



R&R Weekly Column
By Brunello Rosa



Amid New Lockdowns And Renewed Monetary Easing, The Us Choose Their President

This week investors' attention will be focused on the US presidential election, which will take place on November 3rd. In reality, as of Wednesday last week, [75 million people have already voted](#), either in person or by post. This represents around 54% of the total turnout recorded in 2016. So, it is quite likely that this year the turnout will be higher than in the last election, even if the number of people who will physically vote on Tuesday is lower than usual, as it probably will be due to the Coronavirus pandemic.

[As we discussed in our preview](#), the Covid-19 pandemic - its economic and social effects, and the way it was managed - will clearly represent a determining factor of the final outcome of the election. According to the [latest statistics](#), the US, with its 9.2 million reported cases (out of 46.2 millions worldwide) and 230,000 deaths (out of 1.2 millions globally), has had a very unfavourable track record. Despite being just 4.3% of the world's population, the US has had almost 20% of reported cases and deaths. This means that something has gone wrong in the way the pandemic was managed, or the way the US healthcare system is organised. We know both elements are true: President Trump's management of the crisis has been erratic at best, and large parts of the population are still not covered by public or private healthcare.

Having said that, the US is not alone in this crisis. A number of countries, especially in Europe, are facing the second wave of the pandemic after re-opening their economies during the summer. As a result, new total or partial lockdowns (of at least one month) have been carried out by [Germany](#), [France](#), and [the UK](#), and likely will soon be by Italy as well. The economic impact of these new restrictions will be large, and therefore the V-shaped recovery that some policymakers were fantasising about will not materialise (as [early as March](#) we have been saying that such a recovery was unlikely to happen). A long, uneven, bumpy U- or W-shaped recovery will likely take place instead.

Given all this, central banks have re-started their engines of monetary easing to complement fiscal stimulus. Last week, the European Central Bank explicitly said that in December it [will recalibrate all its instruments](#), the [Bank of Japan](#) reiterated that it stands ready to act, and the [Bank of Canada](#) began a sort of semi-twist in its asset purchases to increase the effectiveness of QE. This week, we expect the [Bank of England](#) and the [Reserve Bank of Australia](#) to actually deliver more monetary stimulus with a combination of increased asset purchases, rate cuts, enhanced forward guidance and additional credit easing.


This is the climate in which the US election will take place. In our previous comments, we discussed the [successes](#) and [the failures](#) of Trump's presidency. In our preview we discussed how we believe that election night will likely be followed by a nasty legal battle by Trump, who has been saying for months that [the postal vote \(which Democrat voters prefer\) is rigged](#). He might be trying to claim victory after a possible advantage deriving from the in-person voting during election night, but for [the US television networks it will be hard to declare the winner in each state with 50% of the votes still to be counted](#). The only way the result will not be severely contested is if Biden [wins a large majority in the electoral college](#), something could happen if he were to win a large state such as Florida.

Eventually, we still expect Biden to emerge as the final winner, perhaps even leading a "[blue sweep](#)", with the Democrats taking control of the Senate as well. However, a word of caution is needed. As Michael Moore - the movie director who predicted Trump's victory in 2016 - said, "[Trump electors are always undercounted in polls](#)." A surprise victory by Trump cannot be ruled out.


Our Recent Publications


 [Flash Preview: RBA To Deploy A Comprehensive Stimulus Package](#), by Brunello Rosa and Fawaz Sulaiman Al Mughrabi, 30 October 2020

 [Flash Preview: Bank Of England To Increase The Size Of QE In November](#), by Brunello Rosa and Karmen Meneses, 30 October 2020

 [Flash Review: BOJ Stands Ready To Ease More if Needed, But Is Not In The Rush To Act](#), by Brunello Rosa and Fawaz Al Mughrabi, 29 October 2020

 [Flash Review: ECB To "Recalibrate" All Its Instruments In December](#), by Brunello Rosa and Nouriel Roubini, 29 October 2020

 [Flash Review: BOC Specifies Its Forward Guidance and Recalibrates QE To Focus On Longer-Term Bonds](#), by Brunello Rosa, 28 October 2020

 **GEOPOLITICAL CORNER:** [After Likely Electoral Chaos, Biden and the Democrats May Actually Sweep the 2020 US Election](#), by John C. Hulsman, 20 October 2020

Looking Ahead

The Week Ahead: BOE and RBA To Ease More, As Economic Activity Slows Down Internationally

In the US, September factory orders are likely to decrease to 0.5% m-o-m (*p*: 0.7). October's non-farm payrolls are expected to rise to 700k (*p*: 661) as the unemployment rate is likely to decline to 7.7% (*p*: 7.9).

In EZ, September retail sales are expected to slow down to 2.8% y-o-y (*p*: 3.7).

In Japan, September household spending could decline further, to -10.7% y-o-y (*p*: -6.9).

In the UK, the BoE is expected to increase the size of its QE program by GBP 100bn.

In Australia, the RBA is expected to cut its policy rate by 15 bps, to 0.10% (*p*: 0.25%).

In Norway, Norges Bank (*p*: 0.00%) is expected to keep its policy settings unchanged.

The Quarter Ahead: Virus' Second-Wave Hampers Global Recovery; Central Banks To Increase Their Easing Bias

In the US, COVID-19 cases recorded the largest increase on record (97k in a single day, [propelled by surge in Midwest swing states](#)). As the democratic candidate Joe Biden is ahead (51.9%) of President Trump (43.1%), the US recorded the 'largest turnout of early voting' on record. As US SMEs struggle through the downturn, the Fed lowered the bar for SMEs to access the 'Main Street lending program' (MSLP) – its USD600bn scheme for small businesses. The Fed's move – a 'minimum loan-size' reduction, from USD250k to 100k – is due to pressure by Congress to boost MSLP lending (only 0.6% of total capacity so far, or USD3.7bn).

In the EU, the EC warned that "healthcare systems risk being overwhelmed by soaring case numbers". The surge in COVID-19 infections led most European countries to: *i*) re-imposing lockdowns; or *ii*) prepare measures to curb the pandemic.

In the Eurozone, the ECB signaled "more easing ahead": additional monetary expansion is expected before the end of 2020, as President Lagarde: 1) warned of a worsening outlook; and 2) announced that ECB staff had "started work on recalibrating all stimulus measures".

China's economy will continue rebounding, driven by factory activity, services, and the construction sector.

In the UK, Brexit negotiations continue. Despite recent progress in London and Brussels, key negotiation-items remain open, on: *i*) economic fair play (dynamic regulatory alignment and state aid); *ii*) fisheries; and *iii*) settling disputes.

Last Week's Review

Real Economy: Virus Resurgence Spurs 'Double-Dip Recession' Fears, Worldwide. Risks Rise

In the US: *i*) in the week ending on October 24 'initial jobless claims' decreased to 751k (*c*: 775; *p*: 791); and *ii*) Q3 GDP growth surged by 33.1% q-o-q (*c*: 30.8; *p*: -31.4%), the biggest expansion on record – as the economy rebounds from its Q2 lows. September's durable goods rose by 1.9% m-o-m (*c*: 0.7; *p*: 0.5%), the fifth straight month of growth – led by a 4.1% (*p*: -0.9) rebound in 'transport equipment'. September's PCE rose by 1.4% y-o-y (*p*: 1.3).

In the EZ, the ECB kept its interest rate at 0.0%, as policymakers took a "wait-and-see approach until the December economic projections". Q3 GDP growth bounced back to 12.7% q-o-q (*c*: 9.4; *p*: 11.8) and -4.3% y-o-y (*c*: -7.0; *p*: -14.8), boosted by rising global demand and economic activity. October's inflation rose slightly to 0.2% m-o-m (*p*: 0.1) but remained at -0.3% y-o-y.

In October, China's 'NBS manufacturing PMI', a key gauge of factory activity, for an eighth consecutive month remained in expansion at 51.4 (*c*: 51.3; *p*: 51.5).

In Japan, the BoJ left its policy stance unchanged (*a*: -0.10%).

In Canada, the BoC left its policy rate unchanged (*a*: 0.25%) while skewing its asset purchases towards the longer end.

Financial Markets: Stocks Suffer Largest Drop Since March; Bonds Stable; Oil And Gold Fall

Market drivers: investor sentiment was hampered by: *i*) a resurgence in coronavirus cases; and *ii*) US election uncertainties.

Global stocks plummeted w-o-w (MSCI ACWI, -5.3%, to 551), along with the S&P 500 (-5.6% to 3,270), driven down by: *i*) 'IT'; and *ii*) 'consumer discretionary'. EZ stocks fell (Eurostoxx 50, -1.4% to 3,199), as investors worried that second-wave lockdowns could push the EZ economy into a double-dip recession.

Fixed income: w-o-w global bonds rose slightly (BAML Global, +0.1% to 297.4); longer-term UST yields rose (UST, +2 bps to 0.86%), as surging COVID-19 cases in both Europe and the US enhanced uncertainty about the recovery.

FX: w-o-w, the USD strengthened against most currencies (DXY, +1.4% to 94.038; EUR/USD, -1.8% to 1.165), driven by: *i*) US fiscal stimulus hopes; and *ii*) rising US household savings. The TRY fell to new all-time lows (USD/TRY -4.6% to 8.345), as geopolitical developments weighed on Turkish assets.

Commodities: oil prices plunged (Brent, -10.3% to 37.5USD/b), hindered by: *i*) rising COVID-19 cases; and *ii*) inventory buildups. Gold fell (-1.2% to 1,878 USD/Oz.) – due to a stronger USD.



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Abbreviations, Acronyms and Definitions

a	Actual	LN	Northern League, Italy
AKP	Justice and Development Party, Turkey	MSS	Five Star Movement, Italy
ann.	annualized	m-o-m	Month-on-month
ARS	Argentinian Peso	mb	Million barrels
avg.	Average	mb/d	Million barrels per day
bn	Billion	MENA	Middle East and North Africa
BoC	Bank of Canada	MHP	Nationalist Movement Party, Turkey
BoE	Bank of England	mn	Million
BoJ	Bank of Japan	MPC	Monetary Policy Committee
bpd	Barrels per day	NAFTA	North-American Free Trade Agreement
bps	Basis points	NATO	North Atlantic Treaty Organization
BS	Balance sheet	OECD	Organization for Economic Cooperation and Development
c	Consensus	Opec	Organization of Petroleum Exporting Countries
C/A	Current account	p	Previous
CB	Central bank	P2P	Peer-to-peer
CBB	Central Bank of Bahrain	PBoC	People's Bank of China
CBK	Central Bank of Kuwait	PCE	Personal Consumption Expenditures
CBT	Central Bank of Turkey	PE	Price to earnings ratio
CDU	Christian Democratic Union, Germany	PM	Prime minister
CNY	Chinese Yuan	PMI	Purchasing managers' index
CPI	Consumer Price Index	pps	Percentage points
DJIA	Dow Jones Industrial Average Index	pw	Previous week
DJEM	Dow Jones Emerging Markets Index	QCB	Qatar Central Bank
d-o-d	Day-on-day	QAR	Qatari Riyal
DXY	US Dollar Index	QE	Quantitative easing
EC	European Commission	q-o-q	Quarter-on-quarter
ECB	European Central Bank	RE	Real estate
ECJ	European Court of Justice	RBA	Reserve Bank of Australia
EIA	US Energy Information Agency	RRR	Reserve Requirement Ratio
EM	Emerging Markets	RUB	Russian Rouble
EP	European Parliament	SWF	Sovereign Wealth Fund
EPS	Earnings per share	tn	Trillion
EU	European Union	TRY	Turkish Lira
EUR	Euro	UAE	United Arab Emirates
EZ	Eurozone	UK	United Kingdom
Fed	US Federal Reserve	US	United States
FOMC	US Federal Open Market Committee	USD	United States Dollar
FRB	US Federal Reserve Board	USD/b	USD per barrel
FX	Foreign exchange	UST	US Treasury bills/bonds
FY	Fiscal Year	VAT	Value added tax
GCC	Gulf Cooperation Council	VIX	Chicago Board Options Exchange Volatility Index
GBP	British pound	WTI	West Texas Intermediate
GDP	Gross domestic product	WTO	World Trade Organisation
IMF	International Monetary Fund	w	Week
INR	Indian Rupee	w-o-w	Week-on-week
IPO	Initial public offering	y	Year
IRR	Iranian Rial	y-o-y	Year-on-year
JPY	Japanese yen	y-t-d	Year-to-date
k	thousand	ZAR	South African Rand
KSA	Kingdom of Saudi Arabia	2y; 10y	2-year; 10-year



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