

Asian markets positioning for blue wave

Stock futures up, bond yields up, Asian FX vs US up, oil up



Polls barely closed but Asia is already taking a punt on the outcome

With most polls not even closed yet, Asian markets have kicked off this Wednesday by what looks like an expectation for a Biden Presidential victory, along with re-control of the Senate for the Democrats. EURUSD is up sharply and the USD has also weakened against the offshore renminbi, Indonesian rupiah and Australian and Singapore dollars to name just some of the region's key currencies.

Equities in the US were positive yesterday, after several days of on-off risk trading, and equity futures suggest this positive momentum, based on expectations of substantial fiscal support in early 2021 in the event of a Biden win, will carry over into today's trading.

The offset of this anticipated extra spending will be additional Treasury issuance to pay for it, and US Treasury yields are pushing higher today, with the 10Y UST up 9 basis points from yesterday to 0.858 as of writing. This will likely be echoed in local currency bond yields today, with the Australian 10Y, an early trader, already matching UST yield moves higher, despite yesterday's rate cut and expanded QE program.

For the record, we suspect the result might be considerably closer than markets are implying today, and it is our profound hope that we have greater clarity when we look again tomorrow, though we are fully aware that this might not be the case.

Oil - following USD for now

The asset class which is not quite following the script is oil. The oil market has focussed on the Iran sanctions element of a Biden win to suggest that extra supply could weigh on crude, but the generic front month West Texas Intermediate future is pushing higher, probably dominated by the USD's weakness. Chatting to our US Chief Economist about this recently, he views the immediate concern for Biden (if he wins) as being domestic policy, so the Iran story may be a late player in 2021 rather than part of any immediate market knee-jerk over today and the rest of the week.

RBA's easing has short-lived impact

OK - we were the wrong side of the RBA on rates yesterday, though we did get the QE decision about right. [There is a very good speech by Governor Lowe yesterday](#) outlining the justification of the moves, though I'll be honest, none of it, especially the bit about the RBA still having monetary firepower, were terribly convincing. With the cash rate at 0.1%, together with the 3Y yield target, and the interest rate on Exchange Settlement balances at zero, there really is no further rates can go.

Usefully, Lowe noted that the RBA's view on negative rates has not changed. *"...the Board continues to view a negative policy rate in Australia as extraordinarily unlikely".*

More QE is probable from the RBA in due course than the AUD100bn over the next 6 months (5-10Y tenors) that has been promised. QE is not a very powerful policy tool and requires bucket-loads of asset buying to have much impact. This could quickly become a problem given the shallowness of the Australian Government bond market.

The Reserve Bank of New Zealand (RBNZ) has fewer qualms about negative rates. And this morning's news of a rise in the unemployment rate in 3Q20 from 4.0% to 5.3% provides a perfect excuse for the RBNZ's Governor Orr to match or exceed the RBA's easing yesterday. And given what has happened to both Australian and New Zealand bond yields overnight, and to their respective currencies (both stronger) Orr may see the arguments for a more aggressive move, including a foray into negative rates. In short, take care tracking the NZD higher ahead of the next meeting on November 11.

Its payrolls week still if anyone cares...?

I don't think there will be much interest, but in case anyone is still watching the macro releases, the ADP survey is out in the US later today, ahead of the Friday jobs report and all-important payrolls number. And US trade data is also out. When President Trump came to power in early 2017, the trade deficit averaged somewhere between \$40 and \$45bn per month. it now averages

about \$60-65bn. Of course, we don't know what the counterfactual would have been, so its not a clear cut verdict on US trade policies, but in case you were interested...

Philippine Trade data and China's remaining Caixin PMI surveys will probably not bother markets substantially in a day that will be dominated by election headlines. Have a very good day.

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