Geopolitical and geoeconomic report

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On Wednesday 4 November Brent fell 8.7% in a single session and settled at $94.62, its lowest level since 4 September. The Friday before, it had traded close to $118. OPEC+ did not move it, having left its December quotas unchanged on Sunday. Nor did a convoy, a strategic reserve or a truce. What moved it was a post on X by the Vice President of the United States. “The reason we lost is the war,” JD Vance wrote the morning after the midterm elections.

Twenty-four hours later, the same election result knocked over the year’s other big story. On Thursday the S&P 500 lost 4.36% and the Nasdaq 5.52%, its worst session since April 2025, sending it into correction. This time the problem was not the war. It was data centres.

A fortnight ago I closed this report by saying that the market had started asking which states it was still willing to finance. This fortnight a player that had long been missing from the models has turned up, the voter. In the United States and in Israel it was the ballot box. In France, the National Assembly. In all three cases a limit was placed on what a government can pay for, whether a war, a data centre or a deficit, and **prices have moved more because of that than because of any central bank.**

THE VOTE THAT MADE THE BARREL CHEAPER

The numbers first. According to CBS News projections, Democrats have won at least 54 Senate seats and will hold between 251 and 268 seats in the House. They flipped seven Senate seats, including Kansas, Iowa, Texas, Ohio, Maine and both Carolinas. Kansas had not elected a Democratic senator in almost a century. The losers have explained why themselves. On Wednesday Trump said Vance’s analysis was “largely true” because the war had driven up gasoline prices, although he added that he would do it again.

So why is oil falling if nothing has changed in the Strait of Hormuz? Because the market has started to price a president with less room to manoeuvre. From January a Democratic Congress will hold the purse strings, will be able to open investigations and could restrict funding for the war, and a vice president with 2028 ambitions has just said publicly that the war is costing his party votes. According to Axios, Vance leads the faction inside the White House that wants a deal with Iran, against Bessent and Ratcliffe, who would rather keep the naval blockade and the economic pressure in place. The market has bet on Vance winning.

I am not so sure, and not because Washington lacks the will. The problem is in Tehran. For months Trump’s most credible card has been the threat of renewed bombing, and that threat is worth a good deal less today than it was a week ago. Nobody negotiating with a weakened opponent tends to soften their terms. On Tuesday Mohsen Rezaei, secretary of the Supreme National Security Council, cast doubt on any progress, and Iran keeps repeating that Hormuz will not reopen until its seven conditions are met, including lifting the blockade, unfreezing assets and running passage through the strait on its own terms. I find it hard to believe that an electoral defeat for Trump makes Iran more flexible. The logic points the other way.

Meanwhile, the physical barrel tells a different story. Kpler data reported by CNBC show crude moving directly through Hormuz fell to 7.3 million barrels a day in the week to 28 October, more than 40% below pre-war levels. On 29 October the Houthis claimed attacks on the Ras Tanura and Rabigh refineries and on Aramco’s facility at Abqaiq, and this week several tankers have caught fire in the strait

after hitting mines, according to Iran's navy. **The price has fallen by more than $20 since Friday. The risk has not.**

One detail strikes me as more telling than Brent itself. Diesel has not followed crude down. According to the EIA, the US average stood at $6.292 a gallon on 2 November, just 3.6% below September's record. This is the middle-distillate shortage we have been discussing in the last two reports, and a social media post will not fix it. For refiners, cheaper crude with diesel just as expensive is the best combination there is. For the trucker or the farmer who voted on Tuesday, the bill is exactly the same.

Europe, on the other hand, has a problem that no election result will solve. EU gas storage stood at 74.6% on 1 November, according to Gas Infrastructure Europe data, the lowest level for the time of year since at least 2017, with Germany at around 61%. The November TTF contract reached €103.94 per megawatt hour on 30 October, its highest since 2022, after the claimed attacks on Abqaiq and Ras Tanura. The withdrawal season has begun and Qatar is still unable to meet its contracts.

Israel deserves more attention than it has received. According to Axios, Netanyahu was pressing Trump to strike Iran again as soon as the US elections were over. But his own election, held on 27 October, left his bloc with 53 seats, eight short of a majority, against 48 for Gadi Eisenkot's bloc and a record 19 for the Arab parties. President Herzog has already opened consultations on forming a government. A prime minister without a majority, who accuses the election commission of stealing the vote, has more reason to look for a crisis abroad, but far less ability to drag Washington into it.

THE SAME VOTE, AGAINST ARTIFICIAL INTELLIGENCE

On Thursday investors realised that voters had not only spoken about Iran. According to the Data Centers on the Ballot tally reported by Al Jazeera, restrictions were approved in 39 of the 45 local and state ballot measures on data centres held on Tuesday. Democrats also picked up five governorships, some of them in states where opposition to these facilities has been growing for months over water and electricity use. UBS estimates that around 30% of the capacity the United States expected to add in 2028 could be delayed. Reuters reckoned the Nasdaq 100 was on course to lose $1.8 trillion in market value that day.

What matters is the mechanism. Until now the bottleneck for artificial intelligence was chips. If the constraint becomes the local planning permit, the grid connection and the neighbour's electricity bill, chips stop being scarce. AMD fell around 13% on Thursday after reporting data centre revenue that almost doubled. This was not about earnings. It was about where the chips sold in 2027 will be installed in 2028.

A fortnight ago I wrote that the single story driving US equities was starting to cost money because it was being financed with the bond near 5%. Warsh acknowledged as much at his 28 October press conference, when he said rates had already had an effect on the build-out of AI infrastructure. **Now the political cost is being added to the cost of money.** The most exposed are those borrowing to build and rent out capacity, rather than the big spenders. Data centre operators IREN, Applied Digital and Nebius fell more than 14% on Thursday, and GE Vernova, which makes electrical equipment for these sites, more than 7%. Renewables, by contrast, rallied strongly on Wednesday.

There is a paradox worth keeping in mind. The big tech groups held up on Wednesday because the market reasoned that building less would force them to spend less, which helps their cash flow. On Thursday they fell with everything else. I think Wednesday's reading was the right one and that Thursday owed a lot to leveraged positions being unwound at the same time, but I admit that with the Nasdaq more than 10% below its 6 October record the distinction is little comfort. Nor has defence, the

previous fortnight's winner, escaped. Contractors fell on Wednesday at the prospect of a Congress less willing to pay for the war.

THE BOND THAT READS THE OIL PRICE

Central banks have had a fortnight of many meetings and few decisions. The Fed kept rates at 3.75% to 4% on 28 October, with two dissents, from Governor Lisa Cook and Cleveland Fed President Beth Hammack, who wanted to hike straight away. The ECB left the deposit rate at 2.50% on the 29th after discussing a hike, and the Bank of Japan held at 1.25% with a single vote in favour of raising. Only the Bank of England moved. On Thursday it raised Bank Rate to 4%, its first increase since 2023, with the whole committee in favour and Catherine Mann pushing for half a point.

What has changed is what the market thinks they will do. According to Treasury data, the US two-year yield has gone from 4.81% on 21 October to 4.46% on 5 November. The ten-year has fallen from 5.13% to 4.84% and the thirty-year from 5.42% to 5.25%. The short end, which best reflects expectations for the Fed, has fallen the most, and CME's FedWatch tool puts the probability of a December hike at around 71% after the elections, down from more than 80%. The chain is simple. Cheaper oil, lower inflation, fewer hikes.

The trouble is that the inflation worrying Warsh is not at the pump. According to the Commerce Department, GDP grew at an annualised 3.4% in the third quarter and core PCE rose 3.1% year on year in September. An economy growing at 3.4% with core inflation above 3% does not need Brent at $118 to justify another hike. To me, the market is mistaking relief on energy for a change in the cycle. October's jobs report, due on Friday afternoon European time, will tell us whether I am wrong.

There is a second, less discussed reason for long yields to fall. A Democratic Congress facing a Republican president almost certainly means legislative gridlock, and gridlock usually means less spending. JPMorgan's traders summed it up this week as reduced deficit spending, even at the cost of a government shutdown or two. For the term premium, which had been rising for months on fears about debt supply, that is good news. The thirty-year yield I flagged a month ago as the number to watch keeps falling, and for a reason nobody in the bond market expected, the defeat of the president's party.

In Europe the dilemma is different and more awkward. Euro area inflation rose to 4.0% in October according to Eurostat's flash estimate, with energy at 20.8% and core steady at 2.5%. Lagarde acknowledged that the Governing Council had discussed a hike, and the market still sees a move to 2.75% on 17 December as likely. The real news on the 29th was something else. Lagarde will leave the ECB on 7 February, nine months before her term ends. Governments have until today to put forward candidates, the Eurogroup will review them on Monday 9 November, and the names most often mentioned are Klaas Knot and Pablo Hernández de Cos, with Joachim Nagel as an alternative. As Aberdeen's Felix Feather told CNBC, the early exit means France's next president, to be elected in April, will have no say in the appointment. With French debt where it is, the timing does not strike me as a coincidence.

FRANCE, 458 TO NIL

Moody's gave France a reprieve on 23 October. It kept the rating at Aa3 with a negative outlook, but stated that the rating assumes a deficit-reducing 2027 budget will be adopted and that financing costs and social tensions will ease somewhat over the coming months. Twelve days later the National Assembly rejected the revenue part of the budget by 458 votes to nil. With the revenue side gone, the whole bill falls at first reading and now moves to the Senate, where debate begins on 20 November.

The most striking part is that nobody voted in favour, not even the president's own party. Budget Minister David Amiel warned that the amended version would have left the deficit at 5.9%, and the savings target has already shrunk from €54 billion in September to about €43 billion. Strikes had been called across the country for Thursday. For the government itself, voting against a disfigured budget was the least bad option.

And the market? This is the part I did not expect. The spread between French and German ten-year bonds was around 175 basis points at the time of the Moody's decision and, according to Banque de France and Bundesbank data, stood at about 160 on 2 November, with the ten-year OAT at 4.91%. In other words, there is less stress after a unanimous rejection than on the eve of a rating review. I think the explanation lies in the calendar. From 18 December the government will be able to pass the budget by ordinance, something never done under the Fifth Republic, or fall back on Article 49.3 again. **The market would rather have a budget without Parliament than a Parliament without a budget.** I am not sure that should reassure anyone.

MOSCOW AND BEIJING LOOK TO 10 NOVEMBER

Two deadlines fall on 10 November. That day the US-mediated working-level talks between Russia and Ukraine announced by Witkoff begin in Abu Dhabi, and on the same day the suspension of the Chinese export controls on rare earths that Beijing approved in October 2025 expires.

I do not expect much from Abu Dhabi. On 3 November Russia launched close to 300 drones and 17 ballistic missiles at Ukraine's power grid across ten regions, according to Kyiv, and DTEK said three of its thermal power plants had stopped generating. The October talks in St Petersburg did nothing to stop strikes on energy in either direction. With winter arriving, both sides have more incentive to damage each other's grid than to sign an energy truce that already failed a month ago.

China is subtler. After the 24 September summit, a Chinese commerce ministry official said the arrangement underpinning the suspension had been extended to 10 January 2027, but as of 4 November no official notice confirming it had been published. Beijing does not need to reactivate the controls to use them. It is enough not to say whether it will, eight days before the APEC summit in Shenzhen. For Western companies buying magnets, the uncertainty is already a cost. For MP Materials or USA Rare Earth, it is a sales pitch.

WHAT TO WATCH BEFORE THE NEXT REPORT

October's US jobs report comes out this Friday, the first test of the idea that the Fed can ease off the pedal. On Monday 9 November the Eurogroup reviews the candidates for the ECB presidency, and on the 10th and 11th Russians and Ukrainians sit down in Abu Dhabi as China's rare earth suspension expires. On the 18th come the final euro area inflation figure for October and the APEC summit in Shenzhen, and on the 20th the French Senate starts debating the budget.

In between, two things with no fixed date need watching, Iran's answer to Washington and the flows through Hormuz. They will tell us whether the fall in Brent was foresight or a mistake.

A fortnight ago the market was asking which states it would keep financing. This fortnight it has found out that, before answering, it pays to ask their voters.

MAP OF AFFECTED ASSETS

A reading of the assets most exposed to the situation described above. Those marked ★ are of special interest this fortnight.

ASSET	BIAS	MECHANISM	WHAT TO WATCH
★ **Brent and crude**	**Bearish short term, upside risk**	The market is pricing a deal with Iran after the elections, but direct flows through Hormuz fell to 7.3 mb/d and attacks in Saudi Arabia and mines in the strait continue.	Iran's reply to Washington and weekly Hormuz flows
★ **Semiconductors and data centres (Nvidia, AMD, Micron, CoreWeave, Nebius)**	**Negative**	Restrictions passed in 39 of 45 ballot measures and UBS sees 30% of planned 2028 capacity at risk.	State moratoria and Q4 capex guidance
★ **French government bonds (OAT)**	**Negative**	Budget rejected 458 to nil, 5.9% deficit in the amended version, strikes and a presidential election in April.	Senate debate from 20 November and the ordinance route from 18 December
★ **Two-year Treasury**	**Positive**	Odds of a December hike are falling with oil, although core PCE is still at 3.1%.	October jobs and CPI reports
Refining and middle distillates (Valero, Marathon Petroleum, Repsol)	**Positive**	Crude is falling while diesel holds at $6.29 a gallon, 3.6% off its record, widening margins.	Weekly EIA prices
European gas (TTF)	**Bullish**	EU storage at 74.6%, Germany around 61% and Qatar still not exporting normally.	Temperatures and LNG arrivals
Ten and thirty-year Treasuries	**Moderately positive**	Gridlock in Congress reduces the risk of more spending and eases the term premium.	Budget negotiations in Washington
US defence (Lockheed Martin, Northrop Grumman)	**Negative short term**	A Democratic Congress could restrict war funding.	Defence spending votes in the new Congress
Renewables	**Positive**	Rallying on the Democratic win and a shift in energy priorities.	Initiatives from the new Congress
Electrical equipment for data centres (GE Vernova)	**Negative short term**	Fewer new sites means fewer orders for grid and generation equipment.	Order books
Big tech (Microsoft, Alphabet, Amazon)	**Neutral**	Building less slows capex and helps cash flow, but they are caught in the sector correction.	Revisions to their investment plans
Euro area banks	**Neutral**	A December ECB hike supports margins, French risk weighs on them.	Sovereign spreads
Gold	**Neutral**	Recovering as yields and the dollar fall, but still competing with a Fed that is hiking.	US jobs and inflation data
Yen	**Moderately positive**	The Bank of Japan says underlying inflation has reached 2% and leaves a December hike open.	December meeting
Rare earths outside China (MP Materials, USA Rare Earth)	**Positive**	China's suspension expires on 10 November with no official notice of an extension.	Chinese commerce ministry notices

NOTES

★ asset of special interest this fortnight



Miguel Ángel Temprano