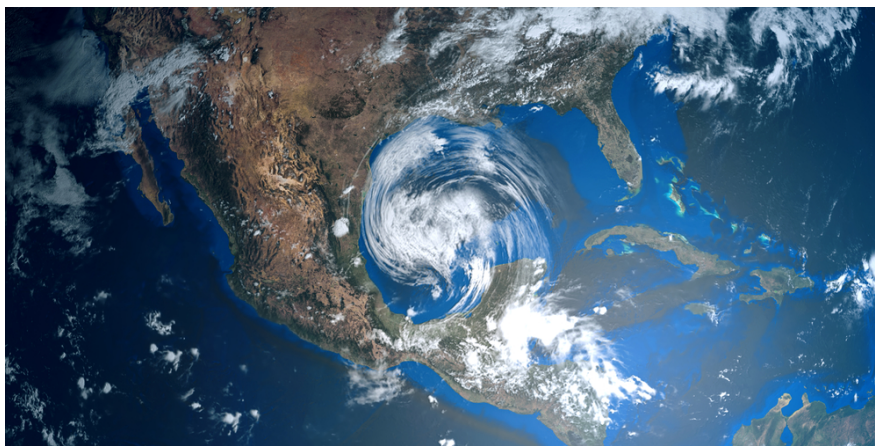


Storm chasing - what does Dorian mean for markets?

Ignoring the ongoing trade war saga, Brexit debacle and the weekend's clashes in HK SAR, today I turn my focus to the natural world, and what it can mean for financial markets.



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Nervous traveller

Just five days before I board a plane for the US, I'm anxiously watching news about Hurricane Dorian, currently battering the Bahamas. This category 5 hurricane, with its estimated 180mph winds, could affect much of the Eastern Seaboard. I'm expecting a bumpy flight, even on Friday. One of the features of this hurricane is that it is very slow-moving. That enables it to straddle land and sea for longer, doing a lot more damage than it might do otherwise if it quickly moved inland and lost its power source of warm seas.

The Hurricane will inevitably be totted up by the bean-counters at some stage. Wikipedia very helpfully has a list of the most costly Atlantic Hurricane's, with Hurricane Katrina in top place (\$125bn), along with a more recent Hurricane Harvey (2017 and only a category 4 Hurricane - also \$125bn, though I have to say I don't remember that one). Investopedia has a similar list, though the numbers differ. The orders of magnitude are roughly the same though - in excess of a hundred billion dollars.

The Three R's

What if any economic consequences does this have? The answer to this is tricky, and not at all intuitive. Hurricanes are hugely disruptive whilst they endure, and for some time after, given the damage to infrastructure and dislocation of workforce who flee to safer areas. But in the months that follow, the received wisdom is that the three R's of repair, replacement and rebuilding, can provide a boost to activity and GDP growth that can outweigh the initial disruption.

[This report by the New York Fed is interesting though](#), as it cites longer-term negative consequences of such disasters, which it shows can last decades after an event such as Katrina.

But the traditional theory of such events runs along lines like this: If an economy's capital stock is its balance sheet, then a Hurricane causes a big loss, but its GDP is more like its profit and loss, and that can take a boost. In any event, the net effect on financial markets is not clear.

Financial Market response

[I found this quite interesting study by Cambridge University online this morning](#) in a quick search. It is probably worth a longer read. That said, it concentrates more on the sort of "Super-catastrophe" scenarios that this hurricane hopefully won't be.

Most of the studies I found online this morning in a five-minute search tended to focus on the stock market, which typically responds negatively to the cash-flow disruption of such events. Commodity markets often are positively affected - supply channels, especially of oil from the Mexican Gulf can lead to shortages and price spikes. But the bond market, which is rarely if ever mentioned, will in my opinion, most likely rally (the Cambridge paper talks about rating downgrades, but it is looking at entirely a different league of disaster).

As for the currency, Fed and short term rates...using Katrina as a benchmark, the Fed tends not to react to events like this, at least not through monetary policy, though it does provide liquidity assistance to regional banks affected by the disaster.

Back in 2005, the Fed was in hiking mode and had already hiked rates twice that year, hiking on a quarterly schedule to coincide with its press briefing meetings. Katrina formed on August 23 and dissipated by August 31, the Fed hiked rates again in September at their next meeting, though there was a longer than usual pause before their next hike in January the following year. There is some evidence that the USD lost some ground in the period during the hurricane and immediately afterward, though it rapidly made it back.

This may not be an appropriate yardstick for a Fed in easing mode, though. I imagine that markets will view this as an excuse to take an already dovish Fed over the line at this month's meeting.

Day ahead:

After that refreshing break from commenting on the trade war, Brexit or the HK SAR unrest, what does today bring?

Well before we look at that, let's start with a quick look at events breaking late last week and over the weekend: Starting with India's GDP. [Check out Think for a more considered piece by Prakash](#). But the short story here is that the 5.0%YoY release was substantially at the low end of expectations and very disappointing given the degree of stimulus the economy has already had.

We have a further 50bp of easing penciled in for the RBU for the rest of the year. We should maybe ink it in now.

Also, (from Iris Pang) "As the new US tariffs kick in (came in yesterday on September 1), we expect that China's Caixin manufacturing PMI will stay below 50 for another month in September even though there will be more infrastructure projects in place. The official manufacturing PMI fell to 49.5 in August from 49.7 a month earlier, showing that contraction in manufacturing activities continued. The details showed that both export orders and domestic orders continued to stay below 50. The sub-index of production was 51.9, which is likely the result of infrastructure projects entering their production phase.

This should continue to give some support to the overall manufacturing PMI in the coming months. But we have to keep in mind that this growth came from fiscal stimulus. It is not the result of regular manufacturing activity, which will be hit by another wave of tariffs starting from 1st September".

Today sees plenty more PMIs across the region, most of which look to dip a little further into the red, though there is an increase in the Korean PMI, possibly reflecting what we believe might be an emerging trough in the semiconductor industry. Though this economy still has substantial problems.

Thai CPI today is of no particular market interest, as they don't really have any inflation. Indonesian inflation is more relevant given the recent swing of Governor Warjiyo from talking the dovish talk to walking the dovish walk with their recent rate cut (August 22 25bp cut of 7-Day reverse repo rate to 5.5%).

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