

Research @ Citi Markets Edition: Iran, Petro\$ & IMF

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Transcript:

Opening Teaser: (00:00)

Research @ Citi Markets Edition.

Dirk Willer (00:03)

Welcome to Research @ Citi Markets Edition, where we break down global macro in 10 minutes or less. I'm your host Dirk Willer, Global Head of Macro. And with me today is Adam Pickett, our London macro head. Welcome to the show, Adam.

Adam Pickett (00:14)

Great to be here, Dirk.

Dirk Willer (00:17)

We are recording this podcast at 8.30 a.m. on Monday, April 20, 2026.

Geopolitics have continued to generate volatility, but different markets have reacted to Iran headlines very differently. We will investigate why and what it means going forward. So let's dive right in.

For the market, it really only matters if and when the Strait of Hormuz can be opened. On that front, at the time of recording, the story is still unclear. After an initial agreement by the Iranians to open it, it was closed again on Saturday, with Iran blaming the continuing U.S. blockade of Iranian-linked tankers. Citi's baseline is still that a negotiated solution can be found over the next weeks, but uncertainty prevails.

What is interesting is that different asset classes are pricing risks differently. Brent has pulled back from around \$110 to the mid-90s. And not just futures — also physical has actually pulled back somewhat from the highs seen in early April, but it remains well above the low-70s level from end of February.

The argument is, of course, that even with a positive outcome, the restart will take some time and inventories need to be built and may even increase. This takes time, and if anything, our commodity team sees there are still upside risks for the oil market.

In equities, the story is somewhat different though. Many markets are well above the late February levels. That was the case even before Friday's news about the reopening

of the trade. This is especially the case for the U.S., as well as some commodity-heavy markets in emerging markets.

How come? For the U.S., the story is a combination of positioning and good earnings. Since the start of the conflict, one-year forward earnings estimates have risen for U.S. equities, partly driven by semiconductors. At the same time, investors had sold U.S. equities — and tech in particular — to broaden out and invest into the rest of the world. Positioning was therefore extremely light in the U.S. Both strong earnings — i.e. fundamentals — and strong technical — i.e. positioning — explain the good performance. For the rest of the world, earnings estimates also often rose, but positioning was less favorable.

What now? Whenever a crisis strikes, a lot of the gains accrue not so much during the crisis — because it's very hard to trade these markets from the short side — but when markets calm down, when volatility is falling. In particular, when VIX is falling below 16 we expect more investors to come in, which would support the market.

In FX, the story is more mixed. Many FX have strengthened meaningfully against the dollar since the end of February, but many others did not. The direction and size of the terms of trade explains dispersion in FX relatively well. Both emerging markets and developed markets with the commodity angle did well, with Colombia and Brazil being the poster children but Australia and Norway also doing well.

What will happen next? Terms of trade usually remain in the driver's seat while the commodity crisis continues. But when commodities peak, the commodity currencies start to underperform, and carry comes back as a factor for FX. We have an indicator based on implied volatilities that triggered a warning for carry already in late January, but is now back in long EM carry mode. Countries like Sweden should also be supported by an unwind on the terms-of-change arc.

Interest rates came back the least, as they're most closely tracking oil and they find it hardest to decouple. Mostly the market has priced caution by central banks — markets where a lot of cuts had been priced in late February sort of the most, while markets that had hikes priced already did not sell off all that much.

Going forward, we can distinguish between countries where Citi economists changed their view on the likely rates path and markets where they did not. Markets with unchanged views that have sold off meaningfully include Brazil or the Czech Republic.

Importantly, our U.S. economists have pushed out the cuts, but not fully withdrawn them. Without Fed hikes, the U.S. rates environment should be relatively stable, allowing some positions outside of the U.S. to perform.

Adam, you did an interesting study on how the betas of the various assets have changed with respect to oil, both upside and downside. What's the punchline?

Adam Pickett (04:17)

The punchline, Dirk, is that the sensitivity of a lot of macro markets to equally sized moves of oil has convincingly shifted toward a bigger beta to the downside in oil. Which is to say too much deleveraging has gone through, optimism reigns, but ultimately, while it was quite mixed up until the end of March, it's now more convincingly the oil downside moves get you bigger market reactions.

In terms of what that means for chasing a more optimistic stance, we think rates, then FX, then equities makes the most sense, because the asymmetries in rates to the oil moves is quite large compared to the other asset classes. But also, just the retrace levels have not been as aggressive, whereas many equity indices are back at or near the highs.

Dirk Willer (05:00)

Great. And an interesting topic that came up that's linked to the Iran conflict is the petrodollar issue. Is there an interesting story brewing, Adam?

Adam Pickett (05:07)

I think it could be. And I think it could be a longer-term one to watch. You know, we get questions such as, "Will there be limited petrodollar recycling now that GCC nations have a big either rebuilding bill or defense bill?" So those limitations to petrodollar recycling could be a concern for both Treasuries and the dollar.

We'd make two broad points.

One is petrodollar recycling has been limited for the last 10 years anyway, as a lot of these Gulf nations have shifted to economic targets, toward broadening away from oil, and that costs money, most notably Saudi's Vision 2030 efforts.

But secondly, when you're looking at current account surpluses that get recycled into dollar assets, Asia has far and away taken over the GCC in that dynamic. As recently as 2013 or so, it was neck and neck in terms of cumulative Gulf and broad Asia current account surpluses. Now the ratio, when we look at the IMF data, is close to 10 to 1 at about \$1.3 trillion to \$130 billion.

So if you're looking for current account recycling hints, it's all about Asia. However, the longer-term concern is if oil ends up lingering in the 80s rather than doing the full retrace, that could somewhat cap Asian current account surpluses. And it could be something to watch out for as the year progresses when we look at the tick data, when we look at Asian bond ETF flows as a barometer for dollar asset demand by extension, either U.S. term premia concerns, or concerns for the dollar. It fits in some of the dollar-diversification risks that we looked at last year, adds a different flavor to it, and is something that we think should be considered going forward.

One last point on the topic of oil. We also investigated the oil intensity of global GDP, which has been falling for the last 40 years quite consistently. This also passes through into the reduced beta of oil-price swings to global oil expenditures. To some degree, this keeps us bullish on equities in the medium term, because in a way, it raises the bar for incremental oil spikes to cause a global recession.

Dirk Willer (07:13)

Yeah, I'm sure that'll be an interesting theme that we come back to as the year progresses. Before wrapping it up, I just want to share one quick observation from the IMF spring meetings in D.C., just because with the quickly changing headlines in Iran, very important to know how investors are positioned.

And I would say my main takeaway on the sentiment/positioning side is that there was some bearishness with respect to U.S. equities, where speculation fears were still clearly widespread and investors were somewhat taken aback by the fact that U.S. equities are at the highest trend when oil risks still remain quite severe — at the very least a very fat tail, even for the bulls. So that still should provide some sentiment support for the market going forward.

However, when it came to emerging markets, investors were really broad and quite positive. And that was the case because they were broad in the dollar camp and the long commodity camp. And that's, of course, an environment that's really quite favorable for emerging-markets assets across all asset classes, really.

And in particular the dollar, I think there was a fair amount of consensus that the dollar rally we've seen during risk aversion was really fairly small given the size of the shock, which indicates that maybe the underlying cross-currents are for dollar weakness. And at the same time, of course, the geopolitics were seen as potentially and slowly undermining the dollar. So big consensus on those fronts, but still hesitancy on some of the equity markets.

So in summary, the geopolitical volatility is likely not quite over yet. But with earnings estimates increasing and as volatility falls, more risk will be deployed. We should be positive for equities.

In effect, the carry trade will make a comeback as the positive terms-of-trade shock will fade. And in rates, several central banks are unlikely to move against market expectations for a hike, which also generates opportunities.

Thank you for joining us today. This episode was recorded on April 20, 2026, and I'm your host, Dirk Willer. For more details, Citi clients can check out our report on the Citi Philosophy Portal. Next week's Research @ Citi Markets Edition will be hosted by Beata Manthey, Citi's Global Head of Equity Strategy.

And do watch out for Research @ Citi podcasts, which you can view on the same channel. The Macro Strategy team will be back in two weeks' time. Stay sharp!

## Disclaimer (09:37)

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