

The case for caution

Markets are moving to price in a clear cut election victory. I'd say that there is still a lot we don't know



We know less than we don't know

Yesterday, I decided to deliberately leave off writing a daily note. The only news in town was related to the Trump Covid-19 infection, and there was, frankly, very little to add without getting overly political (not a good idea in this job), and very little of substance to base a solid opinion on. I still think the messages coming out of the White House and from the staff treating the President are conflicting and don't really add up. And as others have written, there is a long history of cover-ups when it comes to Presidential health. I think the most accurate summary I have read was from the President's personal physician, Dr Conley, who while acknowledging the President's progress noted that he is still not out of the woods. We also don't have much to go on given that people aren't routinely given dexamethasone so early in an infection, or in a relatively mild case like this without there being a need for ventilation. So his case is certainly unusual.

So if the market has any reaction to make in respect to all of this, I'm not sure the right conclusion is that this is definitely now a past event, and we can move on. The virus may yet have other ideas. I think we should be able to evaluate this more clearly in a week's time. For now, I'm remaining cautious.

In the meantime, the market narrative is forming around a clear Biden victory, based on some

recent polls following the first TV debate, which show the former Vice President extending his lead to 14 points nationally, with pundits suggesting that Biden now looks more likely to get a clear victory without having to win any toss-up states. This, together with thoughts of a clean sweep election un-freezing Congress, is prompting thoughts of big spending plans, and leading bond yields to rise as the prospects of a contested election diminish.

At some stage, you'd probably start reckoning on that having a supportive effect for the USD. But at the moment, the dominant effect seems to be one of dollar weakness, perhaps based on a return to risk tolerance and a possibly a less fractious international environment. That certainly seems to be buoying Asian currencies, with the CNY one of the main beneficiaries locally. More of that to come today seems a reasonable assumption.

And indeed, that may continue to be the way markets track for the next few days, in the absence of conflicting data. But when there are still questions over the President's health, I'd be a bit cagier, especially as we now also look likely to have the remaining scheduled TV debates (VP Pence vs Harris tomorrow (US-time) - should also be well worth a look) and President Trump may decide a new strategy is needed.

Asia today

Back to more local matters, and there has been yet another large month on month gain in prices in Korea in September, with the month on month gain of 0.7% taking inflation all the way back up to 1.0%YoY. But before you start looking up definitions of stagflation, most of this increase seems to stem from seasonal food price spikes following heavier than normal rains, and some disparities with the timing of last year's Chuseok public holiday, leading to some further, though likely short-lived pressure on food prices.

Nevertheless, the Bank of Korea, which we regard as one of the more hawkish central banks in Asia, and which has shown no appetite for further easing after its Covid-19 related cuts, is likely to see these numbers as further vindication for leaving rates where they are. And that could also help the KRW to make further gains and have a run at the 1160 level.

The region's other main news events today will centre on Australia. We have already had August trade data which showed exports falling slightly more than expected (4%MoM), and imports coming in stronger (+2%) resulting in the trade surplus shrinking sharply to AUD2.643bn from AUD4.652bn in July. That may take the edge of the AUD in early trading.

But the more market-moving event later today is the Reserve Bank of Australia (RBA) meeting. Given the progress made in the economy, and in the labour market in particular, we expect Governor Philip Lowe to deliver a fairly neutral verdict, with no hint of any near-term reversal of the RBA's pandemic easing, but probably only a contingency-nod in the direction of further easing if it becomes necessary. That could be enough to give the AUD a lift in an atmosphere where risk-on has returned.

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