

Opinion | 4 November 2018

## Easy come, easy go

Last week's trade inspired optimism in Asia looks short-lived as softer US stocks set the tone for the start of the week in Asia. US sanctions on Iranian oil exports are centre-stage today, with considerable speculation about which countries will manage to get exemptions, and on what the impact on benchmark crude prices will be.



Source: Shutterstock

### **Brent at \$72/bbl**

The fall in benchmark crude oil prices is welcome. At \$72/bbl, Brent sits in what I feel is the sweet spot for oil, somewhere between \$65 and \$75. I like this area as it is sufficiently high that the crude producers who buy a lot of Asian manufactured goods, can afford to do so. But it is not so high that importing countries see their current accounts, inflation rates, or even fiscal policy exploded (for those who impose price controls). Those likely to benefit most in Asia are India, Indonesia, and the Philippines.

So that's all good, except that the new US sanctions that come into force on Iranian oil exports threaten to undo all of that. To limit the hit to crude oil from these sanctions, the US has apparently allowed certain countries temporary (180-day) exemptions from these restrictions. There are said to be eight of these countries. I believe the list contains India, South Korea, China, Japan, and Iraq, although I haven't seen any official list yet. That will no doubt dribble

out over the course of the day.

### **BoJ Press conference today**

Later today, the Bank of Japan Governor, Haruhiko Kuroda, will give a press conference in Nagoya following the release of the last meeting's minutes. The meeting didn't deliver anything in terms of policy changes, downgraded growth and inflation and disappointed some who had been looking for the BoJ to start tweaking its policy guidance.

Relevant questions might include, "What are we to make of the decline in 10-Year Japanese government bond (JGB) yields to 0.114% currently when at the beginning of October, they were 0.15%?". Was this a policy move to stop yields drifting too far above their 0.1% target? Or was this just a market effect as global stocks plunged.

JGB yields are back up a bit today, though have not retraced all their losses for the month, unlike their US counterparts, which at 3.21%, are within a whisker of the 3.23% October-high. Let's see how stocks like this second time around...my guess, not much better than the first time.

### **And of course, let's not forget the Mid-terms**

We can't escape some commentary about the US mid-terms today, especially as it is a public holiday in Singapore tomorrow, so we won't be writing again until Wednesday at the earliest. That is when, at about mid-day Singapore time, some of the results may start to come in.

The latest poll of polls published on [Five thirty-eight](#), puts the odds of the Democrat Party taking control of the House of Representatives at 6 in 7, though with only a 1 in 6 chance of taking the Senate. President Trump's net approval rating stood at a net -10.8% at the time of writing, though amongst registered voters, this was a less negative -9.2%.

I'm a little concerned that market volatility may spike up later in the week once the mid-terms are out of the way. A combination of policy uncertainty, political deadlock, Fed tightening and synchronized slowdown in global growth do not augur well for risk assets in the coming quarters.

### **China Expo - a way to stack the deck ahead of the G-20?**

China's international Import Expo gets underway today, and comes with a speech by President Xi. As our Greater China Economist, Iris Pang, noted on our morning call today, opening up China market access for other countries imports makes China less reliant on US imports, and consequently improves their bargaining power as the talks scheduled for the G-20 meetings in Buenos Aires at the end of the month loom. This is important, and will be worth watching.

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