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".

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