

# Making waves: Covid-19 and the US presidential election

It's not over yet, but Joe Biden looks as though he will be the next president of the United States. What would a Biden economy look like? Also, our Monthly Economic Update looks at the state of the global economy as we end one of the worst years in a generation. And we look at green opportunities in a post-Covid world for Central and Eastern European countries

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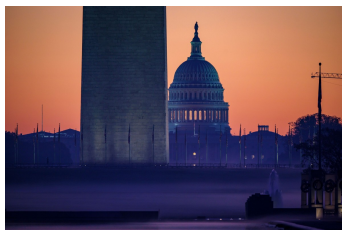


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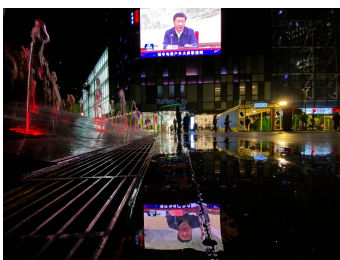


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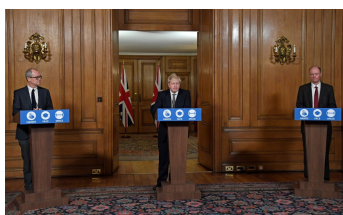


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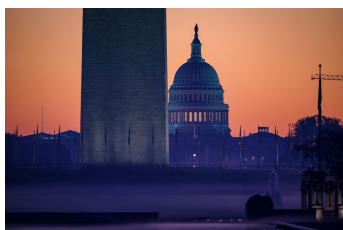


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### What a Biden economy might look like

Should Joe Biden win the US presidential election, he's promising major spending increases, notably in healthcare, education and infrastructure projects. We also could be looking at major tax and regulatory changes. However, if Congress remains in Republican hands, we could see many of these policies watered down.

As ING's James Knightley tells us from New York, we are upbeat about the longer-term prospects for the US economy not least because we could see spending of around \$1 trillion, or 5% of GDP. Near term, things look less good. More anti-Covid measures could lead to another contraction in the US economy. And given the political animosity between both sides, getting agreement on efforts to help the country get through this difficult period could be very difficult.

[Watch video](#)

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# Global market implications of the US elections

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A trader at the German stock exchange on Wednesday

## US election upshot: Gridlock in Washington

With votes still being counted (and potentially recounted) in a number of states, the result of the US presidential election is still undecided. Our expectation is that Biden has a solid chance of winning more electoral college votes than Trump, but official results might still have to wait until tomorrow, or potentially longer due to the increasing risk of recounts and legal challenges. Meanwhile, Republicans look set to keep control of the Senate, and Democrats of the house (with a smaller majority than previously). In short, Congress will in all likelihood remain divided for another two years. This amounts to a major upset to hopes of substantial near term fiscal support.

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Even if or when a Biden victory is confirmed, this amounts to a major upset to hopes of a Democrat sweep, and to hopes of substantial near term fiscal support. We expect there is still room for a fiscal deal of around \$1tn at the beginning of 2021, a far cry from House Democrats' \$3.4tn proposal, but protracted legal battles over the election result will chip away at already meagre bi-partisan goodwill. If this scenario unfolds then other pieces of the Democrat agenda are up in the air. We suspect the bar is high to implement tax hikes with a republican senate, so is the risk is for a structurally wider fiscal deficit.

## ✓ Rates view: Goodbye blue wave

We believe that the election is easier to interpret for rates than for other markets. Yes a Biden or Trump presidency would have different implications for trade and other policy areas but the receding odds of substantial fiscal support far outweighs other factors. In short, the pre-election reflation trade appears to be dead. We had seen flows into government bonds in recent weeks that had broadly gone unnoticed as yields pushed higher. More such inflows are probable should uncertainty build in the weeks ahead.

In the near-term, we expect legal manoeuvres around the election result to further depress stimulus hopes. We believe that a test of 0.50% would be excessive given the resilience of the US economy and the prospect of a vaccine in 2021 but 10Y yields around 0.75% look elevated to us. The 60-65bp area for the 10Y has been a natural place to settle during times of reflection in recent months. This should put further flattening pressure on USD 2s10s, a clear reflation trade indicator. 10s30s on the other hand should remain steep.

**0.55-0.75%** 10Y US treasuries

Back to the pre-election range

Beyond that, we maintain a view that a 1-handle for the 10Y US is on the cards for 2021 but, clearly, the upside risks have greatly diminished after this week's election. In the absence of a step-change in fiscal policy, we see no reason for markets to question the current path of Fed policy, pricing only muted chances of a hike in 2023. With the front end of the US curve static and the eurozone going nowhere fast, this translates into tactical flattening and a tighter Treasury-Bund spread, but the bigger structural move will be the other way, in 2021.

## ✓ FX: Weak USD outlook unchanged

Looking through the short-term uncertainty associated with the contested outcome (though markets now appear to consider an eventual Biden victory as a likely outcome), the scenario of a Biden presidency and republican senate still points to a weaker USD outlook and a constructive view on cyclical FX, mainly for 2021 once we're through the tough winter months.

This is because

- the US fiscal stimulus, albeit smaller, should be nonetheless delivered;
- the low likelihood for material tax hikes (vs the "blue wave") should be positive for US

- equities (and thus, by extension, support risk currencies);
- there is likely to be an end to unpredictable trade wars and a return to a rules-based system for international relations, being more beneficial for higher beta FX vs safe havens; and
- the Fed should remain behind the curve (given its new average-inflation targeting framework) leading to low or lower US real rates

Granted, the scope for gains in cyclical FX and a more pronounced USD sell-off is now more limited than in any "blue wave" scenario, given the anticipated less aggressive US fiscal stimulus. But the scope for gains is there nonetheless, and in fact, points to a more balanced outlook across various asset classes.

For EM investors, the lower upside potential in EM currencies (vs the "blue wave") is likely to be in part offset by the lower downside potential to local bonds, with local currency bonds (mainly long-end) likely to do better now vs the "blue wave" scenario, given the more limited scope for higher long-end UST yields. This should be particularly the case for low yielders, be it CEE or EM Asia.

Timing-wise, the upside to cyclical FX (in both the G10 and EM worlds) should be more pronounced next year rather than in coming months, particularly given uncertainty about the global economic outlook over the winter months (including the wave of restrictions in the eurozone, rising Covid cases in the US and lower odds of larger frontloaded US fiscal stimulus).

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### *EUR/USD should head towards 1.25 next year*

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The soft USD outlook for 2021 is therefore unchanged - EUR/USD should head towards 1.25 next year and weaker dollar dynamics should lift beta currencies in the G10 space and help EM FX. GBP (mainly vs EUR) should remain more insulated from global factors and the US election outcome, with the outcome of UK-EU trade negotiations being the key driver for sterling over the coming weeks

## **Credit: Tighter spreads on the back of potential election outcomes likely to be short-lived**

Spread tightening was seen in both Euro and USD yesterday. Euro corporates pencilled in a 1bp tightening and financials a 2bp tightening. USD outperformed with a 3-4bp tightening across the board. Of course, it may still take some time to finalise the election results, whereby we might see a continuation of performing but volatile spread developments.

However, in the long run, USD spread underperformance vs Euro will remain the dominant trend, on lower stimulus and later on possible detrimental effects from a constrained presidency.

At the same time, we expect Euro spreads to tighten from here for the rest of the year. USD credit spread curves should see further steepening, which will open more cost-saving advantages for US companies issuing in Euro, namely in longer-dated issues.



## ✓ EM sovereign credit: A supportive middle ground with more upside for higher yielding credits

Among the possible scenarios, a Biden win and a divided Congress are shaping up as a supportive middle-ground for EM sovereign credit. This has the potential to cement the strong performance we have seen in 2020 despite the pandemic (+1.0% YTD for JPM EMBI Global Diversified).

On the one hand, the prospects of lower fiscal stimulus and a Fed that remains open to more easing if needed will keep a lid on underlying core rates and should contain any Treasury curve steepening. From a total returns perspective, this means that a more damaging "blue wave" reflation scenario can be avoided for EM investment-grade sovereigns, given their higher rates sensitivity (OAS+136bp, with a modified duration of 10 years based on Bloomberg Barclays indices).

## ✓ Credit selection remains key

On the other hand, this scenario could mean an end to erratic trade policies going forward which favours EM risk assets. The modest optimism (on a combination of some fiscal stimulus and a return to a rules-based trading system) should favour higher-yielding EM risk assets, given their large credit component (OAS+653bp with a modified duration of 7.1 years). Notwithstanding, credit selection will remain key as the pandemic has seen fiscal balance sheets being stretched and debt sustainability to remain a key concern in years to come.

In the aftermath of the US elections, EM credit has seen a strong rally across the board as many investors had remained on the sidelines ahead of the US elections and with hopes of a clearer election result rising. In line with the thinking above, higher-yielding credits have performed better (-13bp and -10bp for 5yr CDS of South Africa and Brazil, respectively). Volatility might persist in the near-term should there be a legal battle.

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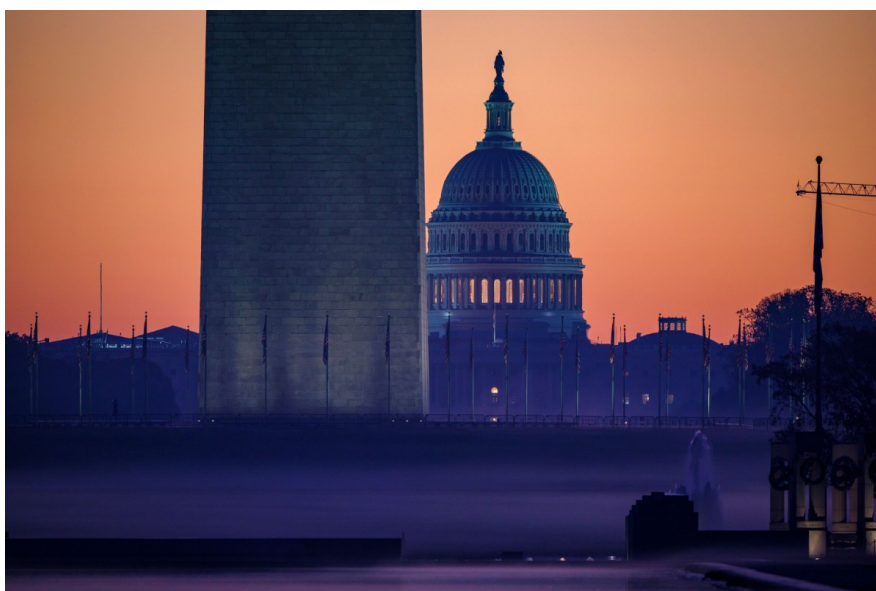
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Article | 5 November 2020

## November Economic Monthly: Navigating a sea of waves

Hopes of a 'blue wave' in the US election are giving way to concerns over a second wave of Covid-19 across several major economies. This poses...



Source: Shutterstock

November seems to be the month for making waves. In the United States, the anticipated 'blue wave' proved elusive in the presidential election and Joe Biden's narrow lead in some key swing states suggests waves of recounts and possibly also waves of legal allegations and lawsuits could follow the eventual result.

In Europe, a second wave of the virus has led to the second wave of lockdown measures, which will almost inevitably push most economies into a double-dip recession and will probably trigger new waves of monetary and fiscal stimulus.

The US election has been a nail-biting event and is, unfortunately, still undecided at the time of finalising our latest Monthly update. The only silver lining to the election going into extra time (for us, at least) is that our analysis of a Trump or Biden presidency on the US, Asian and European economies has a longer shelf life. And there will be more excellent coverage of the US elections from my colleague James Knightley. Stay tuned.

In Europe, some social distancing restrictions in October were not enough to prevent a second

wave of new infections. As a consequence, many countries have gone into lockdown again. Some of these lockdowns could be labelled as 'smart', others as 'light' and others simply as 'lockdown 2.0'. What all the lockdowns have in common is that they aim to restrict social interaction, which will mainly hit the service sector. As a result, the eurozone economy will fall into recessionary territory again in the final quarter of the year. The European Central Bank has already pre-announced that a new round of monetary support will follow at the December meeting. It is hard to see that governments will not start their own wave of fiscal stimulus soon as well.

While Europe grapples with a second wave of infections and the US is still in the midst of its first, Asia looks different. Up until now, most Asian countries have managed to stave off a second wave. Better experiences in dealing with past pandemics as well as mask-wearing, testing and sometimes resolute tracking and quarantining are probably the main reasons why Asian countries are doing better than the US or Europe.

Against this background, we have once again updated our three macro-economic scenarios going forward and introduced more region-specific differentiations. The second wave of the virus makes it impossible to come up with a one-size-fits-all underlying assumption. Regarding Europe, the former first risk scenario has now become our base case scenario.

New lockdowns, possibly on-and-off until spring next year, and the gradual rolling out of a vaccine in the first half of next year are the underlying assumptions. With the new restrictions, the eurozone economy will not return to pre-crisis levels before the end of 2022. For the US economy, our base case scenario is still one without new lockdowns but the European experience of the last few weeks illustrates how fast such assumptions can change. The only region for which our underlying assumptions look extremely solid is Asia. To use the ECB's language, risks to the outlook are rather tilted to the upside.

To some extent, Asia currently resembles the rock in an economic sea of many waves.

## The second wave of lockdowns in Europe

	Germany	France	Italy	Spain	Netherlands	Belgium	Portugal	Ireland
								
Restaurants & bars closed	Yes	Yes	Yes, after 6pm	No, with regional exceptions like Barcelona	Yes	Yes	No	Yes
Curfew	No, but no domestic touristic travel	No, but limited non-essential travel	Yes	Yes, except Canary Islands	No	Yes	No, but limited non-essential travel	No, but limited non-essential travel
Non-essential retail closed	No	Yes	No, with possible local exceptions	No	No	Yes	No	Yes
End of measures	Nov 28	Dec 1	Dec 2	Nov 9, possibly extended until Mar 2021	Mid-Dec	Dec 1	Nov 14	Dec 1

Source: ING Research and national government announcements

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Article | 5 November 2020

## US: Groundhog Day

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Source: Shutterstock  
New York

### Biden Constrained

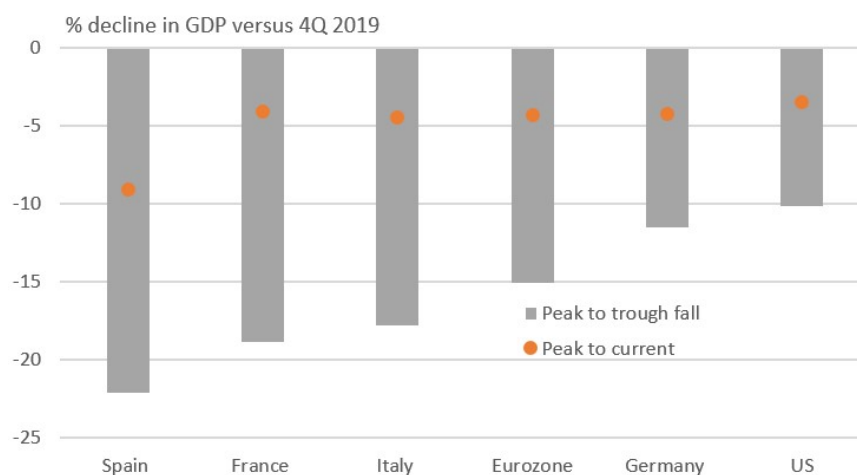
Heading into election night there was an expectation that Joe Biden would win the presidency handsomely and this would help sweep the Democrats to an even bigger House majority and control of the Senate for the first time since 2015. While voters turned up in their millions for Biden, they did the same for Donald Trump, making it a far closer outcome than polling suggested was likely. At the time of writing, it looks as though the Republicans have just about clung onto the Senate and have weakened the Democrat House majority marginally.

Nonetheless, Donald Trump seems to be exploring all possible avenues to retain the Presidency. Recounts, legal challenges and possible court cases mean it could be a few more days or even weeks before we have a definitive outcome while a Senate seat run-off in Georgia won't happen until January.

The initial market reaction has seen the Treasury yield curve flatten at lower levels on the basis that this outcome makes an aggressive reflationary fiscal stimulus - that would have led to greater debt issuance (like the \$3.4trn package proposed by House Democrats) - less likely. Republican Senators will simply oppose it. Equities are also up strongly, likely reflecting an assumption that

this outcome diminishes the prospect of major corporation tax hikes while regulations surrounding financial services, healthcare, big tech and real estate may end up being less onerous than feared. At the same time, a Biden presidency would likely mean a more predictable global trade backdrop, which is good news for businesses with international supply chains.

## US economy still 3.5% smaller than 4Q19



Source: Macrobond, ING

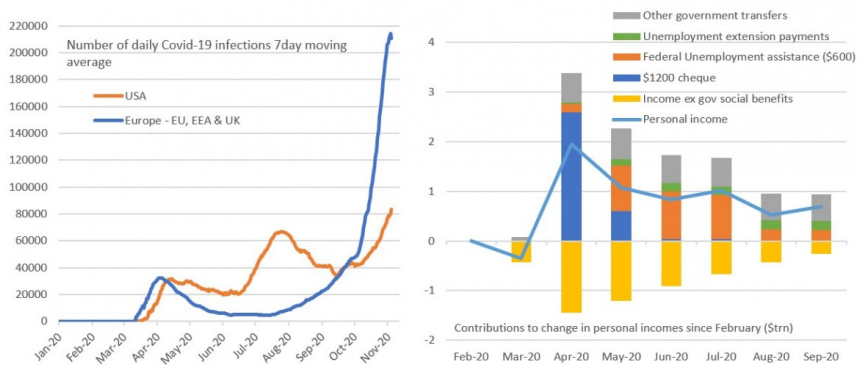
## A long time to heal...

However, this positive sentiment could swiftly dissipate. We must acknowledge the risk that political animosity between Democrats and Republicans, especially if there are lengthy legal battles over the election, scuppers the potential for another near-term fiscal support package. This would be very bad news for the economy. While the US recorded a 33.1% annualised growth rate in the third quarter, we should remember that output is still 3.5% below that of the end of the fourth quarter 2019 and there are 10 million fewer Americans in work than in February. There is a long way to go until the economy has fully healed and this process looks set to be further delayed by the headwinds from rising Covid cases and squeezed household incomes.

More than 230,000 Americans have already lost their lives to the pandemic and the fear is that the exponential growth rate in European Covid cases, followed by lockdowns, may be a prelude to what the US faces in coming weeks. Colder temperatures mean more people congregating inside and the potential for virus spread is growing – for example, Halloween parties and the Thanksgiving holiday could fuel the number of cases.

We are already seeing curfews and other restrictions re-introduced in some cities. Should hospitalisation rates rise and healthcare systems start to struggle this may necessitate the return of broader and more restrictive containment measures.

## Covid spike and income squeeze threaten the recovery



Source: Macrobond, ING

### With more pain to come...

Such action would inevitably bring economic damage. While the construction and manufacturing sectors may escape the scale of lockdown experienced earlier in the year, the service sector is unlikely to be as fortunate. Even if we see only limited action, health fears could mean consumers vote with their feet and not go to shops, restaurants and gyms. Activity would weaken in any case.

New business restrictions would mean rising worker lay-offs and weaker employee compensation at a time when unemployment benefit payments are being cut back. Remember that the \$600/week Federal payment has been tapered to \$400 (and to \$300 in many instances) while millions more have now exhausted their 26 weeks of state unemployment benefits. As such, we have to contend with the very real possibility that household incomes fall in December in the absence of another short-term government support package.

Trying to quantify the impact of this is challenging. The economy has good momentum right now and we see this continuing through November, but December is the big unknown.

Remembering back to the beginning of the year, the economy started brightly and this continued through February. However, just a couple of weeks of lockdown in March was enough to turn what was looking likely to be a 2.5%+ quarterly expansion into a 5% annualised contraction.

Pencilling in a 3.5% month-on-month fall in consumer spending in December and a further 1% decline in January, with some weakness in other components of GDP, leads us to look for sub-2% growth in 4Q and an actual negative GDP reading for the first quarter of 1Q21. The more severe the restrictions, the more severe the contraction.

### Vaccine remains critical for recovery

This development would be detrimental for risk appetite with the yield curve flattening at lower levels and be supportive for the US dollar against those currencies exposed to the recovery cycle as the reflation trade gets delayed. In the event of very limited fiscal support, the Federal Reserve may feel compelled to step up asset purchases at the longer end of the yield curve.

This is a more pessimistic forecast than what we were predicting last month, but we believe the set of containment measures will be shorter lasting and less restrictive than those experienced earlier in the year.

Obviously, a vaccine would be a huge boost to sentiment and would allow businesses to plan for the post-pandemic future, with economic activity rebounding once the rollout gets underway. We also still feel there is scope for a decent stimulus package in early 2021 with President Biden at the helm, but it may end up being closer to the \$1 trillion (5% of GDP) package proposed by Senate Republicans rather than \$3 trillion House Democrat package. If we can get this, combined with a vaccine, it still gives us optimism that the economy can post robust growth through the rest of 2021 and into 2022.

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## FX markets: Lowering your sights

FX markets have reacted to news of a much closer US election by selling currencies most exposed to the global recovery story and buying USD and JPY....



Source: Shutterstock

Election 2020, Tokyo, Japan - 04 Nov 2020

### Scaling back the rally

FX markets went into the election priced for a Biden clean sweep. Large fiscal stimulus expected in January, a return to the rules-based trading system, and a Federal Reserve ready to run the economy hot had all contributed to the broad dollar decline and (helped by Covid trends in Asia) generated good demand for those currencies exposed to a rebound in global activity – or the reflation trade.

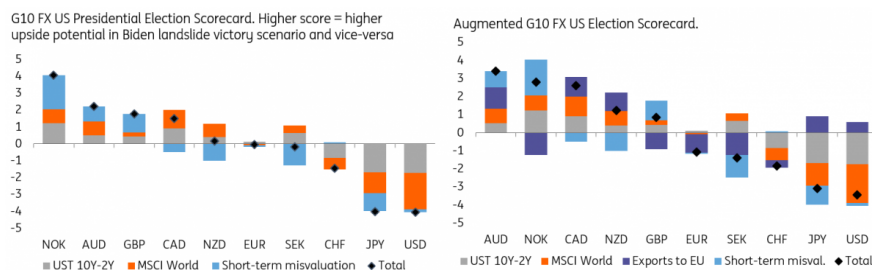
Instead, it looks very much like the Democrats will struggle to grab the Senate (suggesting a smaller fiscal stimulus as parties continue to bicker) and that whichever candidate secures 270 electoral college votes, that vote could well be challenged. A contested election looks a clear negative for risk assets, recalling the 8% decline in the S&P 500 back in November 2000 as the Supreme Court spent a month deliberating over a Florida recount.

We have been highlighting FX market sensitivities to the global recovery trade in articles such as the [G10 FX Election Scorecard](#) and these correlations have been holding up well. Further pressure on US equities and a flatter US yield curve would see Norway's krone and the Australian dollar as the most exposed, while the Japanese yen and US dollar should perform better during this



uncertain environment. For choice, we would probably favour the JPY over the USD given the risk of a 'sell US' mentality emerging were the election result to be contested in the courts.

## Which currencies are most exposed to the reflation trade/Biden clean sweep?



Source: ING

## EUR: The headwinds are growing

Despite Europe heading into second wave lockdowns, EUR/USD had been holding up quite well. This was probably a function of the broad dollar decline – or effectively the global recovery story trumping the setback in Europe. After election night, the global recovery story is clearly providing less support now and instead, the European double-dip may play a greater role in EUR/USD pricing.

Here, the European Central Bank looks set to top up quantitative easing in December – [a move the ECB sees as effective in keeping a lid on the euro](#). Until the US election result is clear, we suspect that EUR/USD trades in a 1.15-1.20 range – gyrating lower on prospects of a Trump presidency (more protectionism, targeting Europe?) and higher on a Biden presidency. Into 2021, however, we still lean towards a post-Covid global recovery trade coming through next summer. An ensuing broad-based dollar decline could still see EUR/USD trade up to 1.25 – but headwinds are growing to that call.

So far, emerging market currencies have actually held up a little better than expected. That may be because both the Fed and the ECB have light-trigger fingers when it comes to supplying fresh liquidity and that low core rates continue to favour a drive out along the credit curve into high yield, emerging market FX. We like this story in 2021, but again feel that an uncertain November – including the threat of renewed US lockdowns in December – favour patience when returning to the EM growth/yield investment theme.

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Article | 5 November 2020

## Rates: You think you've seen it all? Wait for it...

Picture what many term the most important US election in living memory. Frame it within a global pandemic not seen in 100 years. Add massive supply to get...



Source: Shutterstock

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

### Plenty of distractions, but a clearer path emerges ahead

While there is confusion and uncertainty in the air in the US, we know far more now than we did before election day.

The outcome being baked into market price action looks beyond potential re-counts or election validity objections that can muddy things in the coming weeks. The focus is squarely on a Joe Biden administration outcome, but constrained, as the Republicans keep the Senate. And crucially, so far, markets are concentrating on the positives from this. Hence the buying of risky assets like equities.

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*Where congress acts as a policy bloc to Biden in the coming years, some of the more extreme policies are watered down.*

## *Such gridlock gives Wall street less to stress about*

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But what about bonds? Typically when equities are in favour, bonds are not, and yields head higher in consequence. Here, the impact effect has seen the 10-year US yield lurch lower, from 95bp to 75bp. A 20bp move is a huge move in proportion to the absolute level of yield. In the bond world, these are big valuation changes over the course of 24 hours.

Now we ask a two-pronged question, why have we had this impact, and more importantly, where do we go from here.

### **The constrained nature of the presidential outcome is key**

The rationale for the fall in yields reflects a relief factor.

An unconstrained Biden outcome had positives as it would likely come with a large stimulative package, which would then need to be financed. That combination would be good for growth, but also heavier on supply. In contrast, a constrained Biden likely means a smaller stimulus, with means less of a boost for growth and a smaller increased in supply.

This backdrop together, with an extrapolation where Congress acts as a policy bloc to Biden in the coming years, means that some of the more extreme policies are watered down.

Such gridlock gives Wall street less to stress about, which in part helps to answer the second question. The prognosis remains in place for a 2021 recovery. A boost to growth would ease supply concerns, as the economy keeps better pace with the debt. This maintains a view for a 1 handle for the US 10yr yield in 2021.

### **Despite the uncertainty, the US is still in the lead vs Europe**

While a 1 handle for the US 10yr may not appear to be an aggressive call, it is by definition a definite separation from the negative rates world that the Eurozone continues to endure. The prognosis here is for a re-widening in the spread between US and German market rates.

Pre-Covid, the 10yr spread was over 2%. Covid took it to 1%. It should be in the 1.5% to 2% area as a theme in the quarters ahead. Resumed steepening pressure will also likely come from the US, which is good as it means that the curve is discounting reflation of the economy.

There are near-term risks though. Calls for selected re-counts in the US presidential election will add some toxicity to the backdrop. Meanwhile, a Covid resurgence in Europe is acting to keep German rates hammered down in negative territory, and the remedy from the ECB is to buy more bonds - a double whammy keeping market rates hammered down.

Bottom line, the US remains in the driving seat when it comes to eventual resumed upward pressure on yields. But in the short term, expect election volatility to resume itself, and that together with European angst is keeping core rates under wraps generally in the coming weeks.

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## Asia escapes fresh Covid waves and remains in better shape

From Asia, the pandemic situation in Europe and the US looks bad and threatens the regions' exports. But the absence of a second wave (or third where...



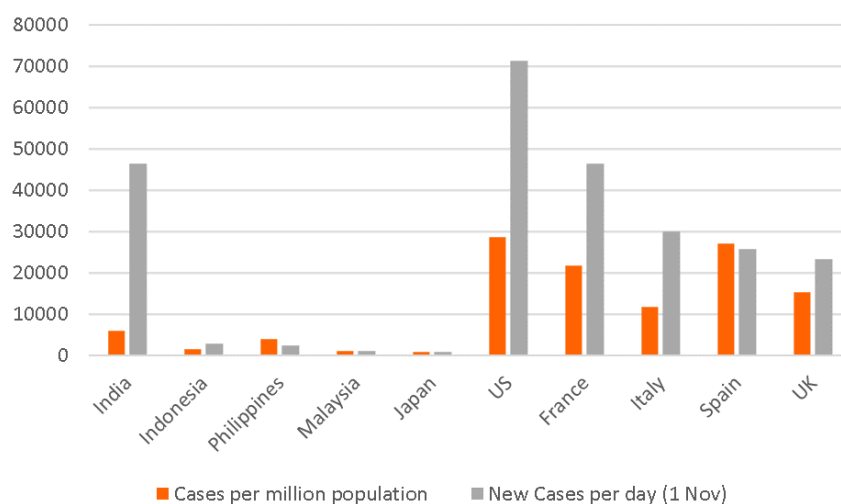
Shoppers in a market in South Korea

### Domestic demand holding up

The domestic demand backdrop in Asia remains reasonable - not great, but given the backdrop, reasonable. And in large part, this is because few countries are suffering particularly badly from Covid-19. In fact, in some cases, it is virtually absent except for the few cases cropping up in quarantined arrivals.

Even the worst affected countries in APAC don't look all that bad when viewed against the US or selected European countries. By far the worst affected country is India, with daily cases averaging between 40-50,000. That's about the same as France today. Adjusted for population, India's 5,944 cases per million of the population looks small compared to Spain's 27,042, or the UK's 15,218, though one might quibble over the comparability of the data.

## How Asia's worst Covid-19 affected economies compare internationally



Source: Worldometer

Asia Covid-19

## Asia's worst-affected economies aren't too badly hit

The two other countries in Asia that have not been having “good” pandemics are Indonesia and the Philippines. Indonesia has already had more than 400,000 confirmed cases in total and the daily case tally is still running at about 3,000. But this is down from its peak of just under 5,000. The Philippines averages something close to 2,000 cases per day, for a total of about 380,000 cases so far. Like Indonesia, although the daily case numbers remain “high”, they are well down from their earlier peaks, of over 6,000, and don’t look too bad on an international basis. Social distancing restrictions remain relatively tight in both countries on a regionally targeted basis, but should both ease this month.

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*This has the makings of a third wave and will need close watching*

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Japan has never had a particularly bad outbreak of Covid-19, with just over 100,000 cases in total, and a daily peak during the second wave of just under 2,000. Cases have since dropped, though are heading slowly higher again at about 750 per day. This has the markings of a third wave and will need to be watched closely particularly as its marked seasonality means Japan may have more in common with Europe than with South East Asia.

But Malaysia has also had a second wave of Covid, which is a helpful reminder for other countries in the region that a nice climate is not necessarily strong protection against the virus, though it probably does offer some advantages to colder and wetter countries in the Northern hemisphere. Average daily Covid-19 counts topped 1,200 in Malaysia in October, but are now below 1,000 and trending lower.

## For some, Covid-19 is barely a problem

Outside of these countries, the numbers remain extremely low. South Korea has a low level but fairly steady daily new case-count slightly in excess of 100. China's seven-day average of confirmed cases is less than 30, and in Singapore, Hong Kong, Thailand, Taiwan, Australia and New Zealand, average daily cases are in single digits, or virtually zero. Where they do occur, they are usually confined to imported cases for quarantined travellers and pose little or no transfer risk to the broader population.

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*In Japan's case, the numbers never really rose high enough to merit the sort of national lockdown response that has been required in other parts of the world*

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Where cases remain on the high side in the region, lockdowns and other restrictions have typically been put in place quite slowly and often have just chased regional outbreaks with regional mobility restrictions, in much the same way that Europe has been doing until recently. In Japan's case, the numbers never really rose high enough to merit the sort of national lockdown response that has been required in other parts of the world, though they seem to have been particularly lucky, rather than particularly skilful in stemming the tide of the virus. The national emergency Japan implemented was itself a recommendation rather than mandatory or backed by legal enforcement.

Elsewhere, no single policy seems to have been critical to a successful outcome, though a combination of strong test, trace and isolation capabilities, strict lockdowns when required, strong border controls (being an island helps) backed by effective and enforced quarantines, rapid implementation of all such policies when required, and only slow and phased relaxation seem to provide some factors that other economies might wish to emulate.

## Our forecasts remain within the base case scenario

It looks as if most of Asia-Pacific will avoid a second wave, and for those that have already had one, a third wave.

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*GDP per capita disparities are likely to widen further over the coming few years of recovery*

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That means that for the most part, we can stick with our original base case views for economic activity for the economies of the region. And that is for a continued gradual recovery towards 4Q19 levels somewhere between the end of 2021 and 2022. The timing of this being primarily dependent on how bad a pandemic each economy has had, how long and how weak external demand remains (the international environment), and how much and how effective local fiscal support measures are to offset the economic ravages of the pandemic.

Effective governance to stem the spread of the virus has typically been associated with the higher income-per-capita countries of the region, and so too (not surprisingly) have fiscal support measures. This implies that GDP per capita disparities are likely to widen further over the coming few years of recovery.

## A snapshot of current social distancing requirements and restrictions

**Korea** – Lowest of three-tier social distancing except for Metropolitan Seoul which remains on tier two for some elements (tier two bans indoor gatherings of 50 or more or outdoor events of 100 or more).

**Australia** – Varies by state. Melbourne, which has been the worst affected, entered stage three restrictions on 27 October, which removed restrictions on reasons for leaving your home following the strict lockdown in the city. Rules are due to be relaxed further on 8 November.

**Japan** – Largely voluntary calls for social distancing, and use of “warning levels” and appeals for limiting opening hours of Karaoke bars and restaurants.

**New Zealand** – No national or local measures since Auckland lifted its restrictions to combat a second wave in October. Restrictions on international arrivals.

**China** – Still using the health code app to scan potential Covid infections, which has been effective, so locations without any Covid cases have limited social distancing measures. Cross provincial travel allowed with a green health code.

**Hong Kong** – Maximum number of people gathering ( 6 for restaurants, 4 for bars). Longer operation hours to 2am. After the initial relaxation, the government says further relaxation is difficult. Cross border travel still faces quarantine, including to and from Mainland China.

**Taiwan** – From 24 September, a Mainland China spouse can apply for entry to Taiwan again but needs 14 days quarantine. It is more relaxed in general, but like Japan, most measures adhered to on a voluntary basis.

**India** – Restrictions vary by state depending on the severity of Covid-19. Reopening of public transport in main cities such as Delhi and Mumbai as well as colleges and entertainment places in some states. Easing of restrictions on social gatherings with up to 200 people in some states. Restaurants and bars operating at 50% seating capacity.

**Thailand** – Extended Covid-19 state of emergency until end-November even as borders are being opened for foreign visitors with the commitment of at least 30 days of stay.

**Malaysia** – Tighter restrictions in Federal territories of Kuala Lumpur and Putrajaya and states of Sabah, Selangor and Johor, which were declared “red zones” recently. The measures include banning of inter-district travel other than for work and closure of schools, public parks, recreational centres, and places of worship.

**Singapore** – Opening of borders for travellers from select countries (Australia, Brunei, China, New Zealand, and Vietnam). More people are allowed to return to their workplaces, with



staggered working hours, as well as to attend work-related gatherings. Limited pilot-programmes under consideration for the safe reopening of bars, karaoke and nightclubs.

**Indonesia** - In effect until mid-November, Jakarta, Banten and 5 other regions in West Java currently under partial lockdown. 11 identified industries (food, medical services etc) allowed to operate at 100% capacity, others encouraged to work from home or operate at 50%. Restaurants and recreational facilities may operate at 50% capacity with contact tracing conducted for in-person dining. Public transportation operating with social distancing guidelines. Frequency of trips controlled.

**The Philippines** - In effect until the end of November, General community quarantine (GCQ) is in effect in the capital region, surrounding provinces and select areas with a high density of infection. Movement for citizens aged 21 and younger and 60 and older prohibited as are gatherings of more than 10 people. Public transportation operating at 50% capacity. "Essential industries" (power, food, etc) operating at 100% capacity. Other sectors at 50% capacity. Mall operations are limited. Recreational facilities and hotels not operating except for quarantine centres.

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# China's next five-year plan starts in 2021

The Chinese government's views on technology development are the most important feature of China's 14th five-year plan, which begins in the new...



China's President, Xi Jinping, on a big screen in a Beijing shopping centre

## The 14th five-year plan draws the policy map

It is very important to read and understand the next Chinese five-year plan correctly. This is China's policy roadmap for the coming five years, and the Chinese government's track record has been to stick very firmly to these plans.

The new plan includes extending some policies from the previous five-year plan, for example, 'high-quality' growth still appears as a key theme, which is essentially an extension of China's previous objective of becoming a middle-income society. Though there is no numeric growth target, we understand that the aim is to keep income growth stable, which implies economic growth should also be the same.

The assumed growth in this plan will come from the domestic market, much of which is already middle-class. China also wants to extend the previous plan's objective of narrowing the wealth gap between the rural and urban population.

## Tech remains the key focus

The new plan has a dedicated section for technology development and the clear objective is for China to become self-reliant on tech development, create and innovate in this area and build on talent too. These goals echo the current situation that China faces from restricted US exports of technology.

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But the plan does not mention how China could survive the technology export market when there is increasing resistance overseas to technology 'Made In China'.

Perhaps the answer is to tap the Belt and Road market as well as the big domestic market, which the plan does mention. However, we don't think this is enough. What concerns us is that the resistance to adopting Chinese technology could become a trend when other economies perceive the increasing power of China as a threat to their own economic growth.

## Green also contributes to high-quality growth

The latest plan also targets a "green" living style as part of its ambitions for high-quality growth. The plan's objective is to speed up low carbon economic development and increase efficiency in the use of resources.

The plan not only aims at protecting the environment but also restoring it, which is a new concept in Chinese policy.

## Implementation is the focus

The government has already started implementing the plan. More actionable steps will be revealed in the upcoming Two Session meetings, in March.

As we have previously written, the most difficult part will be the export of technology, which we believe the government has tried to address by persuading its Belt and Road partners to use Chinese tech products. But those partners are also under pressure to adopt technology from other big players in this market, so their support cannot be taken for granted.

## US: Fed could yet be called into action

Unsurprisingly, given ongoing vote counting, the Fed chose not to rock the boat and has left monetary policy and its communications unchanged. They stand...



Source: Shutterstock  
Federal Reserve

### Federal Reserve plays it safe

The Federal Reserve voted 10-0 in favour of leaving the Fed funds target rate at 0-0.25% and will maintain bond-buying “at least at the current pace”.

There were barely any changes in the text of the accompanying statement with officials reiterating that in their view “the ongoing public health crisis will continue to weigh on economic activity, employment, and inflation in the near term, and poses considerable risks to the economic outlook over the medium term”.

Their forward guidance is also unchanged with the current level of interest rates expected to be maintained “until labor market conditions have reached levels consistent with the committee’s assessments of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time.”

Remember that their September dot diagram of individual FOMC member predictions has rates on hold through to the end of 2023.

## The case for more fiscal stimulus persists

None of this comes as a surprise. The Fed would have been reluctant to be drawn into what is already a fraught political backdrop as the vote count continues and threats of prolonged legal wrangling linger.

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*Fed Chair Jerome Powell was reluctant to offer much on what the election means for the economy and in turn central bank policy*

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This caution continued into the press conference with Fed Chair Jerome Powell reluctant to offer much on what the election means for the economy and in turn central bank policy. Nonetheless, he continues to make the argument that more fiscal policy support “may be needed” since the pace of improvement in the economy has “moderated”. Moreover, not everyone has benefited to the same extent from the upturn so far and the pandemic presents ongoing headwinds for growth.

This ties in with Jerome Powell's repeated assertion that monetary policy cannot generate demand. If you want that, it has to be through government spending - although he was at pains to point out that it isn't for the Fed to give direct advice to Congress on the size or timing of additional fiscal stimulus. These comments have seen the dollar come under pressure again - similar to previous press conferences at which he has argued for more stimulus - since it helps the reflation trade case.

This in turn supports currencies more tied to the economic cycle such as NOK, AUD and to a lesser extent, EUR.

### The election, Covid-19 and future Fed policy

The election result is not as clear cut as opinion polls suggested it would be, but we still anticipate that there will be a fiscal package in excess of \$1trn next year (equivalent to around 5% of GDP). This stimulus, when combined with a long-anticipated Covid-19 vaccine, can really lift the economy and drive growth. We consequently remain very upbeat on the prospects for 2021 and 2022.

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However, we are becoming more concerned about the near-term story with unemployment benefit income being tapered sharply for millions of households at a time when Covid-19 cases are rising rapidly. We have to acknowledge the possibility for the return of pandemic containment measures here in the US, similar to what Europe is currently experiencing, in an effort to limit the potential strains on the healthcare sector. The downside is that it will restrict activity and could prompt a period of economic contraction.

Legal challenges surrounding the election could increase the degree of political animosity and that may hamper the ability or the desire for politicians to sit around a table and agree to a package of measures that could support the economy until a vaccine can be rolled out. At the very least it may mean action doesn't come as swiftly as the CARES Act did earlier in the year and this could make the Federal Reserve feel compelled to step up. This could involve asset purchases and/or liquidity injections to calm nerves and smooth market functioning if we are correct and the economy does enter a more troubled period.

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# UK: Lockdown to shave 6-7% off November GDP

We expect the return of lockdowns in England will shave upwards of 6% off November GDP, and all-but-guarantees a QE top-up by the Bank of England this...



Source: Shutterstock

Britain's Prime Minister Boris Johnson, center, stands with Chief Medical Officer Professor Chris Whitty, right, and Chief Scientific Adviser Sir Patrick Vallance attend a press conference in 10 Downing Street

## In short: Economy to record sharp hit on England lockdown

Lockdown measures are set to return to England this week, and we think that will take roughly 6-7% off monthly GDP for November, following a forecasted 1% contraction in October. That figure could rise if some schools are closed, or if there is a knock-on effect on industries not officially required to close.

For the fourth quarter as a whole, that's likely to mean a contraction of roughly 1.5% if most restrictions are lifted in December, or 2%+ if restrictions last longer.

## The economy probably won't be hit as hard as in April

The effect of the existing restrictions from October and the new ones for November probably will

result in a combined hit of roughly 7-8% to monthly GDP. By any normal measure, this is a very sharp contraction. That said, it's clearly not as sharp a decline as we saw at the beginning of the pandemic, where during March and April we saw a 25% contraction.

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*We think the November lockdown will put the economy back to around 14-15% below its pre-virus levels*

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The most obvious explanation for this is that this lockdown is not as restrictive. While the 'stay at home message' is similar, the manufacturing and construction sectors will remain open, as will schools. While we've assumed a small knock-on effect for these industries, they should largely be able to plough on unaffected.

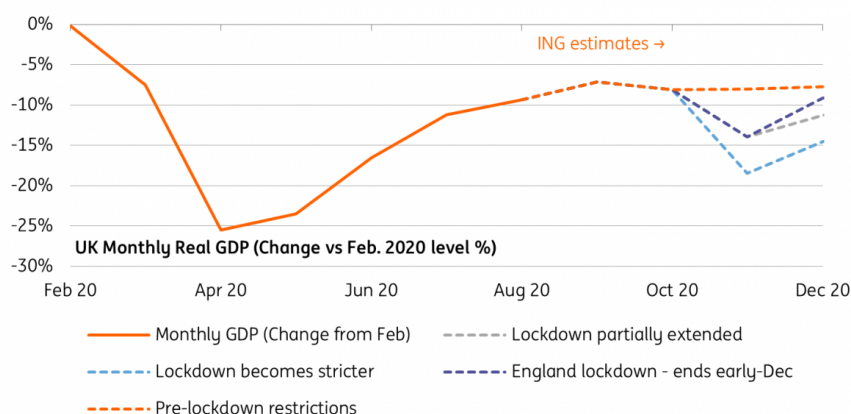
Were these industries (including schools) to have been hit by closures, then the hit to November GDP would be in excess of 10%.

But it's also worth remembering that the economy hasn't fully regained its pandemic losses - GDP was still down by 9% in August and we suspect around 7% in September. Put simply, the damage looks less stark than in the initial lockdown, partly because there is less ground to be lost. We think the November lockdown will put the economy back to around 14-15% below its pre-virus levels.

This lockdown will also be different because businesses have adapted. Cafes and restaurants are better set-up to cater for takeaway, while the high street will be more geared up for click-and-collect. That suggests the hit to the most heavily affected sectors - hospitality and retail - may not be as large as it was back in April. Differing restrictions in Scotland, Wales and Northern Ireland, which could remain slightly looser through November relative to England, will also modestly lessen the hit to GDP

We also saw a range of businesses shut in response to the first stay-at-home order in March who were not necessarily required to close. Many essential businesses temporarily halted or limited operations to implement new Covid-19 safety measures. This is much less likely to be the case today.

## How lockdown will hit UK monthly GDP



Source: Macrobond, ING forecasts

\*Partially extended - shops largely reopen but hospitality mostly stays closed



## The impact on 4Q GDP depends on how long this all lasts

Prime minister Boris Johnson announced on Saturday that the country will return to its three-tier system in early-December. But the big question is whether the chief scientists will be comfortable that Covid-19 prevalence has fallen sufficiently to justify such rapid reopening. It is likely to be at least 1-2 weeks before we see the rate of case growth slow, and there is uncertainty over how the change in the pandemic curve will compare to the first lockdown given that schools and workplaces remain open.

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*A rapid reopening in December will probably limit the fall in quarterly GDP to around -1.5%. A more protracted scenario with hospitality shut for much of the rest of the year could see that slip to -2% or more*

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An extension in one form or another, therefore, looks possible. One scenario might be that non-essential retail reopens in early December, not least because this is a key trading period for the high street ahead of Christmas. But hospitality could remain shut in large parts of the country for a longer period.

Unsurprisingly this timing will have a strong bearing on the overall fourth-quarter GDP numbers. A rapid reopening in December will probably limit the fall in quarterly GDP to around -1.5%. A more protracted scenario with hospitality shut for much of the rest of the year could see that slip to -2% or more.

If that sounds a bit tame, that's because there are strong base effects at work. Schools reopened in September and because this feeds into the GDP data, we'll likely see a strong end to the third quarter. That in turn means that the fourth-quarter growth figures will appear higher than you would expect based on the monthly contractions we expect.

## Bank of England QE expansion now baked in

Renewed lockdowns mean that action from the Bank of England this week is all-but-guaranteed. We expect policymakers to announce a £100bn extension to its quantitative easing programme, allowing purchases to continue at the current monthly pace until early summer next year. However, it's too early to expect anything tangible on negative rates - the central bank is still in the process of canvassing the opinions of banks on how the policy might hit profitability.

We'll be releasing a full preview ahead of Thursday's meeting.

## Brexit deal looking increasingly likely

The chances of a UK-EU trade deal have been growing over recent weeks, but as ever the ball remains largely in the UK's court on the key issue of state aid.

However the return to lockdowns will inevitably add further political impetus for there to be an agreement. The UK government has slipped behind the opposition in some recent polls, while there is a sense that a no-deal scenario could further boost the campaign for Scottish Independence,

something the government in London is keen to avoid. There's also a fair chance the UK, and parts of Europe, could still be in some form of lockdown at New Year, and a 'no deal' scenario could therefore be even messier than it might otherwise have been.

We, like most other analysts, therefore think a deal will be wrapped up in coming days. Against the backdrop of lockdowns, a key economic question in the short-term will be what provisions (or unilateral actions, especially on the EU's part) are included alongside the deal to help limit the initial disruption for businesses.

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# Green opportunities in a post-Covid world: What CEE countries should do next?

Policymakers have also been presented with an unprecedented opportunity to shape the economic recovery in a more climate-friendly way. In this report, we...



Source: Shutterstock

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Report | 5 November 2020

# November Economic Monthly: Navigating a sea of waves

Hopes of a 'blue wave' in the US election are giving way to concerns over a second wave of Covid-19 across several major economies. This poses...



Source: Shutterstock

**Covid-19 economic Scenarios**

Covid-19 in winter (A, B, C) + Vaccine rollout (I, II, III) = ING forecast combinations

**Phase 1: Covid-19 spread before vaccine**

	Scenario (A)	Scenario (B)	Scenario (C)
	ING Base – Moving towards B from A		
<b>United States</b>	Modest restrictions in some hotspots as hospitalisations rise, but differ between states. Focus on limiting spread rather than closing businesses	US follows Europe into tighter restrictions in a majority of states. Construction and manufacturing open, but hospitality heavily impacted	Further waves of Covid-19 push US into stricter lockdowns. Stay at home orders return. Non-essential retail shuts along with other close-contact services
	ING Base		
<b>Europe</b>	Lockdowns succeed. Case growth falls, economies reopen quickly after short-lived lockdowns. Rapid testing capability and more controllable virus growth allows contact tracing to work more effectively until a vaccine arrives	Tight restrictions remain until close to Christmas. Retail and some hospitality reopens or stay open but rules on household mixing remain stricter than before. Fears of more circuit breakers remain. Vaccine will be rolled out in H1 21.	Lockdowns persist into 2021 or get stricter in the case of light lockdowns. Case growth takes much longer to slow than in April/May. Retail reopens/stays open but strict rules on household mixing largely prevents hospitality and tourism restarting until spring
	ING Base		
<b>Asia</b>	Case numbers remain low or very low by international standards, and typically falling. Social distancing restrictions remain tight, but slowly easing, including international travel bubbles	Repeated but isolated clusters dealt with by regional test, trace and isolation measures and brought swiftly under control, though no easing in overall distancing conditions	Asia follows the rest of the world into a second or in some cases third wave and national measures re-imposed to squeeze out the virus. International travel bubbles closed

**Phase 2: Vaccine development and roll-out**

	Vaccine Scenario (I)	Vaccine Scenario (II)	Vaccine Scenario (III)
<b>Vaccine timeline</b>	Several vaccines viable. Roll-out begins in 2021. First approvals in late-2020, but sufficient rollout not achieved much before summer 2021. Social distancing measures fully-unwound from 2H21.	Handful of vaccines viable. Differential roll-out in 2021 across economies. Countries higher-up the orders list of successful vaccines see earlier roll-out and quicker emergence from social distancing rules.	Vaccine development takes longer. Disappointing phase III trials mean no vaccine candidate emerges until later in 2021. Intermittent lockdowns and social distancing continue until 2022 or later

**ING forecasts** under each different scenario combinations

	Combination (A, I)	Combination (B, II)	Combination (C, III)
<b>Forecasts</b>	2021 GDP US: 4.6% Eurozone: 6.1%	2021 GDP US: 3.6% Eurozone: 3.5%	2021 GDP US: -1.1% Eurozone: -0.5%

Source: ING

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