

# Daiwa's View

FICC Research Dept.

## US-Iran ceasefire agreement: A déjà vu of 1990?

- Decline in yields limited despite ceasefire agreement
- Financial market similarities between the Iran conflict and Iraq's invasion of Kuwait in 1990
- Pessimism has likely peaked, but a decisive solution is not in sight

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### Ceasefire agreement and bond market's reactions

Before the Tokyo market opened on 8 April, President Trump announced that a two-week ceasefire had been agreed upon in the military conflict with Iran.

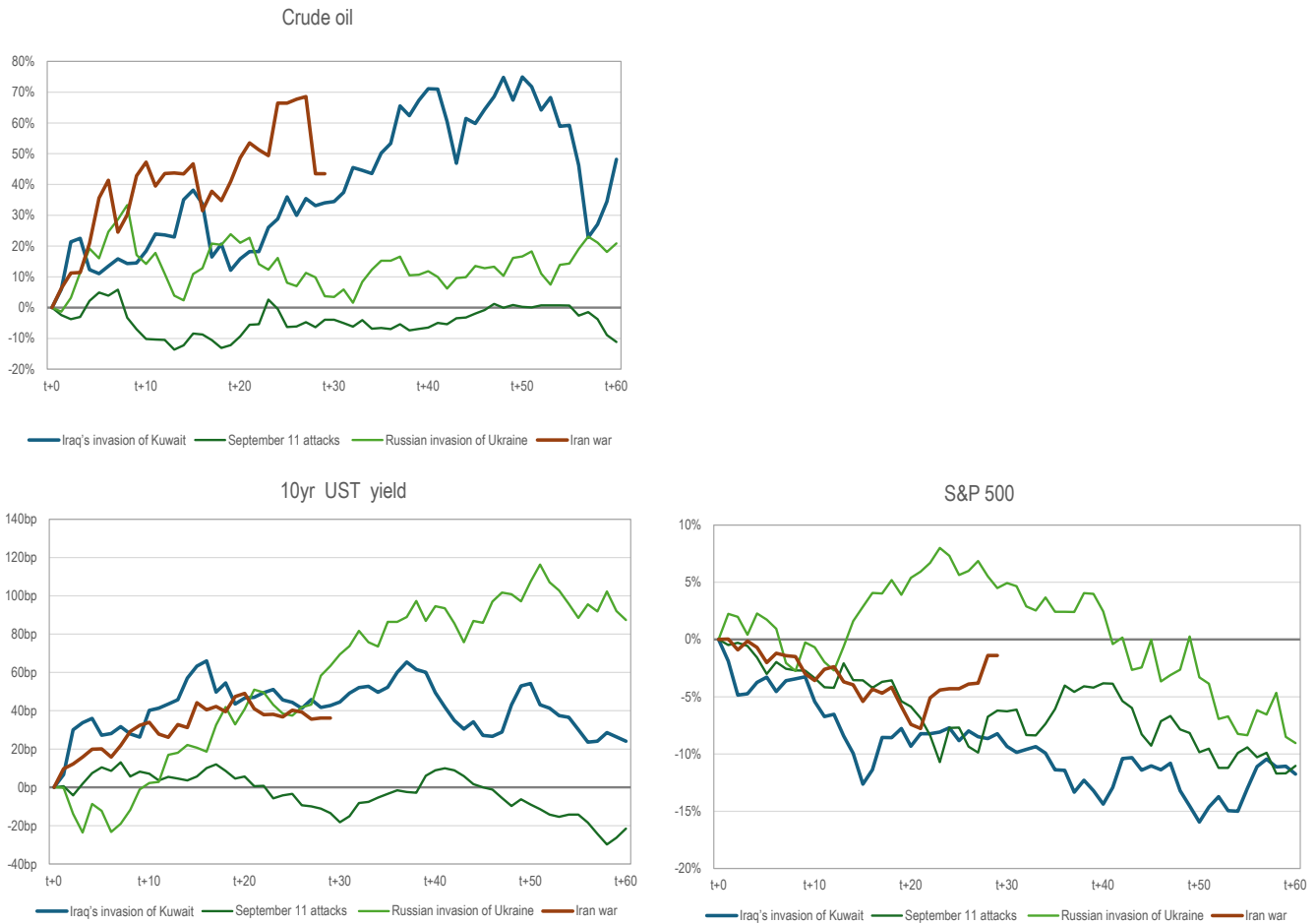
In the Tokyo market on the 8th, the JGB market experienced a bull flattening, as WTI crude oil futures fell below \$100/bbl. At the 3:00 p.m. close, while the 2-year yield was almost unchanged from the previous day, the 10-year yield was down 4bp, the 20-year down 6.5bp, and the 30-year down 6.5bp (on a simple yield basis). This trend can be attributed to a reversal of the bear steepening that occurred after the Iran conflict began. Additionally, while a retreat in geopolitical risk reduces inflation risk, lower uncertainty could support a rate hike by the BOJ. With the market continuing to price in a roughly 60% probability of a rate hike in April, and considering that the 10-year yield has recently moved almost in tandem with the 2-year forward 1-year OIS rate (a point of reference for the terminal rate), the room for further declines in the 10-year yield is likely limited.

In the New York market on the 8th, the US 10-year US yield temporarily declined to 4.23%, but then reversed course in the New York afternoon and was pushed back up to 4.29%. Given the upward revisions to the longer-run projections for the federal funds rate and GDP growth at the March FOMC meeting, the author regarded 4.20% as the target level for the post-ceasefire decline in the long-term yield<sup>1</sup>. The scope for further declines in US yields also appears limited.

### Similarities with Iraq's invasion of Kuwait

In our 13 March report, we reviewed the performance of various asset classes following eight geopolitical events since 1985 in which the Geopolitical Risk Index spiked sharply upward. Around 30 business days have now passed since the US and Israel began military attacks on Iran on 28 February, and a re-examination shows that movements in crude oil, US yields, and US equity prices are similar to those seen during Iraq's invasion of Kuwait in August 1990. The current geopolitical event also shares the common feature of being an armed conflict in the Middle East, the world's largest energy-supplying region.

<sup>1</sup> Shun Otani (24 Mar 2026). [Daiwa's View: Sudden shift toward ceasefire talks and downside target for 10yr UST yield.](#)

**Chart 1: Movements of Crude Oil Price, US Yields, and US Equities Following Each Geopolitical Risk Event**


Source: Bloomberg; compiled by Daiwa.

## A review of Iraq's invasion of Kuwait and the Gulf War

Let us look back at the course of Iraq's invasion of Kuwait and the Gulf War. On 2 August 1990, Iraqi forces invaded neighboring Kuwait, and on the 8th, Iraq announced the integration of the two countries and annexed Kuwait. Although the two countries had seen rising tensions over oil policy and debt issues stemming from the Iran-Iraq War, it seemed that a full-scale military invasion was not anticipated. Moreover, even after annexing Kuwait, Iraqi forces continued to reinforce their presence along the Saudi Arabian border, creating concerns that military aggression could spread to the world's largest oil-producing country.

In response to this situation, the UN Security Council, which convened on the day of the invasion, condemned Iraq for violating international law and adopted a resolution demanding its immediate withdrawal. The international community, led by the UN, initially adopted a stance of encouraging Iraq's voluntary withdrawal by strengthening economic sanctions. However, Iraq did not comply, and the situation worsened as it prohibited foreign nationals in Kuwait from leaving the country (using them as "human shields").

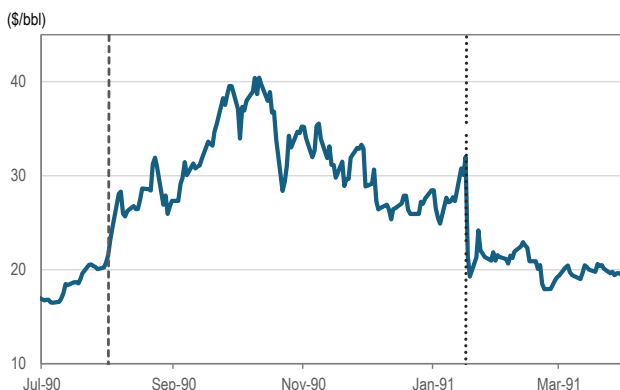
Immediately after the invasion, at the request of Saudi Arabia, the UK and the US began dispatching troops to the country. While diplomatic efforts continued, the US-led multinational forces were reinforced in November, and the use of military force against Iraq was explored. On 29 November, the UN Security Council adopted a resolution authorizing the multinational forces to take all necessary means, including the use of force, if Iraq did not withdraw by 15 January of the following year.

Although further diplomatic efforts, such as talks between the US and Iraqi foreign ministers, were made, President Hussein did not comply. After the resolution's deadline passed, multinational forces began airstrikes in the early hours of 17 January (the Gulf War). Amidst the overwhelming difference in military power between the multinational forces and Iraq, a large-scale ground operation was launched on 23 February. On the 26th, President Hussein announced the withdrawal from Kuwait, and on the 27th, US President Bush issued a statement to cease military action. On the 28th, the Gulf War ceasefire was effectively achieved as the UN recognized Iraq's withdrawal.

Looking at the price movements of WTI futures during this period, prices rose from around \$21/bbl just before the invasion, reaching \$41/bbl on 11 October, nearly double the pre-invasion level. However, after that, the underlying trend was downward, though price movements remained volatile. Prices plummeted after the actual start of the Gulf War in mid-January and subsequently returned to around \$20/bbl, nearly the pre-invasion level. The reason for this is that Saudi Arabia gradually began to increase production after the invasion, while there were initially serious concerns that the conflict would spread to Gulf nations (incl. Saudi Arabia) and severely impact oil supply. Furthermore, as mentioned above, the exploration of a concrete solution—military action—from around autumn was another factor that helped stabilize oil prices.

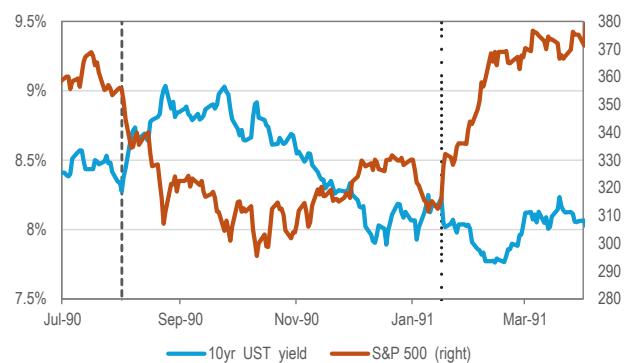
Regarding yields and stocks, the US long-term yield rose after the invasion, exceeding 9% in late August, a 66bp rise from the pre-invasion level. However, it trended gently downward from October. The S&P 500 stock index also declined from August but bottomed out on 11 October at 295.46 points (down 17% from the pre-invasion level). It recovered sharply after the start of the Gulf War in January 1991, surpassing its pre-invasion level.

Chart 2: WTI Crude Oil Futures Price



Source: Bloomberg; compiled by Daiwa.

Chart 3: 10yr US Yield, US Stock Price (S&P 500)



Source: Bloomberg; compiled by Daiwa.

### Lessons from 1990 and the future of the Iran conflict

For the geopolitical event of August 1990, the peak of pessimism was around October, approximately three months after the invasion. Thereafter, the market reversed course as (1) the outlook for oil supply became clearer and (2) a concrete solution—military force—was explored. Then, with the start of the Gulf War in January of the following year, markets recovered to nearly their pre-invasion levels.

The current two-week ceasefire agreement between the US and Iran was reached amidst a backdrop of President Trump's continued verbal threats, including attacks on Iranian infrastructure and the destruction of civilization, and Iran's persistent pushback. In that sense, it appears that the peak of pessimism has now passed. Looking ahead, ensuring free navigation through the Strait of Hormuz—which has become a bottleneck for the global economy—will be crucial. That said, no decisive solution is yet in sight, unlike the Gulf War that followed Iraq's invasion of Kuwait. It remains unclear whether the current Iran conflict will become a *déjà vu* of 1990. A full-fledged recovery will likely still require time.

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