Sentral ng Pilipinas also raised rates by 0.25 percentage points, to 4.75%, following a similar increase in April. Energy inflationary pressures from the war have been driving up food prices in both countries. BSP governor Eli Remolona Jr. said, "I won't say the worst is over" as the U.S./Iran MOU would not immediately ease pressures on the economy. Like the Indonesian rupiah, the Philippine peso is one of Asia's worst-performing this year, trading at near all-time lows against the dollar. The Philippines imports 95% of its oil from the Middle East, acutely worsening its macroeconomic outlook.

South Korea's first quarter was stronger than first reported as GDP grew 1.8% quarter-on-quarter (3.8% year-on-year), a sharp swing from Q4's contraction. Exports rose 5.9% on the quarter, the fastest since 2020, on booming semiconductor, machinery, and auto shipments, while facilities investment grew 6.6%, the strongest in four years, as chipmakers expanded capacity into AI demand. The revision earned Korea the largest growth upgrade in the G20 from the OECD this month and shows chip-exporting economies have been able to weather the oil shock.

Japan's corporate goods prices rose 0.9% on the month in May, with April revised higher and the annual pace the fastest in three years. The numbers add to Japan's tightening pressures. The Bank of Japan (BoJ) raised its short-term policy rate to "around 1%," taking the cost of borrowing to its highest level in 31 years. The 0.25 percentage point increase is another step in the normalization of Japanese monetary policy after decades of near-zero rates. A weak yen has inflated the value of imports, creating a deficit trade balance for the first time in four months.

Canada

The Canadian dollar continues to fall relative to the U.S. dollar and is now at its weakest since early December. The Bank of Canada (BoC) held at 2.25%, however, its fifth straight pause and a full percentage point below the Fed's. Two-year Treasury yields have climbed about 12 basis points in June against 8 for their Canadian counterparts and the loonie is

down more than 2% since April, the worst performer in the G10. Although Canada's goods trade surplus hit a 15-month high (C\$2.72 billion in April), the war inflated crude prices, masking underlying economic concerns that will again resurface as oil recedes below \$80 a barrel. As Convera's Kevin Ford put it, the data reflect "wider U.S.-Canada rate differentials, weaker Canadian growth momentum, and lingering uncertainty around the CUSMA review." Markets now price roughly a two-thirds chance the BoC is forced to hike by October.

Canada's May CPI, released on Monday, accelerated to 3.2% from 2.8%. The increase was primarily gas- and food-driven with fresh vegetables +9% and groceries +4.3%. A notable AI wrinkle was also included in data with prices for RAM and SSDs rising 3.9% as datacenter demand created a supply crunch in computer components.

Global

The World Bank cut its global growth outlook to 2.5% in 2026, the slowest pace since the pandemic. The war's disruption of commodity flows and rising import costs have damaged two-thirds of the world's economies. "This is the biggest supply shock in more than 50 years," said Chief Economist Indermit Gill, eclipsing every crisis since the 1973 oil embargo. The risks are "skewed to the downside," with a scenario the Bank projects of global growth falling to 1.3% if "energy supply disruptions prove more severe than assumed and are accompanied by substantial financial stress." The headline cut from January's 2.6% looks small because the two-thirds of economies damaged are partially offset by the war's beneficiaries (energy exporters, chip economies, U.S. export surge). In January, the bank described a global economy "resilient to policy uncertainty." Five months later, the world has entered a K-shaped curve.

BOTTOM LINE: *The U.S. economy is doing well by output and poorly by prices. The latter is driven by energy while core CPI remains contained. The global economy diverges from that of the U.S., however, and each central bank is making decisions reflective of its own constituency's exposure to energy and fiscal credibility. The World Bank's macro view shows a supply shock with a 1.3% downside if the Strait does not reopen as planned in the next 30 days. The leverage of AI-buildout financing is the next big question for investors and policy makers alike.*

OIL SHOCK

Oil traders have sold heavily since the interim MOU was announced last weekend. Benchmark Brent crude dropped below \$75 a barrel during trading on Monday for the first time in three months, following a peak of \$126 a barrel at the end of April. Despite the loss of supply, the price of Brent crude never came close to the record high of \$147 a barrel set in 2008, as strategic reserves, increased production, and an unexpected pullback in Chinese demand helped cushion the market. Moreover, the International Energy Agency (IEA) said concerns over a shortage of jet fuel had eased after refineries boosted their production to record levels, though Europe's imports of diesel and jet fuel have now stagnated for a second straight month.

Similarly, the evidence shows that the downstream fertilizer shock on the global food supply has failed to materialize. The northern-hemisphere planting system went ahead as largely planned with no major shortages and fears of Australian wheat farmers have been unfounded. The UN Food and Agriculture Organization now predicts a healthy world harvest and ample global food stocks. Agricultural futures markets have all but stabilized with nitrogen fertilizer prices continuing to fall and benchmark Middle East urea prices down about 50% to \$475 a ton from an April peak of \$918. Not all fertilizer prices have

fallen, (phosphate still in short supply), but about 50% of global food production depends on artificial nitrogen-based fertilizer, of which urea is the most widely used. Low-income countries are most affected, but the impact of the war on fertilizer has been generally weaker than expected.

Rather than warning of the worst energy supply shock in 50 years, the IEA is now bracing for the opposite—an oil supply overhang. Global supply is expected to surge by around 8 million barrels a day in 2027, heavily outpacing a 2 million barrels a day recovery in global oil demand. In the meantime, S&P Global estimates that close to 500 million barrels of crude and product are needed to refill strategic inventories that were drawn down. On top of that, governments are building new permanent buffers: Pakistan and the Philippines are establishing their first strategic reserves, Indonesia is adding storage, India is expanding its reserves, and Japan has pledged \$10 billion to help Asian countries build stockpiles. That is durable new demand layered onto a tight market.

Only Saudi Arabia and the UAE hold the spare capacity to ramp back up quickly and both have announced plans to return to prewar production levels in just three weeks. The UAE, having left OPEC last month, is now free to pump without a quota. Others, like QatarEnergy, have told buyers they plan to reach 50% capacity roughly a month after the Strait is normalized, but neighbors like Iraq and Kuwait will need more time. Potentially softening the gap in the is Iranian output as the MOU provides for the regime to again begin selling oil.

Middle Eastern supply will not only return to the Hormuz passage it will also add additional routes. Türkiye and Saudi Arabia signed memorandums of understanding last Tuesday to revive the Ottoman-era Hejaz Railway as a Gulf-to-Europe overland trade corridor designed as an alternative to the Strait. The route would run from Türkiye's network, already linked to southern Europe, through Aleppo and Damascus to Amman and Jordan's Red Sea port of Aqaba, then into Saudi Arabia, with the long-term line extending through Oman to the Indian Ocean. Türkiye, Syria, and Jordan signed the founding memorandum in April and Turkish crews are already restoring border rail lines idle for fifteen years. The collaboration joins Gulf pipeline projects as the second major capital commitment premised on an uncertain Hormuz future.

Outside of the Gulf states, the U.S., Brazil, and Venezuela have all increased production in recent months with no signs of a pullback. Investment, infrastructure, and the capture of Nicolás Maduro, have all materially increased Western Hemisphere production. The Bureau of Land Management (BLM) set a record last month when producers bid more than \$4 billion at the quarterly lease sale in New Mexico, a 4x improvement on the previous record.

Last week, DP World announced it is reentering the U.S. container port business after a two-decade absence. The Dubai-based port and logistics giant said it had begun an exclusive negotiation to operate a long-term lease at the Port of Corpus Christi in Texas. Under the potential deal, DP World would design and build a new facility at one of the most significant U.S. ports by overall tonnage. Brian Enright, CEO of DP World in the Americas: "The Port of Corpus Christi presents a significant opportunity to expand container capacity, strengthen supply chain connectivity, and create new pathways for American businesses to access global markets."

As with the 1970s, the shock creates efficiencies and alternatives. Petroleum generates just 1% of U.S. electricity today versus close to a fifth in the early 1970s. The same substitution is happening throughout the globe. EU ministers are debating boosting domestic oil and gas. Cheap Chinese solar and EVs offer alternatives with 50 countries setting all-time records for Chinese solar imports in March. Farid Belbouab, CEO of

Gulftainer, put it best: “Disruption made us move faster.” Efficiencies born out of the crisis are here to stay.

Banking Fossil Fuels

U.S. and Japanese banks drove a sharp increase in fossil-fuel financing last year, reversing the post-COP26 pullback. Global banks provided \$906 billion in 2025, up 8%, per the Rainforest Action Network’s Banking on Climate Chaos report—\$8.7 trillion since the Paris Agreement. JPMorgan led at \$58 billion, followed by Bank of America and Japan’s MUFG, both near \$47 billion; Citigroup sat just behind near \$45 billion. Just twelve banks now account for nearly 40% of all global bank fossil-fuel financing and the 65 banks tracked by the report increased midstream-expansion financing 84%, with LNG the fastest-growing segment.

The split is regional and political: most large North American banks have abandoned their net-zero commitments (the Net-Zero Banking Alliance folded in October 2025), mirroring the shift in U.S. politics, while European banks cut hardest—UBS by 36% and BNP Paribas by 28%. That European pullback is worth noting in the context of the EU’s regulatory and climate-policy choices. Alongside its digital and energy constraints, anti-fossil fuel Eurozone banking belongs on a long list of structural decisions the continent has made leading to its weak growth. As the oil shock makes fossil supply strategically valuable and politically defensible again, U.S. and Asian capital is flowing back to it. Europe continues to fall behind.

Solar Passes Coal

Solar overtook coal in U.S. power generation in May, the first calendar month it has ever done so, supplying 12.8% of electricity against coal’s 12.2%, per Ember’s analysis of EIA data. Five years ago, solar was less than half its current share and coal stood at 20%. That said, spring is solar’s strongest seasonal output and coal’s weakest window. But the milestone is still significant despite the Administration’s efforts to slow renewables. Solar is the fastest-deploying answer to the AI-driven demand surge: utility-scale additions are on track for a record 43.4 GW this year, up 60%, the third record year running. As the 1970s crises pushed petroleum out of American power, this shock may very well cause the next energy displacement. The juxtaposition with market activity is worth noting: banks are pouring a record \$906 billion into fossil fuels while the power generation mix is crossing over. Capital is chasing the high-price present but electrons are choosing the cheap future.

BOTTOM LINE: *The oil market reset will square off with the immediate need to refill 500 million barrels against a coming oversupply. Saudi and OPEC-free UAE may be able to ramp up fast to help address the former while solar may overtake coal in the long term to quench the AI power thirst. Both the Iran war and the AI surge are remaking the global energy supply and demand in real time.*

SHIPPING

Shipping has been crossing the Strait of Hormuz using two routes in recent weeks; one by the coast of Iran and another to the south by the Omani coast. The middle section between those two routes is believed to have been mined during the war. Even before the signing of the MOU, millions of barrels were sailing through using the Omani route with their satellite signals turned off. More than 60 vessels have transited dark since the war began per Lloyd’s List. The New York Times counted some 70 vessels through in three weeks under U.S. guidance.

A June 5 INTERTANKO advisory reviewed by gCaptain describes a U.S.-coordinated nighttime route along the Omani coast, the clearest documentation yet of how the transits have occurred. President Trump's claims of the program, while viewed skeptically by the press, are largely true. Energy Secretary Chris Wright told an Atlantic Council audience that traffic is "rising very meaningfully," echoing Trump's claim that "a lot of oil's coming out." In fact, 100 million barrels exiting the Strait over roughly five weeks is a direct result of the U.S. program.

As of last Thursday, ships carrying nearly 10 million barrels of oil had either emerged outside the Strait or were sailing through, including the first Saudi-owned tankers since the start of the war. Qatar sent a cargo of liquefied natural gas through the waterway with its signal on, while another LNG vessel last seen outside the Persian Gulf appeared at a Qatari berth. Five Iran-linked ships have also entered the waterway, according to vessel tracking data compiled by Bloomberg. When combined with millions of barrels already flowing through bypass pipelines, Thursday's activity in Hormuz put shipments from the Middle East nearly at pre-war levels. The Joint Maritime Information Center, which liaises between merchant shipping and the military, last week lowered its threat level for the Strait of Hormuz from severe to substantial.

With the MOU now in place, vessels appear to be transiting Hormuz using both routes, including as recently as Saturday morning. It's unclear if Iran's weekend declaration again closing the Strait jeopardized traffic using the southern route. Earlier in the day, western naval forces said vessels using that corridor could cross Hormuz at any time and with their satellite signals either on or off. U.S. Central Command said later on Saturday that commercial shipping through the Strait had, in fact, increased.

Tolling

Shipping executives, however, fear language in the MOU will enable Tehran to introduce fees after 60 days. Under the MOU, Iran will negotiate with Oman and other Gulf states over the "future administration and maritime services in the Strait of Hormuz." John Stawpert, marine director at the International Chamber of Shipping, said the reference to "maritime services" suggests a regime similar to that of Malacca that states pay into, but not industry. The Malacca fund supports navigational aid and any oil spill responses but given the fund didn't exist for Hormuz before the war, "it begs the question why suddenly there is a need for it in this region." President Trump previously suggested that the U.S. may run the Strait via a joint venture with Iran while the White House has also reportedly considered a "VIP" lane for fee-paying vessels. Vice President Vance said last Thursday that international waterways "should be free of tolls" and that the deal merely envisions that the Omanis, the Iranians, and the Gulf work out "a proper security framework," not tolling.

The Iranian news agency ISNA reported on Thursday that Iran would determine the future administration of the strait in consultation with Oman and that the term "maritime services" also referred to the collection of fees. Iran is not a party to the UN's convention on the law of the sea that governs international maritime law. In a statement, Iran's Supreme National Security Council said that the Persian Gulf Strait Authority "has been instructed to process and respond to applications promptly and on a priority basis in order to achieve the objectives of the agreement." It added that no fees would be charged to applicants during the 60 days and that mine-clearing operations would be carried out.

Oman, whose territorial waters are on its western side, has already frustrated some Gulf states and President Trump warned the country last month to "behave like everybody else or we'll have to blow them up." Oman has pushed back publicly but reportedly discussed the possibility of fees with Iran during the war. According to an Omani official, "Muscat has

never even considered the idea of tolls and the commitment to international law and freedom of navigation is unwavering. We are considering the possibility of lawful charges for services rendered in the future to cover environmental mitigation of the waterway, enhanced navigational management including pilotage and security.”

Shippers

Shippers and analysts have weighed in with caution since the MOU was announced, a sampling of which follows:

- Mitsui OSK Lines CEO Jotaro Tamura said decisions on returning to passage of the Strait will depend not on “just a simple agreement” but on “material... real situations in the Strait of Hormuz.”
- Similarly, Windward Maritime said “the maritime picture will only shift once the deal’s terms are confirmed and implemented.”
- Germany’s Hapag-Lloyd, the world’s fifth-largest container carrier, said in a statement that its four vessels in the Persian Gulf will be ready to cross Hormuz imminently.
- Other carriers such as CMA CGM and Hapag-Lloyd are still using alternative routes for now, avoiding the UAE’s Jebel Ali and Fujairah and using gateways such as Salalah and Jeddah instead.

Outside of the Gulf, a recent Bimco report notes an uptick in Somali pirate activity, with seven hijackings this year as naval patrols in the Red Sea, Gulf of Aden, and Somali Basin have been “more stretched than usual” given divergence to the Persian Gulf.

BOTTOM LINE: *Throughput has recovered to roughly half pre-war levels on a U.S.-coordinated dark lane the President has claimed and the press has now confirmed. But even as the MOU declares safe passage, Iranian whims make shipping uncertain. Efficiencies born out of crisis have helped solve the supply problem and will now harden into durable workarounds to future conflicts while also bringing about an over-supply problem for industry as solar continues its ascent.*

TRADE UPDATE

U.S. goods exports hit a record \$219.5 billion in April, per USTR, up 4% on the month, led by industrial supplies and materials at \$89 billion and capital goods above \$70 billion, narrowing the goods deficit to \$82.4 billion from \$85.3 billion in March.

Tariff Refunds

U.S. Customs and Border Protection (CBP) Executive Assistant Commissioner for Trade Susan Thomas, testifying before the Court of International Trade (CIT) on June 9, laid out the CAPE system’s timeline: phase two deploys June 29, opening the system to reconciliation-flagged entries (about \$28.7 billion of the \$160-billion collected), followed by an eventual phase three that will reopen finally liquidated entries, more than 27 million of them representing \$11.4 billion, or 6.9% of the total. Together the three phases would make “just above 90 percent of all IEEPA duties paid” eligible. Treasury refunded almost \$22 billion in May, roughly equal to the month’s collections, netting the tariff regime approximately zero revenue. CIT has set this Thursday as the deadline for CBP’s next update on its refund progress.

The roadmap concedes that CBP is building the capability to refund the entries the Administration’s lawyers argue no court can order it to pay. The government says shipments that have reached “final” liquidation can only be reopened under individual

court orders, which would likely require each importer sue separately. Accepting a universal refund mandate could weaken the Administration's argument in the Section 122 litigation. The class motion is the plaintiffs' answer for currently locked-out importers that CIT hopes to avoid. Should the impasse continue, the court is warning that it may be forced to "certify a class." The circuit court has not set a schedule for next steps in that appeal.

Section 122 Tariffs

The Federal Circuit handed the Administration its most important tariff-litigation win last Thursday since the Supreme Court struck down IEEPA, issuing a stay pending appeal in the consolidated challenge to the Section 122 tariffs. The duties therefore remain in force as long as the case is pending, including through any Supreme Court appeal. The immediate effect denies the challengers (two private importers and the state of Washington) even the narrow carveouts an enforced ruling would have given them. But the opinion's reasoning is most important. The court wrote that "the federal government has made a sufficient showing that it is likely to succeed on the merits," saying it was "persuaded" that the trade court's narrow reading of "balance-of-payments deficit" "may be incorrect." This stay is per curiam, with no noted dissent, and leans toward the broad reading under which the ordinary trade deficit qualifies. The tariff regime's legal architecture is now gaining certainty: IEEPA is being refunded while the interim 122 tariffs likely provide a sustainable bridge to future Section 301 tariffs. Should the court's broad reading hold, the Administration has two durable statutory homes for its trade program.

Section 301 Tariffs

The Administration banked another legal win as the Supreme Court announced it would not hear a challenge to the first Trump Administration's "modification" of Section 301 tariffs on China that broadened the duties from \$50 billion worth of goods to roughly \$370 billion. The SCOTUS denial of review ("HMTX Industries, et al., v. United States") follows an appeals court decision upholding the Administration's use of the statute.

Separately, USTR launched a new Section 301 investigation on Friday into what it called "Germany's persistent underpayment for innovative pharmaceutical products" after months of discussions failed to resolve the issue. European Parliament International Trade Committee Chair Bernd Lange, a German who was the key architect of the Parliament-approved amendments to the ART, responded on social media: "Unfortunately, this is no bad joke: U.S. is launching a 301 tariff investigation over a German draft law on medicine prices. That is an interference in national sovereignty. Absolute no-go! Good that the EP secured a safety net against Turnberry violations."

De Minimis

On Tuesday, the CIT will hold oral argument in a case to reinstate the de minimis tariff exemption for packages worth \$800 or less ("Detroit Axle v. Department of Commerce"). Detroit Axle argues that President Trump overstepped his legal authority when he wound down the de minimis program through a pair of 2025 executive orders because he invoked IEEPA in those EOs.

USMCA

Officials from Canada, Mexico, and the U.S. are set to meet virtually on July 1 to launch the joint review of their trilateral trade pact. Mexican Secretary of Economy Marcelo Ebrard, speaking last Wednesday after a third round of U.S.-Mexico negotiations in Washington: "On July 1, we will hold a virtual meeting with our counterparts from Canada and the United States. We will present Mexico's position, and they will do the same regarding the next steps for the Free Trade Agreement." He added that another round of talks will be

held in Mexico City beginning on July 20, when the two sides “will begin discussing the texts and much more detailed content than what we have been addressing since March.”

The U.S. has not yet launched formal bilateral negotiations with Canada, though informal talks continue. Canadian officials have similarly stressed that the July 1 review marks the beginning of a process and last week, Canadian Minister for U.S. Trade Dominic LeBlanc said the July 1 review deadline was not the final step. LeBlanc also noted the potential for bilateral deals stemming from the trilateral review process: “I would expect that we’ll have bilateral arrangements between Canada and the United States, between the United States and Mexico, sort of adjacent to the trilateral framework.”

At the same time, President Trump has escalated his anti-USMCA rhetoric, telling reporters “I’m not looking to renew it... We don’t need anything that Canada has, we don’t need anything that Mexico has, but they need everything that we have.” The reality is that the U.S. deficit with Canada is overwhelmingly driven by discounted Canadian crude. When energy is stripped, the balance actually runs in America’s favor. Thus, the President added caveats to his statement, saying “We’re talking to them [Canada and Mexico]. We’ll see if we do something.”

Renewal’s best leverage is in the uncertainty of the alternative. The multi-trillion-dollar trading relationship and the exports the pact shields provide manufacturers with much needed certainty to deploy capital and build new projects. Outright withdrawal is also unsettled law given that USMCA’s implementation rests on an act of Congress; whether a president can exit unilaterally would likely be decided in court.

Canada

Canadian Minister for U.S. Trade Dominic LeBlanc met with USTR Ambassador Jamieson Greer last week during the G7, saying the two sides built on a June 2 meeting the two had in Washington and will speak again this week. According to LeBlanc, “We made progress in resolving with Jamieson a number of issues that the United States Trade Representative has raised over a number of months with Canada. In our conversation with Jamieson today, we took stock of the progress over the last two weeks since that conversation with him in Washington.” Separately, Prime Minister Mark Carney was caught on a hot mic at the summit telling President Trump that Canada would cap Chinese EVs to less than 3% of its market with steep tariffs on anything above that. Trump responded: “That’s good, I like it.”

The week prior, Ontario Premier Doug Ford released a formal “Fortress North America Plan” during his trip to Washington, a 30-page document that reads as a point-by-point answer to the Administration’s asks: quick USMCA renewal, “coordinated enforcement” against tariff circumvention, investment screening for China and “other non-market economies” that matches U.S. policy, a ban on “any direct or indirect actions by China or Chinese State-Owned Enterprises to acquire, influence or subvert North American resources, markets or other strategic assets,” and keeping Chinese EVs out. According to Ford, “True continental security requires building our future with North American steel, local supply chains and trusted partners.”

In response, U.S. Ambassador Pete Hoekstra told the FT he was “encouraged” by the Canadian “pivot” in rhetoric “two weeks ago from the prime minister, three and a half months ago by Pierre Poilievre, and the last few days from Doug Ford.” He also told Canada to sharpen its sales pitch on potash, oil, and gas, but to drop its retaliation first, taking aim at Ford’s measures: “I don’t think there are provisions in USMCA that call for the banning of products.” Ottawa’s ambassador Mark Wiseman agreed that the Canadian

side must “continually remind Americans of the importance of Canada... We’re not good at that always.”

Mexico

The second round of bilateral negotiations related to the Joint Review of USMCA were conducted in Washington June 15-17 between USTR and Mexico’s Secretariat of Economy. Mexican officials reportedly raised auto tariffs as a key sticking point as evidenced by their average export tariff of roughly 19%, higher than the 15% levied on some vehicles from South Korea or Japan. A USMCA partner with integrated North American production paying more at the border than Asian competitors with no continental content undercuts the U.S. position that Mexico should raise its content further. Separately, Mexico suspended imports of live U.S. animals after New World screwworm cases were confirmed in Texas and New Mexico, a reminder that Mexico holds retaliatory instruments of its own.

According to the Joint Statement following the meetings, the two sides “advanced discussions on rules of origin for certain industrial goods and economic security, and began conceptual discussions on agriculture, labor, and environment. The teams also discussed trade in steel, aluminum, and automobiles.” In addition, the sides agreed to the establishment of a committee to review the implementation of Chapter 12 (Sectoral Annexes) of the USMCA in order to enhance regulatory compatibility.

European Union

The European parliament approved the U.S. ART last Tuesday, heading off President Trump’s threatened auto tariffs by July 4. EU lawmakers agreed by a vote of 440-151, cutting the bloc’s levies on American industrial goods and some agricultural products to zero while the U.S. will charge higher tariffs on European goods (originally set at 15%). Under the parliament’s modifications, the EU concessions will end on December 31, 2029, unless renewed. EU member states will gather for their weekly meeting this Wednesday to give final approval to the deal.

Unresolved issues remain U.S. Section 232 tariffs on steel and aluminum derivatives, as well as non-tariff barriers on the EU side like digital services taxes (DSTs). USTR Ambassador Greer told Fox Business last week that the EU is showing insufficient “flexibility” on the digital and environmental regulations disadvantaging American exporters. Greer said the deal is “very precise” and that the EU had committed to “change a bunch of burdensome EU regulations that in some cases have targeted U.S. companies.”

In total, eight EU countries—including France, Italy, Spain, and Austria—maintain national digital services taxes targeting American tech. French President Emmanuel Macron refused to drop his country’s DST despite President Trump threatening a new tariff on French wines at last week’s G7 meetings. The EU Commission’s June 5 “Cloud and AI Development Act” adds to the friction. The Coalition of Services Industries’ Christine Bliss says the Act “would make it almost impossible for non-EU companies to provide service to the public sector at the highest tiers of security,” pushing out the U.S. firms with “the most robust cloud offerings.” Another flashpoint is over the EU Deforestation Regulation, despite the Turnberry joint statement acknowledging that U.S. production poses “negligible risk.” A USDA Foreign Agricultural Service report found the Commission has still not accepted exempting negligible-risk producers from due-diligence and geolocation requirements.

Separately, the EU formally opened accession talks with Ukraine at the G7 last Monday after Hungary lifted its veto. The same could not be said for the UK, which has been reportedly “cold-shouldered” by EU members states according to former Brussels chief Jean-Claude Juncker. The UK-EU summit planned for July 22 has now been postponed.

India

Reuters reports that USTR Ambassador Jamieson Greer will visit India this week to meet with Indian Minister of Commerce and Industry Piyush Goyal and other officials. Indian officials have repeatedly said the finalization of an ART is imminent. On Monday, Goyal reiterated that the deal hinges on clarification of the impact of the Supreme Court's IEEPA decision, saying "the entire trade deal had to be reworked" after the court's ruling. Indian negotiators have asked the U.S. for assurances that India will face no Section 301 investigations once a trade agreement is signed.—extending India's two-track posture (contesting the existing 301 findings through one channel while negotiating through another) into a forward-looking demand—hoping to disarm future retaliation, a bid to lock in protection against the tool Washington has used to reopen settled terms.

An Administration official told reporters that some "technical discussions" still needed to be held before an ART could be signed, adding that both sides will "take stock of where we are" and "how forward-leaning" they want to be as the month closes out. Meanwhile, relations between the countries' leaders remain warm as President Trump last week congratulated his "friend Modi" on becoming "India's longest-serving Prime Minister."

BOTTOM LINE: *The Trump Administration's trade regime is finally reaching long-term durability following two important legal rulings and the EU's ratification of its U.S. ART. Meanwhile, President Trump threatened to let USMCA lapse while Ottawa moved toward accommodation. Friction points remain in the slow-walking of IEEPA refunds, Ambassador Greer's focus on EU non-tariff barriers, and simmering tensions over Mexican sovereignty.*

DONROE DOCTRINE

"We have 13 countries right now that are signed up and in an agreement on the Shield of Americas, and my advisory role is to work with them to build out border security to deal with migration issues they may face... and to fight the cartels, to go out there and make their homes safer." -Kristi Noem on Fox Business

Brazil

Brazilian President Luiz Inacio Lula da Silva and Mexican President Claudia Sheinbaum discussed energy cooperation by video call last week, representing Latin America's two largest economies and the hemisphere's two most important holdouts to U.S. security alignment. Together, the two make up the bulk of regional GDP. A Brasília-Mexico City axis on energy and trade is a significant institutional counterweight to the Donroe Doctrine and gives both countries a visible alternative to bilateral isolation. Brazil's presidential elections in October will determine how durable the pact truly is and whether the U.S. is successful in its anti-narco efforts and further pushing China out of Latin America.

Colombia

President Trump inserted the U.S. directly into Colombia's runoff, posting his "Complete and Total Endorsement" of Abelardo de la Espriella and declaring that if he wins, Colombia "will have the total support and strength of the United States behind him." De la Espriella has run a Trump-styled campaign of mega-prisons and a 40% smaller state, taking 43.7% against 40.9% for Iván Cepeda, the heir to Gustavo Petro's term-limited presidency, in the May 31 first round of presidential elections.

In Sunday's run-off, de la Espriella won 49.66% of the vote, seemingly defeating Cepeda who received 48.70%. A legally binding result will be issued once electoral authorities have reviewed the ballots along with any legal challenges. The winner will be sworn in as president on August 7 for a four-year term.

In a speech on Sunday evening, Cepeda said that while he recognized the result, his campaign was challenging the results from about 33,000 ballot boxes. President Petro said in a series of posts on X that “no president can be proclaimed” until electoral judges had ratified the initial vote count, and that “there are many irregularities.” Pro-Cepeda demonstrators have since clashed with police in Bogotá and the southwestern city of Cali. Petro has asked for “calm” but also accused “foreign interference” of “stripping away” Colombians’ “freedom.”

José Manuel Restrepo, a former finance minister and de la Espriella’s running mate, told the FT prior to Sunday’s vote that if elected, their new government would seek to reassure investors of “responsible fiscal management and a strong commitment to economic growth” amid a widening fiscal deficit and attacks by Petro against the central bank over interest rates. Restrepo: “That means a fiscal adjustment program that gradually reduces the size of the state by eliminating unnecessary spending, bureaucratic waste and patronage-driven political expenditures that have expanded in recent years.”

De la Espriella, who has no major party behind him, faces challenges in the divided Congress with Petro’s coalition holding the largest number of seats but lacking a clear majority, forcing him to cut deals with both the rightwing and centrist movements.

The Trump endorsement marks an escalation: in Bolivia, Washington organized a 13-nation coalition to defend a sitting president; now in Colombia it has openly picked a political successor aligned with its agenda. Colombia is South America’s largest U.S. security partner, an issue at the top of Washington’s concern list as leftwing rebels have been replaced by armed groups trafficking drugs throughout the region. The result has been a sizeable increase in the production of cocaine and the development of new markets for it.

Cuba

Florida’s Vanguard Energy is reportedly in advanced talks to ship Cuba 250,000 barrels of fuel, the biggest U.S. fuel cargo to the island since the Eisenhower Administration froze trade in 1960. The company, running small shipments, says it is now leasing storage tanks on the island and that the fuel is designated exclusively for the private sector. Should the Commerce Department authorize exports to eligible private entities and Treasury grant favorable licensing—on the condition that nothing touches the government, the military, or Gaesa—a pre-crisis Cuban consumption of 100,000 barrels a day could be materially addressed, blunting humanitarian criticism of U.S. policy. The State Department subsequently stated that no license had been issued and that sanctions are still in effect.

Meanwhile, the military option remains firmly on the table following a recent visit to Guantánamo Bay by Secretary of War Pete Hegseth, the third visit to Cuba by a top U.S. official in as many weeks. Separately, Secretary of State Marco Rubio sanctioned Unión Cuba-Petróleo (CUPET), the state oil monopoly, under EO 14404, charging the regime has “weaponized energy as a tool of social control and kleptocratic profit.” The sanction extends U.S. secondary sanctions across the island’s entire state energy trade. In Rubio’s own “until then” wording, the U.S. continues to bet that scarcity breaks the regime before it breaks the population’s endurance.

The theory appears to be showing signs of success. Late last Wednesday, the Cuban Communist Party’s central committee approved 176 market-liberalization measures covering nearly every sector of the island’s economy, according to state-run newspaper Granma. The National Assembly was then called in for a special session on Thursday to ratify the reforms. President Miguel Díaz-Canel socialized the measures—which reportedly have the sign-off of now-indicted Raúl Castro—just the week prior.

It remains to be seen how the Trump Administration will respond. Vice President Vance showed moderate approval following the announcement, saying “If they make smart decisions, we’re going to have a much better relationship with that island.” Notably, the measures do not include political reforms, a key demand of the Administration.

Paraguay

Paraguay is benefiting from patient diplomacy organized around a shared interest with Washington, turning the country into a hub for U.S.-backed AI datacenters. Washington recently opened a new embassy in Asunción and has spent a year cultivating President Santiago Peña. Paraguay shares the 14-gigawatt Itaipú Dam with Brazil—more than twice America’s largest—and has long sold its surplus to its bigger neighbor at prices Paraguayans resented. Secretary Rubio put the thesis to a Senate hearing: “They can’t put that in a tank and ship it overseas... someone, if they’re smart, is going to go down to Paraguay and open up an AI facility.” In December, Los Angeles-based X8 Cloud did just that, announcing a \$50 billion datacenter investment, South America’s largest, drawing power from Itaipú and Yacyretá. The investment approaches the size of Paraguay’s entire annual GDP. Every gigawatt routed to U.S.-backed servers in Asunción is a gigawatt of cheap Itaipú power no longer subsidizing Brazilian industry, demonstrating that Paraguay’s current government is a “closer ideological ally to Washington than is Brasília.” X8’s datacenters provide the Administration with more leverage against Brazil and Chinese investment in Latin America.

Venezuela

U.S. Southern Command killed Héctor Rusthenford Guerrero Flores, the leader of Tren de Aragua in “a swift and lethal kinetic strike” on a compound inside Venezuela, posting video of a building exploding. The action was coordinated closely with Venezuela, with Secretary Hegseth saying it represented, “the shared U.S. and Venezuelan commitment to take the fight to narco-terrorists.” Just last September, U.S. military strikes against alleged TdA traffickers were described as gangs “operating under the control of Nicolás Maduro.” Nine months later, the same gang is being struck with Caracas now a military partner. While Caracas’s communications ministry did not confirm the coordination, the government clearly accepted U.S. strikes on its own soil. The partnership spans both security and energy fronts. Venezuelan crude exports have surged under U.S. licenses and U.S. investors are quickly capitalizing on Venezuela’s opening economy, with funds targeting underutilized oilfields.

BOTTOM LINE: *The Donroe Doctrine has run a full spectrum of methods this month, from sanctioning Cuba’s state oil monopoly, to endorsing Colombia’s challenger and courting Paraguay at the expense of Brazil and China. The partnership with Venezuela has expanded from oil production to security, marking a liberalization of Latin sovereignty that threatens President Claudia Sheinbaum’s domestic politics. Whether Brazil and Mexico can continue to hold out against American influence remains to be seen.*

CHINA

China’s exports jumped 19.4% year-on-year in May, the most in three months and well above the 15% consensus, to a record single-month \$376.78 billion, as booming demand for AI hardware offset any drag from the Iran war. Outbound shipments of computers and parts soared 66% (the fastest since 2010) and integrated-circuit exports surged 111% (the most since 2013). Exports to the U.S. rose almost 36%, the most since 2021, extending the recovery since the October truce. Imports climbed 27.4%, leaving a \$105.4 billion surplus. Bloomberg Economics’ Eric Zhu cautioned that the gains partly reflect

higher prices and a low base from last year's pre-truce slump but added that the report "allays concerns that the Iran war is taking a toll on China's export engine, and highlights increasing linkages between the global tech cycle and trade flows." It aligns with a WTO assessment that global merchandise-trade growth has run above trend since early 2025, with electronic components the biggest driver. Meanwhile, China's retail sales fell 0.6% last month, declining for the first time in more than three years as a domestic investment slump deepened.

AI Race

China is preparing to spend roughly 2 trillion yuan (\$295 billion) over the next five years building datacenters nationwide, an ambitious AI-infrastructure program in a bid for self-sufficiency in the technology race. Agencies led by the National Development and Reform Commission are drafting a blueprint to knit scattered computing facilities into a single interconnected network by 2028, integrated with the power grid, which could push total investment past 5 trillion yuan. State firms China Mobile and China Telecom are set to operate the bulk of the centers. At least 80% of the technology, AI chips included, must come from domestic suppliers like Huawei, effectively squeezing Nvidia and AMD out of the state buildout. The plan anchors the "Six Networks" program and follows May's security-review clearance of nine homegrown AI chips. Primarily using sovereign debt, including ultra-long special bonds, Beijing is borrowing to build AI capacity as mounting government debt forces retrenchment elsewhere. The sum still pales in comparison to the roughly \$725 billion U.S. hyperscalers are spending this year alone, though Chinese datacenters cost meaningfully less to build.

Chinese models are also scaling faster. Dario Amodei, Anthropic's CEO, warned earlier this year that Chinese rivals were about "six to 12 months" behind the most advanced U.S. models. Chinese developers have taken that as a challenge. Jie Tang, a founder of Z.ai, wrote on X, it "won't take that long." The closing gap and cost differential is showing up in the U.S. marketplace. OpenRouter's CEO told DealBook that six of the 10 most popular models available on its platform are Chinese, including those from DeepSeek, Tencent, and Xiaomi. Helping to propel adoption, the Chinese models are primarily open-source and free to use. But Moonshot AI's latest version of Kimi and Z.ai's GLM-5.2 are also proving as powerful as high-level offerings from Anthropic and OpenAI.

In response, the Trump Administration has worked to crack down on Chinese companies reportedly using American AI models to train their own ("distillation"). But the effort to limit the practice has yet to be announced and the Administration reportedly held off on blacklisting DeepSeek as a national security risk, according to Reuters. For its part, Taiwan is weighing much stricter export controls on AI-chip sales to China to align with U.S. measures, making chip smuggling a criminal offense for the first time. The G7 countries further agreed in France that no single country should supply more than 60% of their imports of critical minerals by 2030 in an effort to reduce reliance on China.

China has countered along the way and on Monday announced new export controls on 10 U.S. defense companies, including two rare earth producers. The move came in response to the Pentagon's expansion of a blacklist of Chinese companies and is mostly symbolic. U.S. companies in sensitive areas such as defense technology are all but prohibited from Chinese government and military contracts, making the new CCP controls a moot point.

Congressional Export Controls

The legislative track on China tech controls is converging on the National Defense Authorization Act (NDAA) in both chambers. The Senate Banking Committee is weighing export-control legislation to tee up for inclusion in a final NDAA. The effort is notably

bipartisan as both Senate Banking Committee Ranking Member Elizabeth Warren (D-MA) and Senator Pete Ricketts (R-NE) have endorsed the approach. The House side has already established its legislation history with Foreign Affairs Committee Chairman Brian Mast (R-FL) advancing more than twenty export-control bills this year and also pushing for inclusion in the NDAA, which hits the House floor next week.

The three bills carrying the most weight are the AI Overwatch Act, the MATCH Act, and the Chip Security Act, all of which have been largely opposed by industry. U.S. chipmakers oppose Overwatch and Chip Security outright, while MATCH divides the sector, with Micron supporting it and the foreign equipment makers (ASML and Tokyo Electron) opposing. The Dutch government has warned Congress that Beijing may answer by withholding rare earths while Commerce Secretary Howard Lutnick told its chip-equipment maker that one of its most advanced chipmaking tools may have reached Beijing.

The irony is that Congress is racing to tighten controls on chips China is currently refusing to buy while it accelerates its own tech self-sufficiency. Every quarter of Chinese self-sufficiency shrinks the demand the restrictions deny. That is the hawks' argument for urgency and the equipment makers' argument against it. Controls that arrive after the customer has left cost allied industry the revenue without costing Beijing the capability. With the FY27 NDAA as the vehicle, the fight over which view prevails will be decided in the lame duck.

The private sector's response has diverged. Nvidia's answer to the squeeze has been to tell Chinese clients that its new "Vera" central processors could be available to order as soon as August. CPUs sit outside the GPU-centered control thresholds, so Vera is what Nvidia can still legally sell into the market that both governments are telling it to stop: Washington by restriction, Beijing by its 80% mandate. Nvidia's China business may be nearing its end.

U.S. capital flows are headed in the opposite direction. A new survey reported by Bloomberg finds U.S. firms still reluctant to step up investment in China despite improved profitability, showing congressional action is already achieving its goals despite yet being enacted. The "Board of Investment" created in Beijing, a fast-track for investment into non-sensitive sectors, remains an aspirational mechanism on a slower track than the "Board of Trade." For now, companies remain wary of Treasury's outbound investment rule that bars U.S. capital from Chinese semiconductors, quantum, and AI.

EU Measures

Germany and other countries have backed a French proposal for new EU powers to impose tariffs on China, emulating the Trump Administration after deriding its trade policies for the past year. European Commission President Ursula von der Leyen's European People's Party, the EU's largest center-right group, said it would "not accept China's unfair market intervention" and called on the Commission to upgrade its "existing trade defense tools." German Chancellor Friedrich Merz, von der Leyen, and 10 other leaders together signed the statement, which demanded the EU "stop naivety towards the long-term ambitions of China". Germany, France, Italy, Poland, and the Netherlands have collectively called for raising tariffs and establishing quotas, pushing companies to find alternative sources.

Separately, EU Trade Commissioner Šefčovič told envoy Chinese envoy Li Chenggang in Paris recently that the bloc would pursue deeper negotiations to resolve "what is becoming an unsustainable trade deficit with China" (a record €359.9 billion in 2025), seeking dialogue "on par with" the frequency of U.S.-China talks. Chancellor Merz further

raised the bid: “We cannot and will not stand idly by when others fail to observe shared rules,” calling for the EU to counter trade “distortions.” Perhaps underlying the shift is China’s growing aggressiveness in the Pacific. Bloomberg Economics estimates the EU economy would suffer a \$2 trillion hit in the first year alone should China invade Taiwan and the U.S. respond, with Germany’s economy contracting about 14%, twice the exposure of the U.S. or China.

Beijing’s answer to the EU rhetoric was pointed, cancelling two diplomatic meetings with the EU set for later this month. Despite the tough talk, the 27 EU member countries delayed plans to ratchet up their approach at last week’s meeting in Brussels, opting for “dialogue” instead of immediate action. Despite a von der Leyen presentation showing a trade deficit of €1 billion per day, EU leaders called for a toothless response based on “European unity and dialogue with our main economic partners.” Spain led the opposition to new measures as Spanish Prime Minister Pedro Sánchez told reporters at the summit that China is a “potential ally.”

Thus, while Brussels hardens its deficit posture, Spain is deepening the opposite bet. Cosco Shipping won approval for a 50-year concession at Tarragona, its third Spanish port terminal, joining Valencia and Bilbao. Two Cosco units now hold 51% alongside Argentina’s PTP Group, committing €116 million. The port expects the terminal, adapted for containers and vehicles, to bring in some 300,000 cars a year. Prime Minister Sánchez has visited Beijing four times in four years, and Spain—the EU’s second-largest auto manufacturer—is positioning itself as the Chinese industry’s European production base, with at least five Chinese brands building or planning vehicle production and CATL constructing a €4.2 billion battery plant with Stellantis. Cars assembled in Spain are EU cars for tariff purposes. A Chinese state company has now secured a half-century control of EU port infrastructure with rail reach into France.

German Chancellor Friedrich Merz is yet to give up, however, pressing European Central Bank President Christine Lagarde on Monday to address exchange rates when approaching the China trade imbalance. Lagarde responded that any G7 talks on currency valuations must include China. The International Monetary Fund (IMF) has previously assessed that the Chinese have consistently undervalued their currency for trade advantage. To put it mildly, Europe’s China policy is fracturing along its members’ industrial interests: Brussels negotiates as a bloc while Madrid builds the bloc’s biggest side door.

Indo-Pacific

The U.S. and Japan held an Extended Deterrence Dialogue in Tokyo from June 8–9, with the State Department and the Department of War co-chairing for Washington. The joint statement carried three important signals. First, the mutual defense was reaffirmed: the U.S. committed to Japan’s defense “using the full range of U.S. defense capabilities, including nuclear,” with discussion of nuclear-force modernization “due to increasing regional nuclear threats,” and a tabletop exercise alongside a visit to the JS Kirishima at Yokosuka. Second, the China deterrence goal was shared: both delegations discussed Beijing’s “dramatic and opaque nuclear weapons buildup,” and Japan “strongly encouraged” U.S. pursuit of multilateral strategic-stability and arms-control talks with China and Russia. Third, North Korea was addressed: both sides “rejected Russia’s notion that the DPRK’s pursuit of nuclear weapons was a closed issue,” language aimed at Moscow’s normalization of Pyongyang’s arsenal. As U.S. maritime power redeploys toward the Pacific on the 2027 horizon, the U.S./Japan alliance continues to act as a growing counter to Chinese aggression.

BOTTOM LINE: *The post-summit story is in the hedging, not the deliverables. Beijing codified a \$295 billion sovereign-funded AI buildout designed to engineer American chips out, Taiwan moved to criminalize the diversion feeding it, and Congress hunted for an NDAA vehicle to tighten controls on chips China refuses to buy. Meanwhile, China gained a backdoor to Europe while its member states continue to vacillate between confrontation and appeasement.*

OUTLOOK / ANALYSIS

The gap between the MOU's terms and the four commitments Israel was promised for the final deal is, quite literally, the remaining war. Whatever comes of the 60-day negotiation, the Strait has already changed the world's plumbing and future flows are re-routing. The World Bank's 1.3% downside is unlikely to materialize, but the world economy will continue to diverge. Central banks have shown that the same shock refracted through each economy's oil position and fiscal credibility differently. Expect the gaps to widen, not close, as the war's inflation proves stickier for some than any single policy can fix.

Europe is the case study worth watching. If the Eurozone tips into recession, the reflexive explanation will be to blame President Trump. Both the Administration's trade agenda and the decision to attack Iran are real accelerants to downward EU growth, but the structural drags are self-imposed and predate both: a regulatory regime that withholds frontier technology from European consumers, a digital-sovereignty push that targets the U.S. services surplus while raising European costs, capital directed away from strategic sectors by rule, and a defense-funding gap that cost Britain its defense secretary and the continent its U.S. armaments. The war merely triggered Europe's fragility; it did not build it.

Beneath the war, AI, trade, and the Donroe Doctrine continue to dominate. The AI buildout has quietly become a credit story. Roughly \$4 trillion in private AI valuation is now arriving on public markets as hyperscalers continue to fund spending that consumes nearly all of their operating cash flow. Set that against China's \$295 billion sovereign-funded buildout engineered to design American chips out, and the contest clarifies into a U.S. private debt versus Chinese state debt bet. Washington's export controls are a depreciating asset every quarter that Beijing's self-sufficiency advances.

The Trump Administration trade regime now looks durable. Section 122 tariffs have been essentially blessed on appeal while the struck IEEPA duties move slowly forward. The EU's non-tariff barriers and fate of USMCA remain outstanding. The Donroe Doctrine revealed more tools: escalating sanctions leading to economic reforms, an endorsement of Colombia's challenger, newfound leverage in Paraguay, and a military partner in Venezuela in addition to rising economic ties. As Brazil and Mexico assemble a counterweight, China's investment influence continues to wane.

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