

Stocks bid and Dollar hit as optimism rises over potential ending of Government shutdown

- **SNAPSHOT:** Equities up, Treasuries down, Crude up, Dollar down, Gold up.
- **REAR VIEW:** Positive US/China trade relations; US government nears closer to ending shutdown; Dove Miran & Hawkish Musalem toe usual tone; Fed's Daly says policymakers need to keep open mind re. further rate cuts; Solid US 3yr auction; AAPL pulls out next-gen iPhone Air.
- **COMING UP:** **Holidays:** US Veterans' Day; Canadian Remembrance Day **Data:** New Zealand Inflation Forecasts (Q4), UK Unemployment Rate/Wages (Sep), EZ & German ZEW (Nov), US NFIB (Oct), Weekly Prelim Estimate ADP **Events:** Riksbank Minutes **Speakers:** ECB's Lagarde; BoE's Greene and Dhingra; RBA's Jones **Supply:** Japan, Netherlands **Earnings:** Porsche SE, RWE, Alcon.

MARKET WRAP

US indices closed the first trading session of the week in the green amid risk-on sentiment as the US Senate took the first steps over the weekend to end the US government shutdown, alongside continued positive US/China trade developments. Sectors are predominantly firmer with mega-cap sectors Technology, Communications, and Discretionary outperforming with all Mag-7 names in positive territory. Consumer Staples was one of few sectors in red, and saw a lack of demand due to risk-off characteristics. The Dollar was weaker with high-beta FX profiting due to the risk-on environment, with CHF and JPY the laggards, with the latter clearly underperforming on known themes. The Aussie was also supported by constructive Chinese inflation figures. Newsflow on Monday was very quiet, so far, with no US data. Fed speak came via Musalem, Miran, and Daly, with the former toeing his usual hawkish tones, Miran, as expected, being the known dove, and the San Francisco President noted policymakers need to keep open mind on further rate cuts. WTI and Brent were choppy in thin energy-specific newsflow, but ultimately settled in the green, while spot gold lifted back above USD 4,100/oz. Treasuries are weaker across the curve with the greatest losses seen in the short-end. Mild strength was seen following the solid US 3yr auction. In later trade, US President Trump on Truth regarding tariff pay backs, and noted the "Pay Back" Number on tariffs... would be much higher than those being stated by "our Fake Opposition"... and would be in excess of \$2 Trillion Dollars". Note, Tuesday is Veterans Day where cash bonds are closed.

FED

DALY (2027 voter): Policymakers need to keep an open mind about further rate cuts, and policy remains modestly restrictive. The San Francisco Fed President added that inflation has been pretty contained in goods prices, and unpacking inflation data, she does not see inflation rising in services, housing or expectations. On the other side of the mandate, she sees a labour market which is softening, and the balance of risks has shifted due to the weakening labour market.

MIRAN (voter): Reiterated his usual dovish tones, as he said failing new information that makes him update his forecasts, he sees a 50bps rate cut in December, and a minimum of 25bps. Miran added it is imperative to ease policy, and staying on the path of rate cuts is the right move. Further echoing this point, Miran remarked that the data since September suggests that the Fed should be more dovish than its September view. Finally, Miran added a potential end to the government shutdown does not change his outlook by much.

WILLIAMS (voter): On the weekend told the FT that the FOMC's December rate decision was a 'balancing act,' noting that inflation remains high with little sign of easing, while the economy shows resilience.

FIXED INCOME

T-NOTE FUTURES (Z5) SETTLED 5+ TICKS LOWER AT 112-22

T-Notes saw weakness amid broad risk-on trade amid US government re-opening optimism . At settlement, 2-year +3.8bps at 3.595%, 3-year +3.7bps at 3.603%, 5-year +3.5bps at 3.715%, 7-year +3.2bps at 3.904%, 10-year +2.3bps at 4.116%, 20-year +1.1bps at 4.684%, 30-year +0.6bps at 4.707%

INFLATION BREAKEVENS: 1-year BEI +2.3bps at 2.791%, 3-year BEI +0.8bps at 2.502%, 5-year BEI +0.5bps at 2.320%, 10-year BEI +0.4bps at 2.278%, 30-year BEI +0.7bps at 2.233%.

THE DAY: US Treasuries weakened overnight on government-reopening optimism and heavy rate-lock selling tied to a busy IG calendar, but began to recover as US participants began arriving. Traders noted remarks from the Fed's Williams (voter), who on the weekend told the FT that the FOMC's December rate decision was a 'balancing act,' noting that inflation remains high with little sign of easing, while the economy shows resilience. Reports cited some hedge-fund dip-buying, which later steadied the market, with others noting that technical factors were supporting US 10yr yields around 4.15% before breaking below 4.10% even as equities rallied. Fed's Daly (2027 voter, dove) offered dovish remarks on Monday, and seems happy to look through headline inflation, noting goods prices remain contained and that detailed data show no rise in services, housing or expectations; she sees a softening labour market, with slowing wages signalling a demand shock, and says existing cuts are helping both employment and

disinflation; Daly urged her Fed colleagues to keep an open mind about further rate cuts, with her remarks helping Tsys lift slightly. Meanwhile, the Fed's dovish dissenter Miran (voter) on Monday said that, barring any new information that leads him to tweak his forecasts, he is in favour of a 50bps rate reduction in December, and a minimum of 25bps; he reiterated his well-known position on policy, arguing that it was 'imperative' to ease further; the remarks had little market impact. In the wake of the US 3yr auction (more details below) there was a marginal move higher in USTs. Note, it is Veterans Day on Tuesday; cash bonds will be shut, but futures will be trading.

SUPPLY:

Notes

- The US Treasury sold USD 58bln of 3yr notes at a high yield of 3.579%, stopping through the when issued by 1bps; the solid sale provided evidence of strong demand for short-dated paper, the third straight stop-through for the 3s auction, and the largest since February. The sale saw cover ratios improve to 2.85x (vs 2.66x in October), marking the strongest demand since August 2023 and clearly above recent averages. Participation was firm across buyers, with indirects steady at 63% (prev. 62.7%, six-auction average 62.4%), while direct rose to 27.3% (prev. 26.6%, avg. 23.9%), the highest since August; leaving dealers with 9.7%, below their typical share. Yields dipped very slightly in wake of the auction.
- The Treasury will be selling USD 42bln of 10yr notes and USD 25bln of 30yr bonds on Wednesday.
- Elsewhere, in corporate supply, Verizon (VZ) launched a USD 11bln five-part USD offering for its USD 20bln move to acquire Frontier (7yr, 10yr, 20yr, 20yr, 40yr), upsized from an initially sought USD 10bln.

Bills

- US sold USD 86bln of 13-week bills at a high rate of 3.78%, B/C 2.83x; sold USD 77bln of 26-week bills at a high rate of 3.69%, B/C 2.95x; sold USD 95bln of 6-week bills at a high rate of 3.89%, B/C 2.7x.
- US to sell USD 69bln of 17-wk bills on November 12th; to sell USD 110bln of 4-wk bills and USD 95bln of 8-wk bills on November 13th; all to settle on November 18th.

STIRS/OPERATIONS

- **Market Implied Fed Rate Cut Pricing: Dec 15bps (prev. 16bps), January 25bps (prev. 28bps), March 35bps (prev. 37bps).**
- NY Fed RRP op demand at USD 7.2bln (prev. 4.9bln) across 11 counterparties (prev. 10)
- NY Fed Repo Op demand at USD 0.003bln across two operations today (prev. 2.00bln).
- EFFR at 3.87% (prev. 3.87%), volumes at USD 83bln (prev. 87bln) on November 7th.
- SOFR at 3.93% (prev. 3.92%), volumes at USD 3.069tln (prev. 3.156tln) on November 7th.

CRUDE

WTI (Z5) SETTLED USD 0.38 HIGHER AT 60.13/BBL; BRENT (F6) SETTLED USD 0.43 HIGHER AT 64.06/BBL

The crude complex was choppy on Monday, but ultimately settled firmer amid a lack of headline newsflow. In the European morning, WTI and Brent were buoyed by the risk-on sentiment due to positive US/China trade talks and a breakthrough in talks on ending the US government shutdown. As such, WTI and Brent hit peaks of USD 60.48/bbl and 64.04, respectively, before paring to hit lows of 59.41 and 63.11, albeit on no specific headline driver. Regarding the shutdown, towards the tail end of last weekend some cited it as a contributing factor for the downside, due to its impact on jet fuel demand - with the US cancelling of flights due to the shutdown, it meant that demand for jet fuel has lessened ahead of the holiday season amid fewer flights. Looking ahead, the weekly private inventory data will be delayed a day until Wednesday on account of US Veterans Day; note, only cash bonds will be closed.

EQUITIES

CLOSES: SPX +1.54% at 6,832, NDX +2.20% at 25,612, DJI +0.81% at 47,369, RUT +0.97% at 2,456.

SECTORS: Technology +2.69%, Communication Services +2.52%, Consumer Discretionary +1.49%, Materials +1.05%, Energy +0.91%, Health +0.76%, Industrials +0.58%, Financials +0.31%, Real Estate -0.11%, Utilities -0.13%, Consumer Staples -0.34%.

EUROPEAN CLOSES: Euro Stoxx 50 +1.71% at 5,662, Dax 40 +1.72% at 23,976, FTSE 100 +1.08% at 9,787, CAC 40 +1.32% at 8,056, FTSE MIB +2.28% at 43,896, IBEX 35 +1.77% at 16,183, PSI +1.56% at 8,315, SMI +1.36% at 12,465, AEX +1.08% at 961.

STOCK SPECIFICS:

- **C3.AI (AI)** reportedly considers sale in wake of leadership change, according to Reuters sources.
- **Apple (AAPL)** reportedly pulls next-gen iPhone Air off its release schedule next fall, according to The Information; Cos. manufacturing partners already stopped or cut production of the first iPhone Air.
- **Berkshire Hathaway's (BRK)** Warren Buffett said he will no longer write Berkshire's annual report, and added he is 'going quiet'.
- **MP Materials (MP)** upgraded at Deutsche Bank.
- **Nike (NKE)** announced the latest NikeSKIMS drop will be available November 13th.
- **Parker-Hannifin (PH)** is reportedly in talks to buy Filtration Group from Madison Industries, according to Bloomberg, citing sources; deal could be announced this week, and Filtration Group could be valued at close to USD 9bln, including debt.
- **Pfizer (PFE)** wins bidding war and agreed to pay USD 86.25/shr to acquire **Metsera (MTSR)**; offer consists of USD 65.60/shr in cash and contingent value right entitling holders to additional payments of up to USD 20.65/shr in cash.
- **Rivian (RIVN)** plans to give CEO a pay plan worth as much as USD 4.6bln over the next decade, linked to new profit targets &

lower share price milestones than a prior deal.

- **Tower Semiconductor (TSEM):** EPS and revenue topped with better-than-expected next quarter top line view.
- **TreeHouse Foods (THS)** is to be acquired by Investindustrial for USD 22.50/shr; note, THS closed Friday at USD 19.05/shr.
- Trump says 'enrichment' of health insurers 'must stop'. Of note for **health insurers**, such as **CVS, CNC, CI, ELV, HUM, MOH, UNH**.
- **Tyson Foods (TSN):** EPS topped and FY26 sales seen +2-4% Y/Y.
- **Viasat (VSAT):** Surprise profit per share.

FX

The Dollar Index was lower to start the week due to broader risk-on sentiment amid a couple of factors. Firstly, the positive US-China trade headlines, and secondly US Government shutdown progress. Over the weekend, the Senate voted 60 vs. 40 to advance the government funding bill through the procedural hurdle, moving it closer towards passage. In the more recent updates, House Speaker Johnson wants a vote "as soon as possible", and is seeking a Wednesday vote on the stopgap bill, though in later trade he said it was unclear if they vote would take place today. Elsewhere, news flow has been sparse, with Fed Governor Miran (voter, dovish dissenter) toeing his usual dovish tones, while Daly (2027 voter) and Musalem (2025 voter) spoke, but little move was seen in FX. DXY traded between 99.454-74, with the calendar light on Tuesday due to US Veterans Day.

G10 FX performance was mixed against the Dollar. **Safe-havens CHF and JPY** underperformed, with the Yen the clear laggard due to the wider risk environment. USD/CHF traded between a very narrow 0.8045-72, while USD/JPY hit a peak of 154.25 against an earlier low of 153.41. Overnight, comments from BoJ's Nakagawa and PM Takaichi failed to garner a reaction, while in the latest BoJ SOO, one member said BoJ is expected to keep raising interest rates if the economic and price forecasts materialise. As a reminder, the central bank unsurprisingly kept rates unchanged at 0.50% in a 7-2 vote at the October meeting, in which board members Takata and Tamura remained the dissenters as they proposed a 25bps hike.

High-beta FX, and particularly the **Aussie**, were the G10 gainers and benefitted from the aforementioned risk tone, with the AUD seeing a further fillip on positive Chinese inflation metrics – CPI and PPI figures surprised modestly to the upside, reinforcing optimism around domestic demand stabilisation. Elsewhere for the Aussie, overnight RBA's Hauser said it is not unreasonable to think that future rate cuts could be coming, and will feel their way with mutual rate and will see how tight or loose policy is by judging the macroeconomy. Hauser added financial conditions are now closer to neutral than previously thought.

EMFX was largely firmer against the Buck, with TRY and INR seeing losses. Currency-specific news was light in what was a quiet day of trade, but Banxico's Governor said he sees a further 25bps rate cut in December being 'highly likely', in fitting with wider consensus. As a reminder, last week, the central bank reduced rates by 25bps in a 4-1 vote, with Heath wanting to keep rates unchanged. Elsewhere in LatAm, Brazil Finance Minister Haddad said BCB's Galipolo is doing a good job at the central bank, and Haddad thinks there is room for interest rate cuts.

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