

## Banking on a return to Normal-Lite

Optimism over fiscal stimulus, plus some better than decent US housing data may be what is driving markets. But it still feels as if this rally is built on flimsy foundations. Is an eventual deal what could bring this all crashing down? Or is the likelihood that 2021 will be better than 2020 cause for maintaining that optimism?



crushed mask

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### Timing difficulties

I need to top up my pension savings efforts. I can't rely on any savings funds in traditional accounts doing anything in terms of interest income ever again (that isn't just hyperbole), So effectively, my entire future "happiness" rests on the outcome of stock markets. That doesn't make me feel very comfortable, even if the current savings valuations appear encouraging.

So faced with the need to offset the fossilisation of any of my meagre savings in bank accounts, I need to give my stock savings a periodic one-off boost - the sort of thing many of you will also do sporadically.

But doing so when markets are strong or rising, as they are now, is always difficult. What if stocks

come off 10-15% within weeks of me topping up? Well, if it is any comfort, I probably made my worst savings decisions in falling markets, putting some of a previous redundancy package (pre-ING) into the stock market during the 2000/2001 recession/crash. It fell considerably further just after I had done this. Stocks did subsequently make all the losses back again, though it did take seven years to do so, and then subsequently immediately fell again to new lows, not reaching those 2000 peaks again until 2013. Actually, its not much consolation is it? Basically a zero return for 13 years. it makes what has followed since seem less unreasonable when viewed on a longer time horizon.

Current market strength seems to be based on a number of things, so let's tick them off and see what is likely to be lasting, and what ephemeral.

1. Fed support - I think it is reasonably safe that the Fed will remain supportive now, next year, and probably for the rest of time, especially if they adopt a policy of average inflation targeting, as they seem likely to do. One interpretation of which, given flat Phillips curves, is that they will never be able to raise rates again (again this is not hyperbole). There is a question about how long just staying accommodative will actually provide support though, or whether there will come a time when incremental easing will be needed for additional gains. I don't know the answer to that. But I'd be prepared to bet that the "support" will wear off in time.
2. The weakness of the USD is also providing some support, especially for US investors who don't see any gains wiped off in currency adjustments, though there is a spillover to other markets, so this is not quite a wash. But while USD performance is intrinsically linked to 1) above, it is harder, much harder to maintain that this will continue indefinitely. It is not as if the Fed is doing more than any other central bank to juice their markets and undermine their currency...But for now, at least, it is probably not a trend you would fight.
3. Fiscal support - this is less supportive than monetary policy since any deal that does get struck will almost certainly be less generous than the preceding one, so will by definition be more of a fiscal "contraction" than a "stimulus". Though of course, any deal is better than no deal (just not as good as the previous one), so perhaps it is only once the deal is struck, that a more sombre outlook will set in? More news about a possible concession by Nancy Pelosi yesterday seems to be providing markets with some additional pep currently. But the reality of a deal may be less supportive once struck.
4. The macro run of data: Last night provided some more very encouraging data on US housing, and the retail numbers have also been good. But residential construction doesn't account for much US GDP these days so isn't critical for the recovery, though other parts of the US economy do tend to do well if the housing market is in decent shape, so it can't be written off. The scale of support of the original fiscal package has provided a substantial boost to retail sales (consumer spending is about two-thirds of US GDP), and it is really not clear that this will persist if whatever deal is eventually struck (something will eventually be agreed), is quite a bit less generous than was previously the case.
5. The pandemic - given the proliferation of vaccines under phase 3 trials, and the apparently good progress being made by some of these, it does not seem unreasonable to look forward to 2021 with a sense of, if not business as usual, at least, "normal-lite" resumption, and that could also be a cause for more medium-term optimism. But having said this, I suspect it will be mid-2021 before most of us see a dripping needle zooming for our arm (hopefully arm...!).

Having performed the catharsis above, I feel mildly more relaxed about the forthcoming top-up.

I'm resigned to losing some of it short term, but hopefully, it won't take 13 years to make that back again, like last time.

## Japanese data still fairly horrible

With limited data out of Asia-Pacific today, let's focus in on the Japanese trade data for July already out (horrible core machine orders data also out, but for June - so too dated to be worth scrutiny).

The good news, such as it exists, is that it shows the trade deficit narrowing from JPY410bn to only JPY34.8bn. That was the product of a 19.2%YoY decline in exports (better than the previous 26.2% decline, but not much) but a 22.3%YoY decline in imports (worse than the previous month's 14.4% decline).

That import figure for July may hint at the weakness in Japan's domestic economy as it suffers a second wave of the Covid-19 pandemic and has resorted to stricter social distancing measures to combat it. Japan's daily new cases have peaked and have been slowly coming down since early this month. But they remain higher than the April daily peaks, and so it is unlikely that we will see much relaxation of distancing measures until daily case numbers fall below the April peaks, which at their worst tallied about 740 per day (the current seven-day moving average is still in excess of 1000).

## Bank Indonesia can't cut while IDR remains soft

Today's Bank Indonesia (BI) meeting is not expected to deliver any easing, and if it did, it would probably further weaken the IDR - the one currency in Asia-space that seems consistently weak against the USD despite the dollar's intrinsic weakness against just about everything else (month to date USD/IDR -1.65%). A rate cut would likely be self-defeating, by raising import prices on a softer IDR and could encourage a run on the USD/IDR 15000 level. As our Nicky Mapa in Manila notes, "IDR stability has been a factor in Governor Warjiyo's policy decisions in the past and we believe he will hold off on additional monetary stimulus for now".

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