Opinion | 22 October 2020

Political pantomime

Markets seem to be looking through the political theatre that is being played out in the US and elsewhere. So whether it is the US Presidential Election, or Brexit negotiations, amidst a mixture of nerves and optimism, the clearest trend currently is dollar weakness - for which look no further than USDCNY or USDKRW

Plenty for markets to chew on

US stock markets, which set the scene for global equities much of the time, remain soggy. It's not an outright sell-off, but they have certainly been finding it easier to go down in the last week or so than to go up. Perhaps oddly, the same can also be said for bond markets. That isn't usually the case, as portfolio managers switch between equities and bonds so the prices of both tend to be negatively correlated. This is, therefore, not a risk-off move as is evident by the astonishing strength of Asian FX, in particular, CNY and KRW, but we are also seeing some recovery in the AUD, NZD and JPY too.

Also, I strongly doubt that headlines about Pelosi and Mnuchin making progress on a fiscal deal are relevant for the markets recent price action. I don't think it helps the Democratic Presidential bid to cede sufficient ground to enable a fiscal deal right now, so long as they don't appear to be the main reason for its hold up. By the same token, I don't think Republican Senators are ready to vote through a deal with a ticket price as high as $1.9tr, with or without pressure from President Trump.

Neither side wants to be portrayed as the villain in this drama, so both are appearing to be constructive, while simultaneously dragging their feet and counting down to the closing credits.

Which leaves longer-term considerations. In this case, the most likely in my view is that markets are now pricing in a strong likelihood of a Biden Presidency perhaps even clean sweep of Congress, and this is weighing on the USD, as they view a less confrontational trade environment. They will also probably be factoring in a large fiscal stimulus early next year, with none of the hold up that is currently preventing a deal. That may be nudging bond yields higher. But higher tax rates on corporates, which are also a feature of the Biden platform, may also explain the lacklustre behaviour of stocks.

There is less than two weeks to go until the polls close, and one possible Presidential debate left (may or may not happen if what I read is accurate). So assuming that there are no cataclysmic revelations between now and then, this sort of soft dollar, rising yield, soggy equity backdrop is probably going to be the main storyline in this soap-opera.

The Brexit theatre enters pantomime season

To speed up a resolution of the Brexit saga, which has now been dragging on for more years than I care to remember, I think that as negotiations enter their final intensive phase, the key negotiators should each now be forced to dress as characters from the seasonal pantomimes that UK school children would normally be attending at this time of year (had it not been for social-distancing). That would focus their minds on achieving a result. The EU's Michel Barnier dressed as Widow Twankee, for example, and the UK's Lord Frost as Aladdin (complete with tights) would put this spectacle into its proper light, which is to deliver a theatrical ending, in which the UK can be seen to have achieved some sort of flag-waving patriotic victory for Boris Johnson to parade to voters and his sceptical party members alike. And for the EU, to simply get a workable deal which doesn't leave them too much worse off than before.

The timescale for some sort of agreement has now slipped back into Mid-November, and there will doubtless be a flurry of ratifications necessary in member states before this can be passed, which will take the theatre right to the closing curtain on Dec 31. As pantomime season will not be taking place this year in all likelihood, enjoy this instead. Markets seem to have read to the end of the script anticipating a happy ending if the pound's recent price action is anything to go by. It's not a done deal, but to my personal jaded way of thinking, that is what we are now witnessing. Political theatre.

Asia today

It's a quiet calendar in the G-7 today with some debt data from the UK, and jobless claims and housing starts unlikely to provide much of a nudge to markets in either country.

In Asia, its quiet too, Prakash Sakpal reviews the looming Thai trade data due later this morning, and also yesterday's inflation numbers from Malaysia below:

"**Thailand:** September trade data is due today. Year-on-year export growth in the majority of Asian economies has crept back into positive territory in September. But not yet in Thailand where the key export drivers, electronics and automobiles remain missing in action. However, we expect September to be slightly less negative (-3.0% YoY vs. -7.9% in August). With continued deep import falls (ING forecast -18% YoY) the trade surplus should stay near its record high; August's $4.3 billion surplus was the second highest. This is positive for the THB. The currency has been pretty resilient to the latest escalation of political turmoil in the country with the USD/THB firm around the 31.20 level. We maintain our end-year forecast of 32.30.

Malaysia: In a hopeful sign of domestic demand returning, vehicle sales posted a strong rebound in September (up 7% MoM and 26% YoY). But that wasn't evident in yesterday's consumer price data for September; inflation was steady at -1.4% YoY, led by continued declines in housing and transport components. The second wave of Covid-19 outbreak since last month could still derail the recovery. Strengthening this headwind to recovery further are occasional bouts of political jitters. All eyes now are on the 2021 Federal Budget to be unveiled in early November. We expect expansionary policy to remain in force for the foreseeable future".

Author

Alissa Lefebre
Economist
alissa.lefebre@ing.com

Deepali Bhargava
Regional Head of Research, Asia-Pacific
Deepali.Bhargava@ing.com

Ruben Dewitte
Economist
+32495364780
ruben.dewitte@ing.com

Kinga Havasi
Economic research trainee
kinga.havasi@ing.com

Marten van Garderen
Consumer Economist, Netherlands
marten.van.garderen@ing.com

David Havrlant
Chief Economist, Czech Republic
420 770 321 486
david.havrlant@ing.com

Sander Burgers
Senior Economist, Dutch Housing
sander.burgers@ing.com

Lynn Song
Chief Economist, Greater China
lynn.song@asia.ing.com

Michiel Tukker
Senior European Rates Strategist
michiel.tukker@ing.com

Michal Rubaszek
Senior Economist, Poland
michal.rubaszek@ing.pl

This is a test author

Stefan Posea
Economist, Romania
tiberiu-stefan.posea@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Jesse Norcross
Senior Sector Strategist, Real Estate
jesse.norcross@ing.com

Teise Stellema
Research Assistant, Energy Transition
teise.stellema@ing.com

Diederik Stadig
Sector Economist, TMT & Healthcare
diederik.stadig@ing.com

Diogo Gouveia
Sector Economist
diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com

ING Analysts

James Wilson
EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith
Digital Editor
sophie.smith@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Adam Antoniak
Senior Economist, Poland
adam.antoniak@ing.pl

Min Joo Kang
Senior Economist, South Korea and Japan
min.joo.kang@asia.ing.com

Coco Zhang
ESG Research
coco.zhang@ing.com

Jan Frederik Slijkerman
Senior Sector Strategist, TMT
jan.frederik.slijkerman@ing.com

Katinka Jongkind
Senior Economist, Services and Leisure
Katinka.Jongkind@ing.com

Marina Le Blanc
Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan
Junior Economist
samuel.abettan@ing.com

Franziska Biehl
Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne
Senior Editor and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill
Credit Strategist
timothy.rahill@ing.com

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Oleksiy Soroka, CFA
Senior High Yield Credit Strategist
oleksiy.soroka@ing.com

Antoine Bouvet
Head of European Rates Strategy
antoine.bouvet@ing.com

Jeroen van den Broek
Global Head of Sector Research
jeroen.van.den.broek@ing.com

Edse Dantuma
Senior Sector Economist, Industry and Healthcare
edse.dantuma@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Rico Luman
Senior Sector Economist, Transport and Logistics
Rico.Luman@ing.com

Jurjen Witteveen
Sector Economist
jurjen.witteveen@ing.com

Dmitry Dolgin
Chief Economist, CIS
dmitry.dolgin@ing.de

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Egor Fedorov
Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke
Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga
Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier
Head of Corporates Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter
Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen
Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com

Thijs Geijer
Senior Sector Economist, Food & Agri
thijs.geijer@ing.com

Maurice van Sante
Senior Economist Construction & Team Lead Sectors
maurice.van.sante@ing.com

Marcel Klok
Senior Economist, Netherlands
marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland
piotr.poplawski@ing.pl

Paolo Pizzoli
Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Marieke Blom
Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering
Senior Macro Economist
raoul.leering@ing.com

Maarten Leen
Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller
Head of Financials Sector Strategy
Maureen.Schuller@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Inga Fechner
Senior Economist, Germany, Global Trade
inga.fechner@ing.de

Dimitry Fleming
Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com

Sophie Freeman
Writer, Group Research
+44 20 7767 6209
Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA
Regional Head of Research, Americas
padhraic.garvey@ing.com

James Knightley
Chief International Economist, US
james.knightley@ing.com

Tim Condon
Asia Chief Economist
+65 6232-6020

Martin van Vliet
Senior Interest Rate Strategist
+31 20 563 8801
martin.van.vliet@ing.com

Karol Pogorzelski
Senior Economist, Poland
Karol.Pogorzelski@ing.pl

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

Viraj Patel
Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content
+44 (0) 207 767 5331
owen.thomas@ing.com

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroder@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Gustavo Rangel
Chief Economist, LATAM
+1 646 424 6464
gustavo.rangel@ing.com

Carlo Cocuzzo
Economist, Digital Finance
+44 20 7767 5306
carlo.cocuzzo@ing.com