Good MornING Asia - 29 September 2020

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By Robert Carnell

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Source: Shutterstock

Former Vice President Joe Biden,left, and President Donald Trump

A week is a long time in markets

I've just had a week off. And not the usual sort of week off we take these days, where you can't really decide if you are at work or not, and keep looking at emails and taking work-related calls. It was a proper week off, with only the occasional delve into the online FT to keep me in touch.

It's refreshing to see how much I've missed, in a week where there was essentially nothing going on in terms of calendar releases (this often seems to be the case). The EUR's previous gains dried up and partially reversed - as did Asian FX pairs. The equity bull-run also turned tail.

Though of course, within hours of returning to work, these reversals have also petered out, denying me a trend to jump on and get excited about.

So, where to now? The default position for stocks is probably higher, but maybe not much higher, and that would tend to go with a resumption of USD weakness, though again, I suspect there's a limit to how far to follow this and this is beginning to feel very much like a nascent range-trade. Bond markets? They seem to be sitting out this whole move, with 10Y UST notes simply drifting slightly lower in terms of yield. Yields probably don't have too much further to fall, with recent reversals coming at about 0.63/0.64%.

Let battle commence

Part of me really doesn't want to watch the Presidential debates, and in truth, they are probably on way past my bedtime here in Asia, which will be a convenient excuse. But for those who love reality TV, and have a much higher "cringe-factor" than I have (I even struggle with Masterchef), and can cope with gaffes and gloves-off TV carnage, tonight is probably a must-watch. Get out the pretzels, plump those sofa pillows.

There will, according to my sources, be another two presidential candidate debates on October 15 and October 22. And a Vice Presidential debate on October 7 (that could actually be more fun).

Whether or not these are particularly important is another matter. The received wisdom is that winning the debates does not equate to winning the election. Moreover, with a reasonable polling lead, one could argue that Joe Biden has more to lose here than President Trump, which may play to a cautious strategy from him. Journalists famously refer to pivotal moments in debates, such as Nixon mopping his brow, or Al Gore eye-rolling George W Bush. But then who's to say that any such moments really made any difference? That's essentially my base case for these debates - cringe-worthy but unlikely to deliver an electoral car-crash for either side. And by extension, not necessarily all that market relevant. We'll know more by tomorrow.

Day ahead

It's quiet today on the data calendar, with South Korean industrial production for August already printing a slightly disappointing -3.0%YoY outcome, a bit worse than last month's -2.4% decline, and resulting from a 0.7%MoM fall from July's production levels. This probably reflects the weaker global outlook (rather than any domestic problems), given the resurgence of Covid-19 in the US and many European countries. The debate about the weather tolerance of Covid-19 does not seem to have been properly laid to rest after early speculation. But from what I can see, and summarising some scientific studies I've read into this, although Covid-19 isn't destroyed by warm sunny weather as readily as say, influenza viruses, it really sticks around in the cold and wet. So look out for social distancing measures to tighten across the Northern Hemisphere as case numbers continue to rise.

And Prakash Sakpal has this to say about this week's scheduled Reserve Bank of India (RBI) meeting, which he notes, "...has been postponed as the RBI has failed to fill in three vacant seats on the 6-member policy committee in time for this meeting. The two-day meeting was to be concluded on Thursday, 1 October. The central bank hasn't set the new meeting date just yet. Although no policy change was a solid consensus view for this meeting, the key interest in the meeting would have been revisions to the central bank's growth and inflation view for the year given the continued rapid spread of Covid-19. The news raises concerns about macro policymaking in India, and it will exert further weakening pressure on local markets. Both government bonds and the INR have been selling off this month. The government is widely expected to hike its borrowing programme for the second half of FY2020-21 from the initially planned INR 5 trillion. The announcement is expected this week, though recent rises in yields suggest that markets have probably already factored much of this in".

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Malaysia's August exports miss forecast

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Source: shutterstock

14.5% August export fall

Month-on-month

Export growth turns negative

A brief positive growth streak in Malaysia's exports in June and July, which was helped by the opening of the economy from the Covid-19 lockdown, ended in August. A 14.5% month-on-month export fall in August was a partial clawback of the 48% cumulative increase in the previous two months. This brings the year-on-year growth to -2.9%, a stark contrast to the consensus of +4.9% and down from +3.1% in July. Without a favourable base effect, it could have been even worse.

All key export products posted month-on-month declines. But large declines in heavyweight electronics and petroleum products, by 19% MoM and 24%, respectively, stood out. There was also an across-the-board fall in shipments to the main destinations.

Trade surplus narrows too

Weak domestic demand continued to weigh down imports in August, which were down 2.2% from July and 6.5% from a year ago (-8.7% YoY in July). As with exports, electronics and petroleum products were the weak spots in imports. The trade surplus narrowed sharply in the last month to MYR 13.2 billion from MYR 25.2 billion in July. The cumulative surplus in the first eight months of 2020, MYR 103 billion, is MYR 3 billion wider on the year.

Despite a steady goods surplus, continued net outflows on the service account, resulting from standstill tourism, should keep the overall current account surplus on a narrowing trend over the remainder of the year. The current surplus almost halved to MYR 17.1 billion in the first half of 2020 from MYR 31.3 billion a year ago. Our forecast for the full-year 2020 current surplus as a proportion of GDP is 1.5%, down from 3.4% in 2019.

Further setback for the MYR

Against all odds – a record GDP plunge, narrowing current surplus, subdued global oil prices, and domestic political uncertainty, the Malaysian ringgit had a good run in a broad emerging market rally since June.

But the rally lost steam in September. In addition to strong USD sentiment so far this month, the MYR was battered last week by a spike in political risk in the run-up to the state elections in Sabha over the weekend. Another overhang was the FTSE Russell's decision on whether to exclude the Malaysian government securities from its global bond index, which in the end passed as a non-event last week. A clear win for the state coalition (Gabungan Rakyat Sabha) backed by Prime Minister Muhyiddin Yassin was also a relief for markets as this further strengthened an otherwise shaky ruling coalition at the national level.

However, the return of negative export growth is a setback for the currency.

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