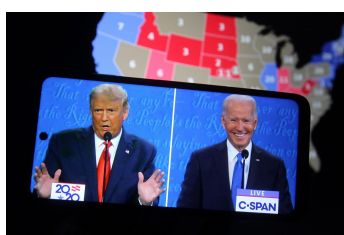


Good MornING Asia - 5 November 2020

Asian markets set to tick higher as US election results trickle in from battleground states

In this bundle



Asian markets settle as US nears election result

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Asia Morning Bites

ASEAN Morning Bytes

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Philippines

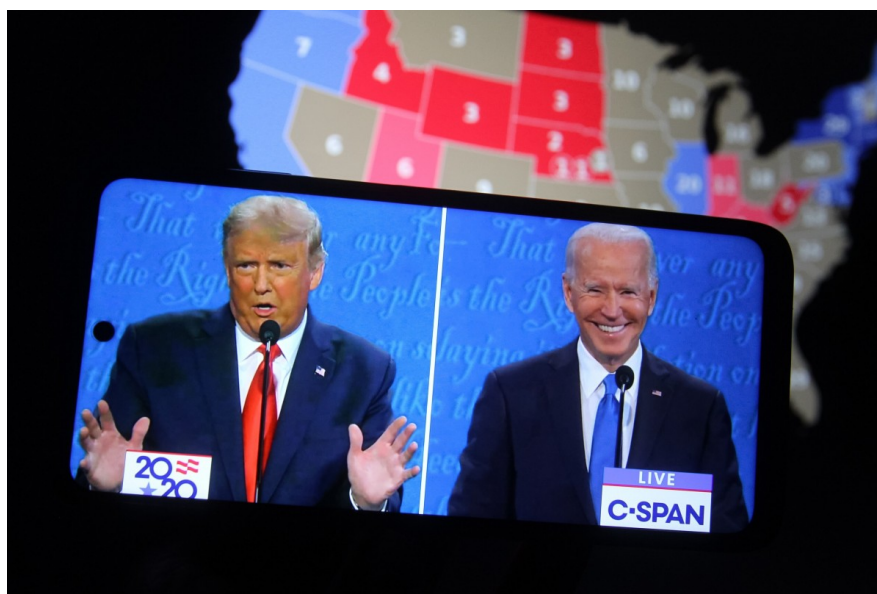
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Opinion | 5 November 2020

Asian markets settle as US nears election result

With a number of states yet to call, markets are being more cautious today after their roller coaster ride yesterday, but they do seem to be pricing in a narrow Biden win



Source: Shutterstock

In this photo illustration the US President Donald Trump and Democratic presidential candidate Joe Biden are seen during the final presidential debate displayed on a screen of a smartphone.

Carefully today

My daily note yesterday described Asian markets pricing of a Blue wave, and had a shelf life of about 3 minutes. Almost as soon as the "publish" button had been hit, the US election results started to roll in. And right from the outset, they showed a much closer race than the pollsters had been predicting.

My only consolation in having written such an ephemeral piece was the warning I added that I felt this would be a much closer race than markets were assuming. Other than that, it was garbage within minutes.

Today's note threatens to be similar, though most newswires are leaning towards a Biden win, which would only require Nevada, which should conclude counting today, and where Biden holds a narrow lead, and would then make the narrowing races in Pennsylvania and Georgia redundant.

But the Senate now looks out of reach for the Democrats, which must be a bitter blow for them as this election offered them some of the best election arithmetic for decades. An opportunity missed.

So the reasoning seems to be along the following lines: A narrow win with no Senate majority means that Trump era tax cuts may not be rolled back, at least not immediately, and fiscal stimulus, though likely, will probably be scaled back from what it would have been under a blue wave. That means equities can rally on a reduction of tax hike fears, and bond yields can fall back, which is exactly what both have done, and so there may not be too much juice left in either story.

A sleep deprived James Knightley in New York [has written this note](#), for more detail on the subject. AND you can find more from our FX and Rates colleagues on the elections's market implications on [Think.ing.com](#)

In terms of FX, the USD has resumed its weakening trend, though in Asia this is most evident against the CNH, and AUD, NZD, with other currencies not doing too much after the roller coaster of the last 24 hours. INR is actually softer.

In case you are tired of the election

If you want a bit of macro to dilute the heavy diet of politics in recent days, here is something to get your teeth into:

Going largely un-noticed yesterday, the US ADP survey came in at only 365 thousand jobs created, considerably weaker than the 600+ thousand expected. With US non-farm payrolls out tomorrow, we may have an opportunity to see markets respond to macro for once.

Don't get any hopes up for anything from today's US Fed meeting though. The chances of them doing or saying anything meaningful are vanishingly small in the middle of an election. We can re-evaluate the Fed outlook when the election result is confirmed. News stories seem to be suggesting a more active Fed given that there won't now be a big fiscal stimulus. OK, fine, but what exactly are they expected to do? Some TLTRO type operations? Maybe, but I'd put those in an "of marginal importance" category, rather than being a market game-changer.

Here in Asia, Indonesia releases GDP, Thailand and Philippine CPI and Singapore retail sales. [Details of all of this are in our sister publication, ASEAN morning bytes.](#)

No note from me tomorrow so hopefully we can start next week with the sort of clarity we lack today. Until then, good luck.

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ASEAN Morning Bytes

Asian markets set to tick higher as US election results trickle in from battleground states



EM Space: Risk sentiment boosted by current election trends

- **General Asia:** Asian markets will likely move sideways with an upward bias as Democrat challenger Biden pulls ahead of President Trump although Republicans are poised to retain control over the Senate. Without a “blue wave”, the chances of a quick rollback of US corporate tax cuts and massive stimulus spending are fading which is lifting sentiment in equity markets. Gains were capped as President Trump threatened legal action and jobs data missed expectations overnight. Regional inflation data is slated for release although the fate of the US election will likely drive sentiment on Thursday.
- **Singapore:** September retail sales data is due today. We expect a steeper sales decline of -8.6% YoY than the -5.7% fall in August. Motor vehicle sales, the main driver of headline sales growth, weakened in September as seen from the accelerated fall in new vehicle registrations. And, a jump in the unemployment rate past the global financial crisis high to 3.6% in the last quarter likely depressed non-auto sales. Standstill tourism is yet another drag. We don't expect a turnaround to positive sales growth anytime soon.
- **Thailand:** October CPI inflation is due today. It will be an eighth straight month with negative inflation, though slightly less negative than in September (ING forecast -0.5% YoY vs. -0.7% in September). Transport prices remain the weak spot. With persistently weak demand and low fuel prices ahead, the Bank of Thailand will continue to face difficulty in meeting its 1-3% policy target for inflation for some time to come. Nor does it have any

more policy levers left to achieve its target. We see the BoT policy rate staying at an all-time low of 0.50% throughout 2021.

- **Indonesia:** Indonesia reports 3Q GDP later on Thursday with the economy likely contracting as new daily Covid-19 infections remain elevated, weighing on overall consumption. Gauges for retail sales and consumer confidence remain downbeat while manufacturing activity remains in contraction, suggesting that a negative GDP report is likely. We expect GDP to remain subdued with much of the economy under partial lockdown restrictions with [control of the virus crucial for an economic recovery](#).
- **Philippines:** The Philippines reports October inflation which is expected to remain soft at 2.4% as depressed domestic demand keeps a lid on price gains. Inflation is set to remain at the lower end of the Bangko Sentral's (BSP) 2-4% inflation target and but we expect the central bank to keep policy rates unchanged well into 2021 as real policy rates are now negative. BSP will likely focus on liquidity support in the meantime to help bolster economic activity with the central bank continuing its bond purchase program in the secondary market.

What to look out for: US election results, FOMC meeting and Covid-19 developments

- Philippines inflation (5 November)
- Thailand inflation (5 November)
- Indonesia GDP (5 November)
- Taiwan inflation (5 November)
- Singapore retail sales (5 November)
- US initial jobless claims (5 November)
- US FOMC decision (6 November)
- US non-farm payrolls (6 November)

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Philippines: Exports post surprise gain but imports maintain downtrend

The trade deficit narrowed for another month as imports remain in freefall



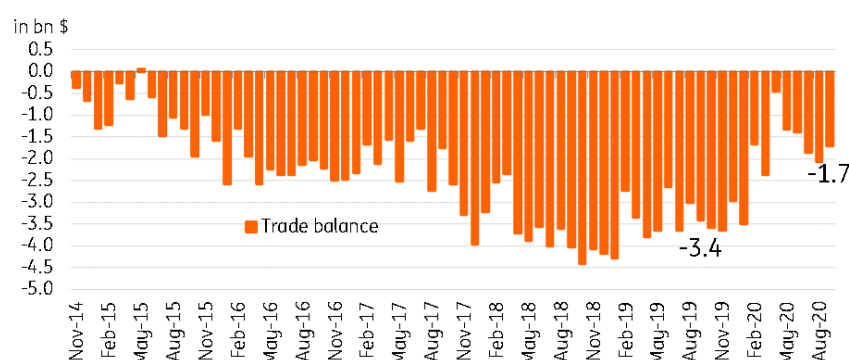
Source: Shutterstock

-\$1.7 bn September trade balance

September trade balance at US\$1.7bn

September trade data showed a surprise gain in exports, posting a 2.2% gain with mainstay electronic products up 0.8% and coconut oil exports rising sharply (32.2%). Exports to China helped the sector post an expansion with outbound shipments up an impressive 43.3% as China's economy opens up after getting control of the virus. Meanwhile, imports maintained their downtrend by falling 16.5% with almost all subsectors posting declines. The steepest falls were recorded in fuel (51.4%), capital goods (17.0%) and consumer goods (13.8%), showing a broad-based downturn in economic activity as the Philippines remains mired in a recession. The freefall in imports coupled with the surprise gain in exports yielded a narrower trade deficit of US\$1.7bn, roughly half of the gap recorded in the same month in 2019.

Philippines trade balance



Source: PSA

Narrowing trade gap positive for PHP but not for GDP

The Philippine trade deficit continues to tighten given stark import compression, driven by a broad-based decline in economic activity. The sharp contraction in the trade deficit has helped the current account swing back into surplus, which remains a positive for PHP in the near term. However, the sustained downturn in imports of raw materials and capital goods points to a continued deterioration in productive capacity and potential output, which does not bode well for prospects for the economic recovery. We expect PHP to remain supported to close out the year and the change in net exports to be the lone bright spot for the 3Q GDP release later in the week.

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