

Tails it is...

Markets are down again today, maybe unnerved by fears that the US Senate will not pass a budget bill in time to avoid a US government shutdown



falling stocks

Senate vote tactics threaten another government shutdown in the US

The saw-tooth pattern that has held all week continues to hold, with US equity markets selling off hard again overnight. The Dow shed another 1000 points (a little over 4%). But this does look to have been an avoidable upset. If we are to look for catalysts, the demand by a single Senator, Rand Paul, that there be no vote because he doesn't like the implied increases in the Federal deficit that would result. The way the rules work, unanimous consent is required to hold a vote within two days of a bill sent to the Senate from the House of Representatives. So unless Rand Paul withdraws his objection by midnight US time (noon HK and Sing time) the US will face shutdown again. Even if Paul agrees to a vote in exchange for a vote on amendments on spending caps, it would then open a can of worms and invite other amendments, postponing the vote, and still likely resulting in a government shutdown.

Although a vote on the budget will eventually be held, and any shutdown may well be short-lived, with financial markets vulnerable at the moment, this was not great timing for such political

brinksmanship. We also head into the Chinese New Year at the end of next week, and this will likely also see investors look to reduce their risk exposure. That too was likely as we headed into the weekend. A bounce on a resolution to this Senate vote next week is possible, but the risk remains that this would struggle to persist as liquidity dried up at the end of the week.

Asia - trade dominates

After the surprising bounce in China imports earlier in the week, more trade data dominates today's Asia economics calendar. The Philippine trade balance is expected to recover from its awful reading of -\$US3.781bn in November, to -\$US3bn in December, though this would still maintain the trend direction to wider deficits. There is no consensus on the Indonesian 4Q current account, so this is a straight up or down choice. The 3Q figure was a deficit of -\$US4.337bn, and this will provide the marker for market reactions.

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