

Good Morning Asia - 10 October, 2020

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We know less than we don't know

Yesterday, I decided to deliberately leave off writing a daily note. The only news in town was related to the Trump Covid-19 infection, and there was, frankly, very little to add without getting overly political (not a good idea in this job), and very little of substance to base a solid opinion on. I still think the messages coming out of the White House and from the staff treating the President are conflicting and don't really add up. And as others have written, there is a long history of cover-ups when it comes to Presidential health. I think the most accurate summary I have read was from the President's personal physician, Dr Conley, who while acknowledging the President's progress noted that he is still not out of the woods. We also don't have much to go on given that people aren't routinely given dexamethasone so early in an infection, or in a relatively mild case like this without there being a need for ventilation. So his case is certainly unusual.

So if the market has any reaction to make in respect to all of this, I'm not sure the right conclusion is that this is definitely now a past event, and we can move on. The virus may yet have other ideas. I think we should be able to evaluate this more clearly in a week's time. For now, I'm remaining cautious.

In the meantime, the market narrative is forming around a clear Biden victory, based on some recent polls following the first TV debate, which show the former Vice President extending his lead to 14 points nationally, with pundits suggesting that Biden now looks more likely to get a clear

victory without having to win any toss-up states. This, together with thoughts of a clean sweep election un-freezing Congress, is prompting thoughts of big spending plans, and leading bond yields to rise as the prospects of a contested election diminish.

At some stage, you'd probably start reckoning on that having a supportive effect for the USD. But at the moment, the dominant effect seems to be one of dollar weakness, perhaps based on a return to risk tolerance and a possibly a less fractious international environment. That certainly seems to be buoying Asian currencies, with the CNY one of the main beneficiaries locally. More of that to come today seems a reasonable assumption.

And indeed, that may continue to be the way markets track for the next few days, in the absence of conflicting data. But when there are still questions over the President's health, I'd be a bit cagier, especially as we now also look likely to have the remaining scheduled TV debates (VP Pence vs Harris tomorrow (US-time) - should also be well worth a look) and President Trump may decide a new strategy is needed.

Asia today

Back to more local matters, and there has been yet another large month on month gain in prices in Korea in September, with the month on month gain of 0.7% taking inflation all the way back up to 1.0%YoY. But before you start looking up definitions of stagflation, most of this increase seems to stem from seasonal food price spikes following heavier than normal rains, and some disparities with the timing of last year's Chuseok public holiday, leading to some further, though likely short-lived pressure on food prices.

Nevertheless, the Bank of Korea, which we regard as one of the more hawkish central banks in Asia, and which has shown no appetite for further easing after its Covid-19 related cuts, is likely to see these numbers as further vindication for leaving rates where they are. And that could also help the KRW to make further gains and have a run at the 1160 level.

The region's other main news events today will centre on Australia. We have already had August trade data which showed exports falling slightly more than expected (4%MoM), and imports coming in stronger (+2%) resulting in the trade surplus shrinking sharply to AUD2.643bn from AUD4.652bn in July. That may take the edge of the AUD in early trading.

But the more market-moving event later today is the Reserve Bank of Australia (RBA) meeting. Given the progress made in the economy, and in the labour market in particular, we expect Governor Philip Lowe to deliver a fairly neutral verdict, with no hint of any near-term reversal of the RBA's pandemic easing, but probably only a contingency-nod in the direction of further easing if it becomes necessary. That could be enough to give the AUD a lift in an atmosphere where risk-on has returned.

Author

Alissa Lefebre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific
Deepali.Bhargava@ing.com

Ruben Dewitte

Economist
+32495364780
ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee
kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands
marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic
420 770 321 486
david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing
sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China
lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist
michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland
michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania
tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials
marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research
coco.zhang@ing.com

Jan Frederik Slijkerman
Senior Sector Strategist, TMT
jan.frederik.slijkerman@ing.com

Katinka Jongkind
Senior Economist, Services and Leisure
Katinka.Jongkind@ing.com

Marina Le Blanc
Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan
Junior Economist
samuel.abettan@ing.com

Franziska Biehl
Senior Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne
Senior Editor and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)
mirjam.bani@ing.com

Timothy Rahill
Credit Strategist
timothy.rahill@ing.com

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Oleksiy Soroka, CFA
Senior High Yield Credit Strategist
oleksiy.soroka@ing.com

Antoine Bouvet
Head of European Rates Strategy
antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy

nadège.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen
Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com

Thijs Geijer
Senior Sector Economist, Food & Agri
thijs.geijer@ing.com

Maurice van Sante
Senior Economist Construction & Team Lead Sectors
maurice.van.sante@ing.com

Marcel Klok
Senior Economist, Netherlands
marcel.klok@ing.com

Piotr Poplawski
Senior Economist, Poland
piotr.poplawski@ing.pl

Paolo Pizzoli
Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Marieke Blom
Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering
Senior Macro Economist
raoul.leering@ing.com

Maarten Leen
Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com

ASEAN Morning Bytes

Asian markets likely to react to renewed hope for additional US fiscal stimulus



EM Space: Trump's return to White House to spark renewed push for US fiscal plan

General Asia: Asian markets will likely trend higher on hopes that the US would soon pass a fresh round of stimulus after President Trump returned to the White House. US manufacturing activity remained in expansion ahead of data reports on trade and the JOLTS job openings set for release on Tuesday. Covid-19 new infections, however, remain on an uptrend, especially in the US Midwest with the election less than 30 days away. Investors will look to developments on the US fiscal package and comments from Fed Chair Powell later on Tuesday for further direction.

Indonesia: Indonesia passed controversial new legislation that revamps labour laws and simplifies foreign investment. The so-called "omnibus law" was pushed hard by President Jokowi at the beginning of his second term although it was delayed due to the ongoing pandemic. Passage of the law will shore up some investor sentiment in the near term with Jokowi hoping to jumpstart economic activity after GDP contracted in 2Q. IDR rebounded on the development late on Monday and we expect modest support for the currency in the near term on optimism over the new law.

Philippines: The Philippines will report CPI inflation today with market analysts expecting price gains to settle at 2.4% for September. Bangko Sentral ng Pilipinas (BSP) Governor Diokno indicated previously he could be on hold for the balance of the year despite recent inflation trends and we

expect him to keep policy rates untouched for at least the next two quarters. Benign inflation should keep the bond market well-supported in the near term although subdued inflation prints continue to reflect slowing economic growth momentum.

What to look out for: Powell comments and Covid-19 developments

- Philippines CPI inflation (6 October)
- US JOLTS jobs openings and trade balance (6 October)
- Fed Chair Powell speech (6 October)
- Taiwan trade balance (7 October)
- US MBA mortgage application (7 October)
- US FOMC minutes (8 October)
- China Caixin PMI services (8 October)
- Thailand consumer confidence (8 October)
- Taiwan CPI inflation (8 October)
- US initial jobless claims (8 October)
- Philippines trade balance (9 October)
- US wholesale inventories (9 October)

Author

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

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