

Stocks rally and dollar dives on US election day

- **SNAPSHOT:** Equities up, Treasuries flatten, Crude up, Dollar down
- **REAR VIEW:** US ISM Services unexpectedly jumps higher; Solid US 10yr note auction; US International Trade deficit grows more than expected; RBA holds rates as expected; China Caixin Svs PMI beats; Israel PM fires Defense Minister; Iran strike against Israel could be as early as the close of US election poll, Iran media says; BA union members agree to latest proposal, ending strike
- **COMING UP:** **Data:** Japanese PMI (Final), German Industrial Orders, EZ PMIs (Final). **Events:** NBP Policy Announcement; US Election. **Speakers:** ECB President Lagarde, de Guindos; BoC's Rogers. **Supply:** Germany, US. **Earnings:** CVS Health Corp, Gilead Sciences Inc, Sempra, Qualcomm Inc, Johnson Controls International PLC, Arm Holdings PLC. [For a list of all US companies reporting earnings, please click here.](#)

MARKET WRAP

It was a risk-on-session on US election day with equities rallying with outperformance seen in the Russell while all sectors closed in the green. Consumer Discretionary alongside Industrials and Utilities led gains on the day, with Tech and Communications also seeing notable gains, while Materials, Energy and Staples were the relative underperformers. T-notes sold off throughout the European session with lows seen in the wake of the stronger-than-expected ISM Services PMI, however a solid 10-year note auction, as well as further unwinds of Trump trades, took T-notes higher to settle marginally higher with the curve flattening. The Dollar was sold throughout the session, more as a function of pre-election positioning after the Dollar's recent rally, while cyclical currencies, AUD, GBP and CAD outperformed, but EUR, JPY and NZD also saw decent strength, whereas the CHF only saw marginal gains after its outperformance on Monday. Crude prices were very choppy, grinding higher on geopolitical tensions with punchy rhetoric between Israel and Iran about response attacks, while Israeli PM Netanyahu announced he fired Defence Minister Gallant, reportedly over three reasons, including his support for a Gaza hostage and ceasefire deal. All eyes are on the US election results due after hours.

US

ISM SERVICES PMI: Overall, the ISM Services PMI data was strong with the headline unexpectedly rising to 56.0 from 54.9, despite expectations for a decline to 53.8, matching the highest analyst forecast. Within the report, the upside was supported by a return to expansionary territory in the employment component which rose to 53.0 from 48.1, the highest level since August 2023. However, comments from respondents included they are "Hiring seasonal labor for holiday peak activity" and "We have lost employees due to normal attrition and are having issues backfilling these positions". There was a slight increase in the Prices Paid component too, rising to 58.1 from 59.4, but shows that prices are still expanding yet accelerating marginally. It is worth noting the ISM Manufacturing PMI saw a notable increase in the Prices Paid component, back to expansionary territory, but the magnitude of the price increases was not observed in the Services PMI. The strong headline beat was also supported by an increase in the supplier delivery times, which saw a notable increase to 56.4 from 52.1, representing slower delivery times, but not due to increased demand, but due to implications of the hurricanes. Elsewhere, New Orders eased to 57.4 from 59.4, while business activity eased to 57.2 from 59.9. Overall, analysts at Oxford Economics note that "The level of the index is consistent with our view that consumer spending, including on services, will continue at a brisk pace in Q4 and in 2025".

ELECTION PREVIEW: On Tuesday November 5th, Americans will go to the polls to vote in the Presidential Election with the winner taking office in January 2025 for a four-year term. Republican candidate Donald Trump and Democratic candidate Kamala Harris are locked in a very tight race, and while national polls have Harris slightly in front, betting markets are now mixed after a dramatic weekend before the election. Polls in swing states overall, show Trump leading by a thin margin. What is certain is how momentum has shifted towards the former President in recent weeks and months, albeit with a slight late shift back in favour towards Harris. In terms of averages, FiveThirtyEight's model assigns a 53% probability of a Trump win, and a 46% probability of Harris winning; pollster Nate Silver sees a 54% and 46% chance respectively. Republicans are clearly favoured to win the Senate, with FiveThirtyEight averages assigning a 90% probability, while the House is neck and neck, with Republicans seeing a 52% likelihood and Democrats 48%. On the night, the pivotal swing states (Arizona, Georgia, Michigan, Nevada, North Carolina, Pennsylvania, and Wisconsin) will be viewed to see how the election is playing out, with Pennsylvania seen as the key state, as it is likely, but not impossible, that a candidate will not win the election without it. In the polls and in recent weeks (via 538 and Nate Silver) PA has flipped to Trump. For traders, focus will be on the Dollar, with a Trump win and a Republican sweep seen as the most bullish case for the Buck, with Commodity FX, the Yuan, and MXN amongst EMFX heavily weighed on. If Harris won, the Greenback is expected to be weaker, with commodity FX outperforming along with the EUR. Below we detail scenarios, and more nuanced trades. For reference, the Presidential nominee with the most electoral votes becomes the President of the US. The Electoral College is a process in which electors or representatives from each state in number proportional to the state's population cast their vote and determine who will be president. Each state gets a certain number of electors based on its representation in Congress, and there are a total of 538 electors, and the candidate who gets more than half (270) wins. As such, a candidate could win the popular vote but lose the election if they do not receive 270 EC votes. [To download the full Newsquawk Presidential Election Preview, please click here.](#)

FED PREVIEW: The Fed is widely expected to cut rates by 25bps on Thursday, taking the target for the FFR to 4.50-4.75%, in line with money market pricing and analyst forecasts. Attention will be on any updates on the statement to see how the Fed describes the economy after mixed recent data, and of course for any future guidance - but they will likely keep options open. The rate decision takes place two days after election day, and it is possible results still may not be known by then given how close the race is. Nonetheless, the election is not expected to have much impact on the upcoming meeting but it will shape expectations for easing through 2025. A Trump victory is seen as inflationary vs a Harris victory due to Trump's proposals of increased spending, tax cuts and the imposition of tariffs, which could see a slower return to the neutral rate if Trump is elected. However, the composition of Congress will also be of note. Chair Powell is likely to keep his options open by maintaining a meeting-by-meeting approach with decisions to be directed by economic data. This will likely entail language that the Fed can either slow, accelerate or even pause the easing process depending on how the economy evolves, but a more explicit signal to one of these options would be key. [To download the full report, please click here.](#)

FIXED INCOME

T-NOTE FUTURES (Z4) SETTLED 1+ TICK HIGHER AT 110-13

T-Notes chop to strong ISM Services PMI, solid 10yr auction as attention turns to US election results. At settlement, 2s +2.3bps at 4.199%, 3s +1.0bps at 4.153%, 5s +0.0bps at 4.167%, 7s -1.4bps at 4.224%, 10s -2.6bps at 4.283%, 20s -4.3bps at 4.564%, 30s -5.0bps at 4.445%

INFLATION BREAKEVENS: 5yr BEI +2.2bps at 2.336%, 10yr BEI +2.4bps at 2.299%, 30yr BEI +1.4bps at 2.286%.

THE DAY: A choppy session for T-notes with marginal weakness seen throughout European trade before pushing lower to a strong ISM Services PMI to see T-notes bottom out at 109-30. The data came in above expectations and matched the highest analyst forecast with the gain led by employment which returned to expansionary territory, while supplier deliveries also rose, albeit primarily a function of hurricane impacts as opposed to strong demand. The prices paid rose, albeit only slightly but new orders and business activity declined - but all remained in expansionary territory. Attention then turned to the 10yr auction, which ultimately was solid - stopping through when issued by 0.3bps with an above-average bid-to-cover. The auction gave a helping hand to T-notes at the time, but the upside was further supported by further unwinds of the Trump Trade, although betting markets were unchanged, it was more a function of pre-election jitters with the race expected to be a close one. Geopolitics was also in focus with increasingly punchy rhetoric between Israel and Iran about responses while Israel PM Netanyahu fired Defence Minister Gallant and is set to fire the IDF Chief of Staff and the Shin Bet chief. All eyes are on the US election results with polls closing tonight.

10YR: The US Treasury sold USD 42bln of 10yr notes at a high yield of 4.347%, stopping through the When Issued by 0.3bps. The 0.3bps stop-through was stronger than the prior 0.4bps tail. The Bid-to-Cover was strong at 2.58x, above the prior 2.48 and average of 2.53x. The breakdown saw dealers take a slightly above-average portion due to a drop in indirect demand to just 61.55% from 77.63%, beneath the 71% average, although this was offset somewhat by a notable upside in Direct demand of 23.6%, above the prior and six auction averages.

THIS WEEK SUPPLY: US Treasury is to sell USD 25bln in 30-year bonds on Wednesday next week; all to settle on November 15th.

STIRS/OPERATIONS

- **Market Implied Fed Rate Cut Pricing: November 25bps (prev. 25bps D/D), December 44bps (prev. 45bps), January 58bps (prev. 59bps).**
- US sold USD 80bln in 42-day CMBs at high rate of 4.550%, B/C 2.78x
- US to sell USD 95bln in 4wk bills and USD 90bln in 8wk bills on November 7th, and USD 64bln in 17wk bills on 6th November; to settle on November 12th.
- NY Fed RRP op demand at USD 144bln (prev. 172bln) across 50 counterparties (prev. 57)
- SOFR at 4.82% (prev. 4.86%), volumes at USD 2.308tln (prev. 2.164tln).
- EFFR at 4.83% (prev. 4.83%), volumes at USD 98bln (prev. 99bln).

CRUDE

WTI (Z4) SETTLED USD 0.52 HIGHER AT USD 71.99/BBL; BRENT (F5) SETTLED USD 0.45 HIGHER AT USD 75.53/BBL

The crude complex was choppy but ultimately settled in the green as participants digested geopolitics, updates to Israel's cabinet, and responses in the Gulf of Mexico to Tropical Storm Rafael ahead of the US election results. On geopolitics, Sky News Arabia reported "Indications are growing that Iran may soon attack Israel, perhaps on US election day", which was later highlighted by reports from Iran International. Cairo News then reported, "Tel Aviv is considering a pre-emptive strike on Iran if there are signs of an imminent attack". The reports kept geopolitical tensions high with punchy rhetoric seen back and forth between Iran and Israel. The upside was also supported by risk-on trade ahead of the US election results, with notable equity upside and a weak US Dollar, also supporting higher crude prices. That said, crude strength pared for a spell in the US afternoon. Attention remained on geopolitics, after Israel's PM Netanyahu fired Defense Minister Gallant over too many gaps in the management of Israel's wars. It was also reported that Netanyahu plans to dismiss the IDF Chief and Shin Bet Chief. Elsewhere, Tropical Storm Rafael is forecast to become a near hurricane intensity when it passes near or over the Cayman Islands by tonight, while Chevron (CVX) announced it is shutting in production at their Gulf of Mexico facilities ahead of the storm. Note, that Saudi Aramco also cut its December oil prices for Asian buyers. Summarising, WTI and Brent spent much of the day grinding higher, reaching peaks of USD 72.67/bbl, and USD 76.24/bbl respectively, before paring in the US afternoon but rising into settlement in choppy trade. Looking ahead, aside from the US election results, there is the private inventory report in after-hours where current expectations are (bbl): Crude +1.1mln, Distillate -1.1mln, Gasoline -0.9mln.

EQUITIES

CLOSES: SPX +1.23% at 5,783, NDX +1.32% at 20,227, DJIA +1.02% at 42,222, RUT +1.88% at 2,261

SECTORS: Materials +0.20%, Energy +0.57%, Consumer Staples +0.69%, Health +0.75%, Financials +0.98%, Communication Services +0.99%, Real Estate +1.36%, Technology +1.46%, Utilities +1.48%, Industrials +1.67%, Consumer Discretionary +1.83%.

EUROPEAN CLOSES: DAX: +0.55% at 19,253, FTSE 100: -0.14% at 8,172, CAC 40: +0.48% at 7,407, Euro Stoxx 50: +0.39% at 4,871, AEX: +0.37% at 883, IBEX 35: +0.29% at 11,839, FTSE MIB: -0.20% at 34,472, SMI: -0.25% at 11,867, PSI: -0.55% at 6,549.

EARNINGS

- **NXP Semiconductors (NXPI):** Next quarter guidance disappointed investors, reflecting broader macro weakness, especially in Europe and Americas. For the current quarter, Adj. EPS did beat, while revenue was in line.
- **Restaurant Brands International (QSR):** Top and bottom lines fell short.
- **Emerson Electric (EMR):** EPS and revenue beat, announced a USD 2bln repurchase programme and proposed to acquire all outstanding shares of common stock of AspenTech (AZPN) not already owned by Emerson for USD 240/shr.
- **Vertex Pharmaceuticals (VRTX):** Adj. EPS and revenue beat.
- **Realty Income Corp (O):** AFFO/shr in line, revenue beat, and FY EPS view underwhelmed.
- **Palantir Technologies (PLTR):** Adj. EPS and revenue beat, with Q4 and FY guidance above analysts' expectations.
- **Marqeta (MQ):** Reported a bigger loss per share in Q3 with the Q4 revenue growth forecast disappointing.
- **Astera Labs (ALAB):** EPS, revenue, and Q4 guidance surpassed the street's consensus.
- **Hawaiian Electric Industries (HE)** - Entered a settlement agreements for Maui wildfires litigation; HE is obligated to contribute a total of USD 1.99bln with the first instalment expected to be made no earlier than Q4 2025.

STOCK SPECIFICS

- **Hims & Hers Health (HIMS):** Plans to bring a generic version of Novo Nordisk's diabetes drug, liraglutide to its platform in 2025.
- **Tesla (TSLA):** Announced wage increases of 4% to all employees in a factory near Berlin, Germany.
- **Boeing (BA):** Union members approved Boeing's latest contract, ending the 53-day strike

US FX WRAP

The dollar index traded lower in the European session with losses enlarging into the US session. Behind the move, no clear driver can be observed, with some citing a continued unwinding of the Trump Trade, albeit some betting markets saw a rebound in the odds of Trump winning. That said, perhaps pre-US election jitters were the theme across the dollar, highlighted by volatile moves in USD/MXN and Trump Media & Technology (DJT). Elsewhere, US data had little influence on buck price action while the US ISM Service PMI unexpectedly jumped to levels not seen since July 2022, resulting in an upward revision to Atlanta Fed GDPNow (Q4), 2.4% (prev. 2.3%). Results of the upcoming US election should be the next catalyst for the buck, there are doubts over when the final results will be called, with volatility expected until it is clear. Meanwhile, the Fed's policy announcement decision is due on Thursday where a 25bps rate cut is widely expected with focus on potential guidance from Powell in the presser.

G10 FX benefitted from the risk-on trade as all constituents gained versus the buck, with the AUD, GBP, JPY and EUR amongst the top gainers while, the Franc saw modest upside. Newsflow was thin across the space, with BoC Minutes being a non-event, where members felt upside inflation pressures will continue to decline, albeit, attention will be better served on BoC's Rogers, who is to issue a text release on Wednesday, where remarks regarding monetary policy will be more timely appropriate. Looking beyond the US election, Wednesday morning will see a set of Final PMI data out of Europe, with EUR/USD trading just under its 100 DMA (1.0940).

The AUD was the G10 performer as the currency benefitted from a risk appetite across markets. Overnight the RBA at its November meeting, kept the Cash Rate Target at 4.35% for the eighth consecutive meeting and lowered forecasts for growth and household consumption while noting it is not ruling anything in or out. The Central Bank also noted that inflation remains too high; AUD/USD lacked direction after the announcement, but grinder higher throughout the day to above its 200 DMA (0.6627), with the 21 (DMA) 0.6654 the next level to the upside.

EMFX was mainly stronger than the dollar on the day, particularly in CEE FX, while the BRL outperformed its LatAm peers as discussions within Brazil's government towards the announcement of anticipated spending control measures continue. USD/BRL traded lower into a second consecutive day of losses ahead of the BCB's Selic rate decision on Wednesday, where the Central Bank is expected to hike by 50bps to 11.25%. The MXN witnessed volatile trade on US Election Day, initially setting fresh multi-year lows before heading into overnight trade flattish. In the background, Mexico's Supreme Court began debating the constitutionality of a controversial judicial overhaul on Tuesday.

Copyright © 2024 Newsquawk Voice Limited. All rights reserved.

Registered Office One Love Lane, London, EC2V 7JN, United Kingdom · Registered Number 12020774 · Registered in England and Wales.

newsquawk.com · +44 20 3582 2778 · info@newsquawk.com