US Presidential Election

Treasury Research & Strategy

Global Treasury

Trump’s victory and market reactions:

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A recap on Trump and what he may do

	Donald Trump	
Taxes	• Reiterated his support for tax cuts, "…my tax cut is the biggest since Ronald Reagan. It's going to be a beautiful thing to watch." • Defend his tax proposal by claiming that "they're (companies), believe it or not, leaving (U.S) because taxes are too high".	Tax Proposals
Income Tax	Cut taxes for all income brackets (12%, 25% and 33%)	
Investment Tax	Eliminate net investment income surtax	
Corporate Tax	Cut tax from 35% to 15%	
Estate Tax	Eliminate estate tax	
Free Trade	"It's not "free trade" with China, its "stupid trade"	Trade Proposals
TPP	Opposes the TPP trade deal, likening it to "rape of our country".	
NAFTA	"Worst trade deal in history"	
Tariffs	35% tariff on Mexican goods, 45% tariff on Chinese goods	
Immigration	Wants to build a wall on Mexican-US border. Proposed mass deportation for illegal immigrants	Social/Immigration
Abortion	Proposed "punishment" for abortion except for legitimate reasons	
Healthcare	"Obamacare is a disaster", wants to abolish it.	
Guns	Armed people with guns could have intervened and save lives	

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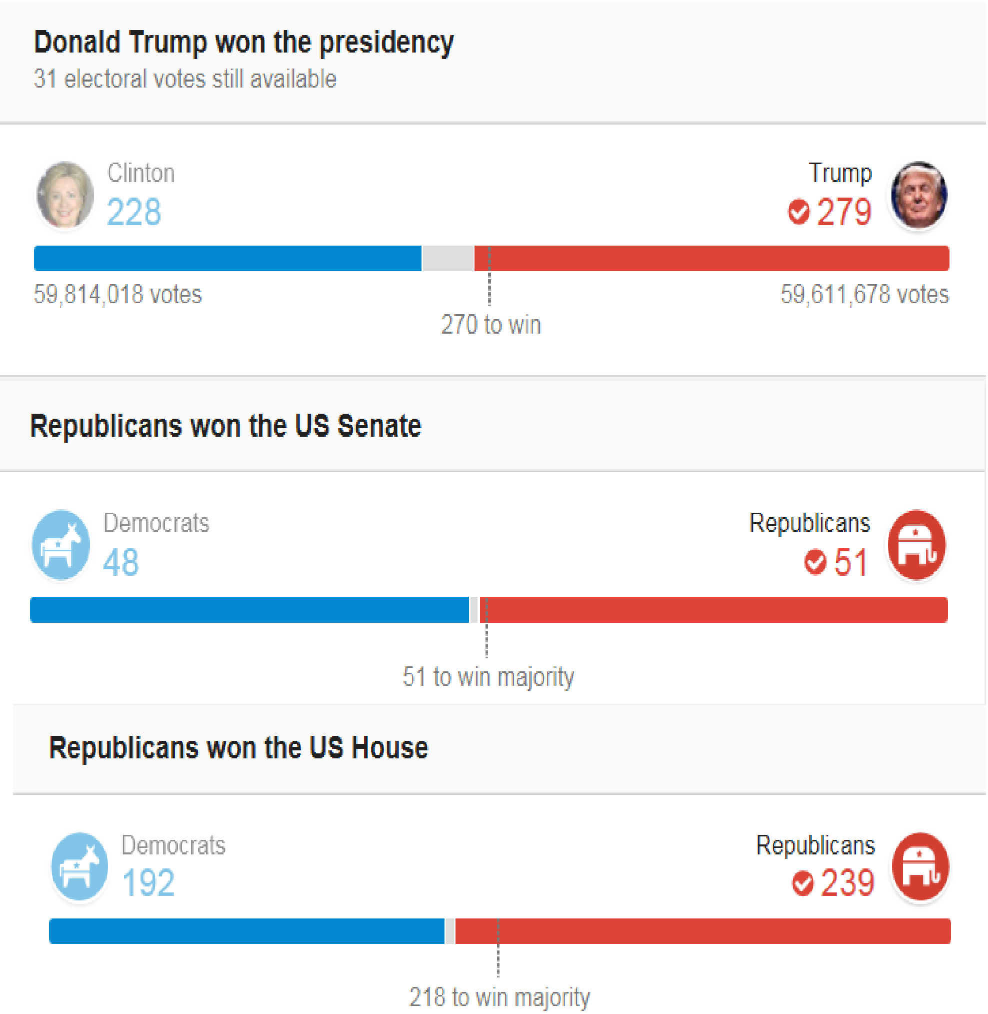
Republicans in Control

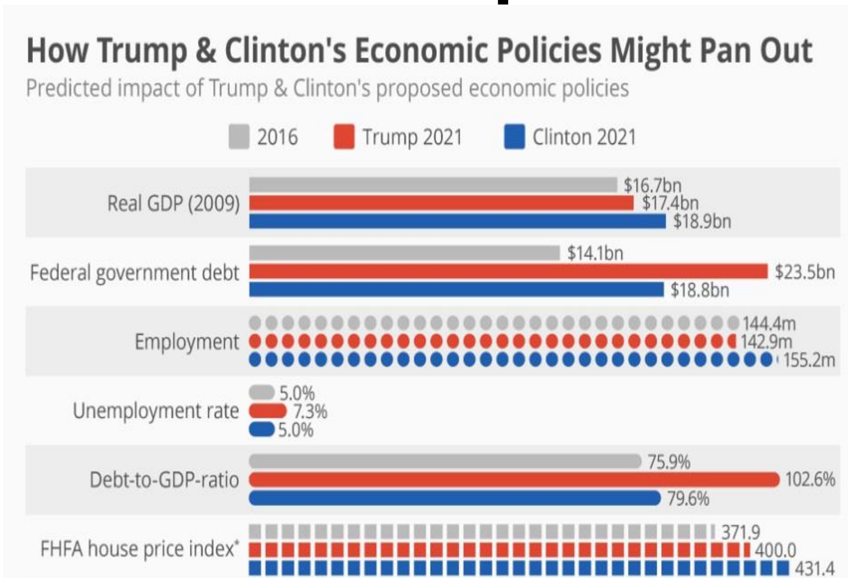
- Donald J. Trump has won the 58th U.S. Presidential Election as he claimed swing states like Florida, Ohio and Pennsylvania.
- In his victory speech, he promised to be a "president for all Americans" and has sought for both Democrats and Republicans to "come together as one united people".
- He added that "We (U.S.) will get along with all nations willing to get along with us.", clarifying that the country will "seek common ground, partnership not conflict".
- He also congratulated Secretary Clinton for her years of hard work, mentioning that Clinton was owed a "deep debt of gratitude".



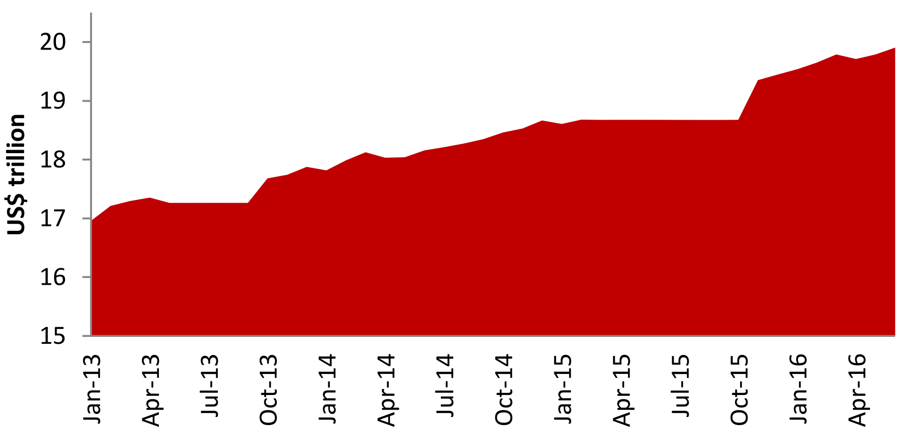
Source: AP, Google

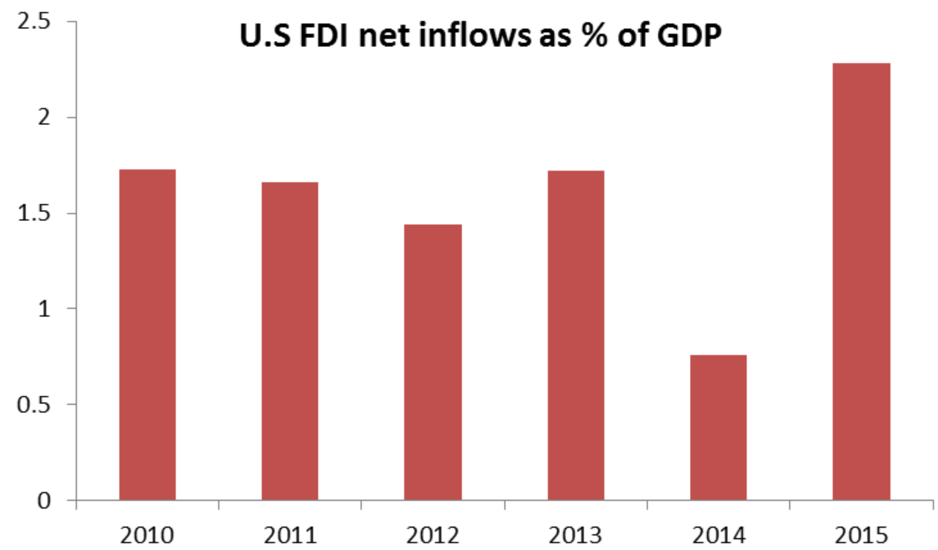
A show of market (in)confidence in Trump?

- According to Moody’s Analytics, Trump’s economic policies is seen to fare worse when compared to Clinton’s, across US key indicators including GDP, Federal debt, Employment.
- Spill-over risks including slower foreign investment flows, incurring of more debt and overall risk of an economic slowdown in the US becomes apparent.



Debt is always a touchy subject:
US National Debt tops US$19 trillion





OCBC Bank Source: Bloomberg, Moody’s Analytics, Forbes

S&P performance across sectors

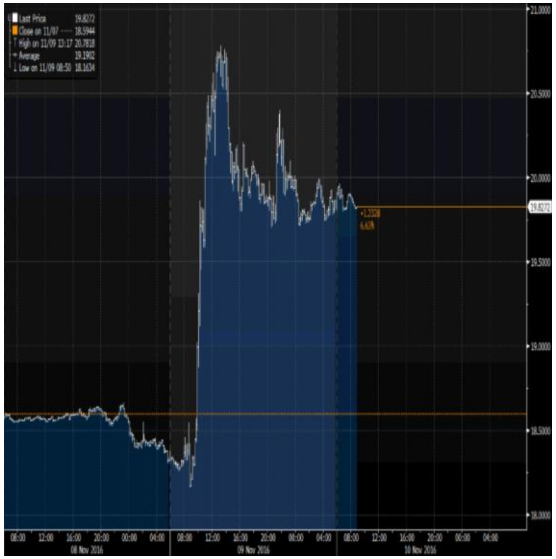
S&P 500 performance from 1992 to 2014

	Election Year	Year + 1	Year + 2	Year + 3
Financials	8.80%	15.70%	4.50%	8.10%
Utilities	6.20%	3.70%	0.30%	12.80%
Consumer staples	6.10%	8.50%	8.30%	10.20%
Energy	4.60%	13.90%	2.40%	19.90%
Health Care	4.50%	13.10%	10.40%	14.30%
Industrials	3.50%	14.90%	3.20%	18.50%
Consumer Discretionary	1.10%	19.90%	9.40%	13.70%
Materials	-3.50%	14.70%	4.70%	16.70%
Information Tech	-4.30%	18.30%	15.70%	36.10%
Tele-communications	-6.00%	5.70%	7.90%	13.50%

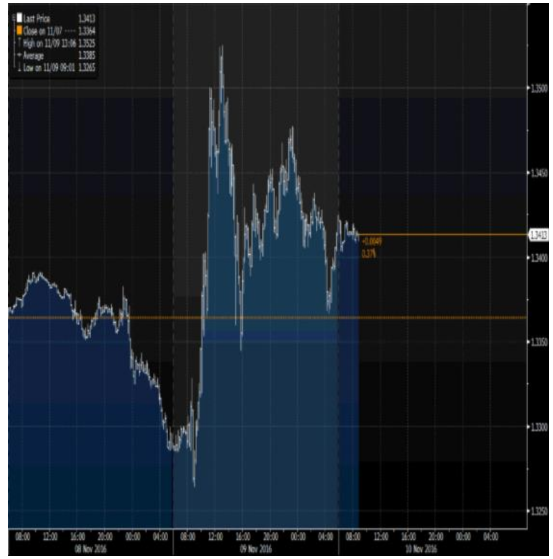
OCBC Bank Source: Strategas Research Partners using S&P 500 Data

Market Reactions: FX movements

MXN

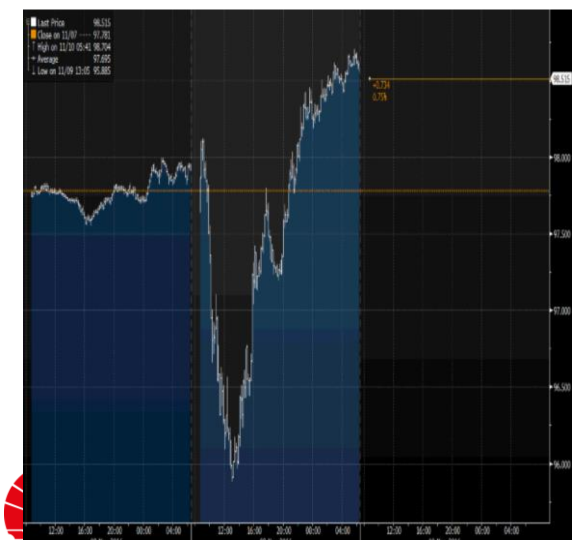


CAD

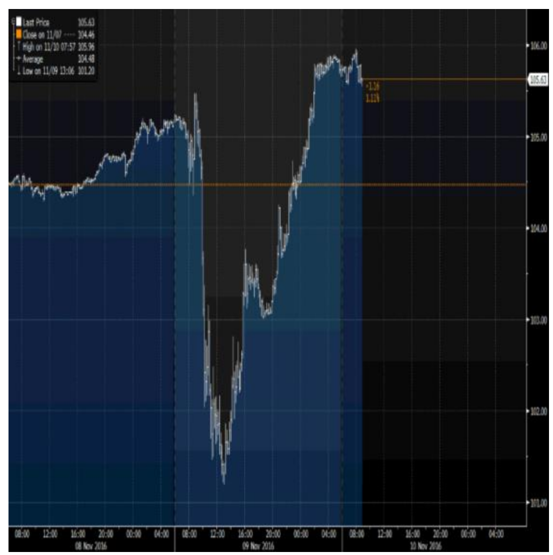


AUD

DXY



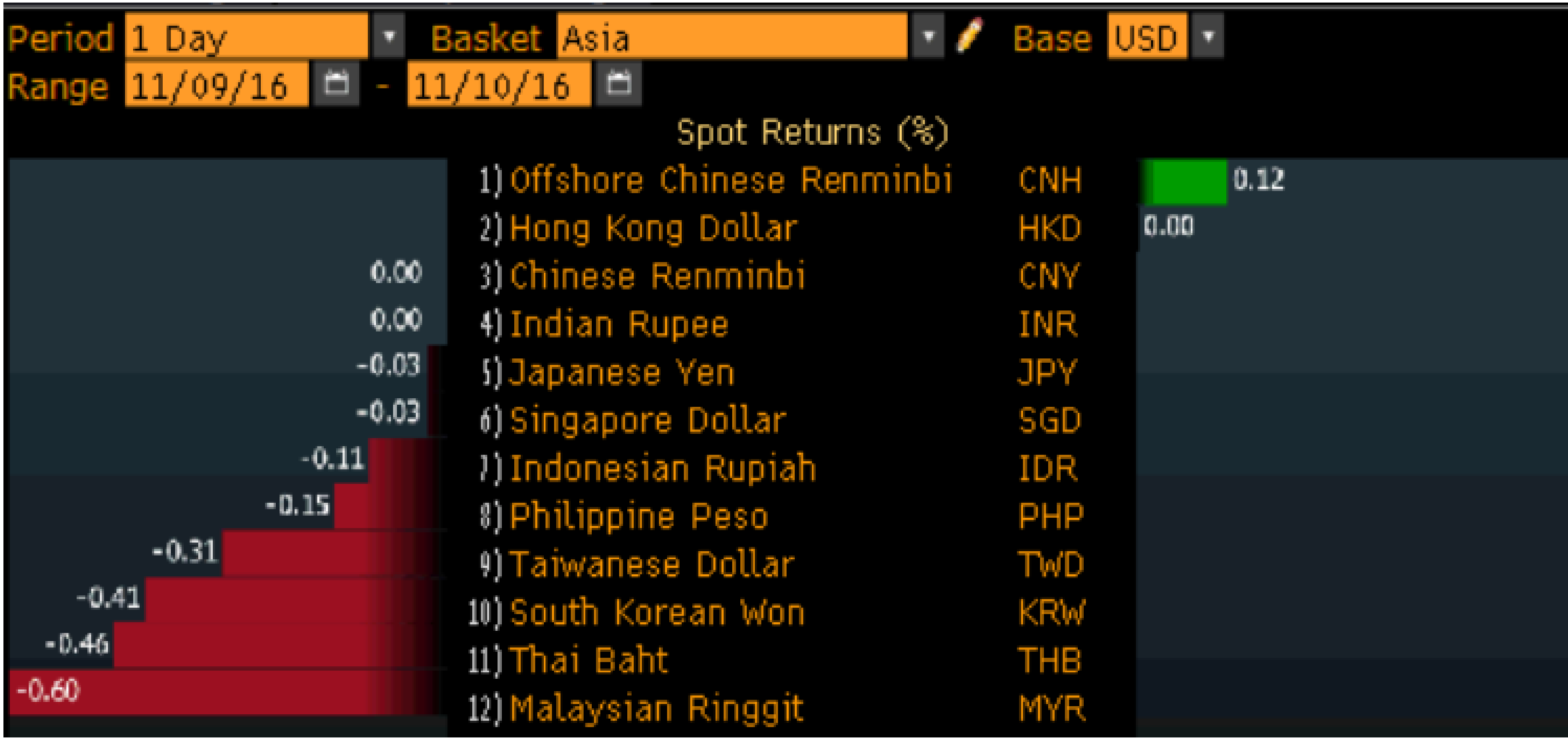
JPY



CHF

Source: Bloomberg

Market Reactions: FX movements



Source: Bloomberg

Market Reactions: FX movements

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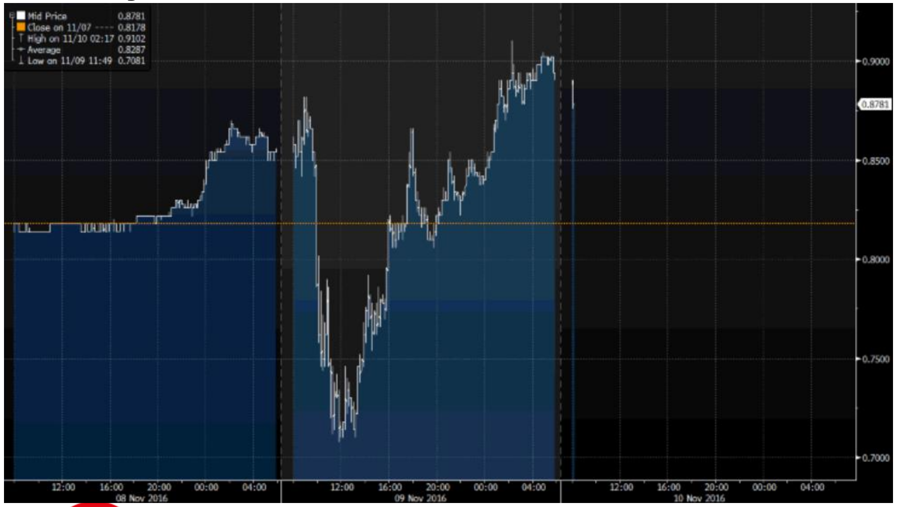
Source: Bloomberg

Market Reactions

Gold

Nikkei

US 2yr Yield



US 10yr Yield

Source: Bloomberg

A Trump Presidency and FX – Initial Thoughts

- With risk appetite dissolving, the JPY, CHF and gold have pulled higher while EM currencies have crumbled. Despite a retracement on both fronts into the LDN session, the situation may remain fluid.
- We expect markets to continue to partition the USD's (two-way) reaction into two fronts – negative implications for the USD against the likes of the EUR and positive implications for the USD against EM/Asia on the back of a potential hit to global growth prospects.
- Global markets have preferred to err on the side of caution, based on the assumption that Trump will maintain its policy rhetoric after being elected.
- Global central banks may presumably pause for a reassessment on the grounds that short term global growth prospects could be impinged.
- Fed may not be dissuaded from a potential rate hike next month. Assuming Trump-related negativity is still circulating at that juncture, this would cushion the USD's vulnerability against the core majors but potentially exacerbate USD resilience against EM/Asia. The strong dollar narrative for 2017 had already been circumspect given the expected gentle profile of expected hikes – two, according to the latest dot plots.
- Asian FX vulnerability to USD strength may be dialed up slightly. Any potential protectionism or deterioration on Sino-US relations may lead to further depreciation pressure on RMB. Given that the MAS is effectively on a 'low-for-long' trajectory with respect to the SGD NEER, we expect the NEER to continue to inhabit the lower half of its fluctuation band and possibly test its lower bound.

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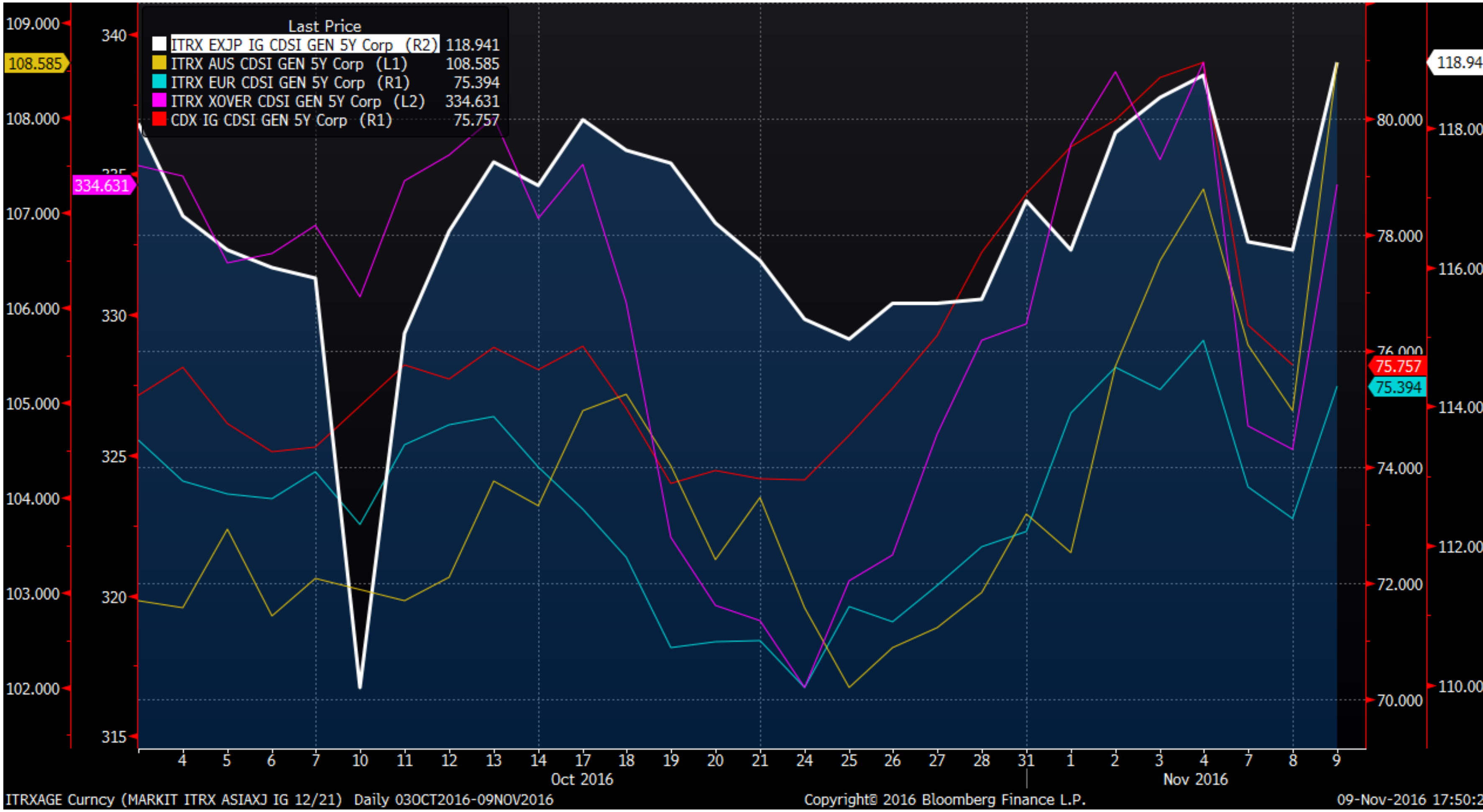
Fixed Income View

Credit Views:

- Risk-off sentiments in credit markets leading to a flight to safety - CDS has widened in both Europe and Asia.
- Uncertainty on policies to depress corporate spending and investments including M&A and possibly lead to lower issuance of corporate debt. That said, key trends for potential new issuance likely to be:
  - Driven by refinancing needs
  - Less USD issuance by foreign issuers – CNH and EUR may benefit
  - Financials issuance to continue on rising capital requirements and possibly lower earnings from interest rates remaining lower for longer
- With the potential for shorter term rates to remain relatively low, the focus will again be on carry for 2017 (repeat of 2016 themes). Duration positioning remains a wildcard.
  - Sub-debt of stronger issuers to benefit more than weaker credits.
  - HY will be supported by shorter duration paper with clear paths to redemption.
- That said, uncertainty could be positive for funds flows into Asia, particularly in 2H2017 after policy direction of a Trump administration becomes clearer. Short term focus is likely to be more domestic in nature.
- Relative preference for IG to HY bonds to continue given uncertainty.

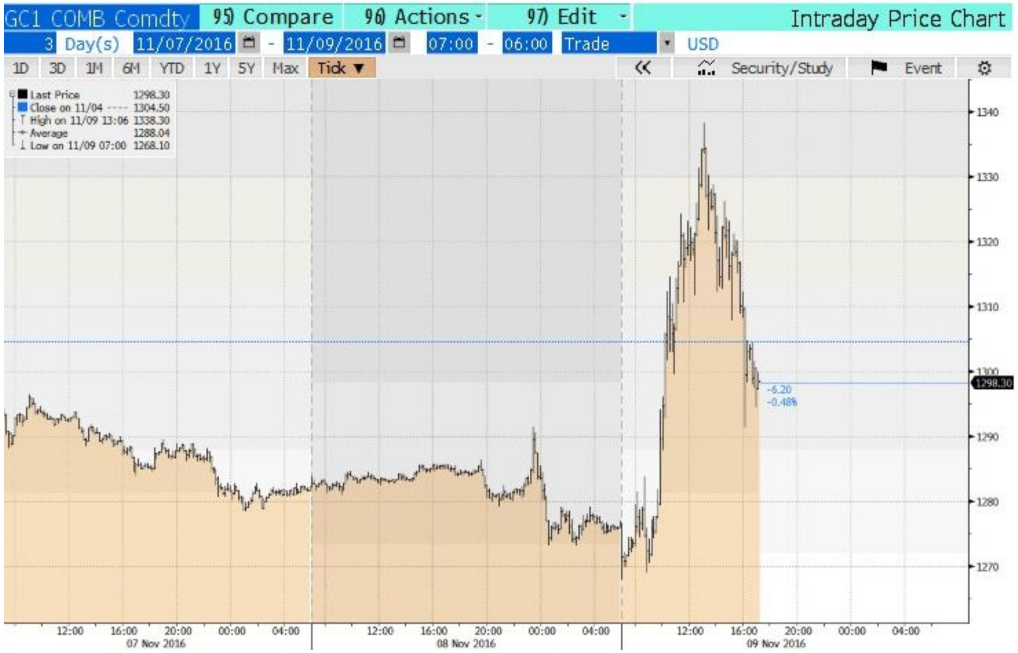
Fixed Income View



Source: Bloomberg

Commodities: ‘Uncertainty’ is the word of the day

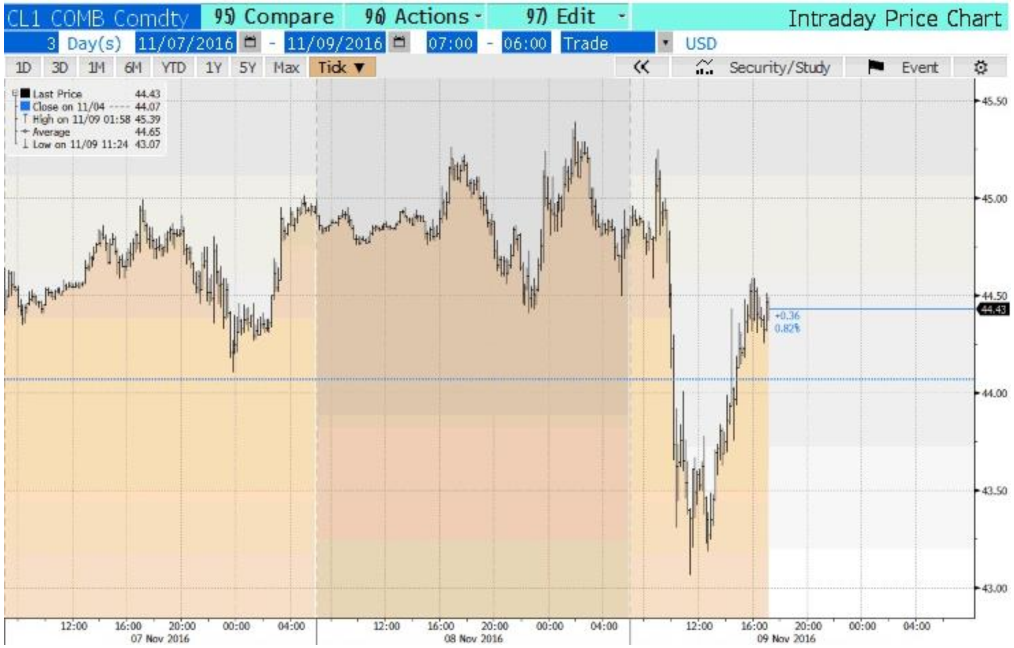
- Gold surged more than 5.0% in early Asian trading hours before settling lower to its $1,300/oz handle.
- It’s too early to tell if gold will sustain its rally into the weeks ahead. Gold will largely depend on US-centric data prior to the FOMC meeting in December. In addition, markets will also be watching closely on President Trump’s possible protectionist policies (if implemented). Importantly as well, the prospect for gold will also depend on market reaction into the next few months ahead.
- The best case scenario in our view, is for markets to re-engage its risk-on gears especially when the suspense is now over. Gold would then tread closely to Fed-rhetoric and its rate decision in December. However, ‘uncertainty’ is the word of the day, and gold thrives on uncertainties, and gold will be a clear winner if future US policies are deemed detrimental to global economic growth. At this juncture, gold should remain supported above $1,250/oz on safe haven demand.



OCBC Bank Source: Bloomberg, OCBC

Commodities: A quick return to risk appetite

- Similarly to the knee-jerk reaction seen in gold prices, crude oil prices took back some of the losses seen during early Asian trading hours. However, movements in crude oil are miniscule compared to the safe havens: WTI is gradually climbing back to its $45/bbl handle as we speak.
- Given that the impact on crude oil is minimal, the drivers remain intact: Crude oil prices will be underpinned by OPEC's production talks at the end of November. Into the next year, prices would be determined by the rebalancing story as demand picks up on a rosier economic backdrop.
- Still, we admit that the economic backdrop under President Trump is even more uncertain, and volatility may be increasingly seen into the next year. In a nutshell, global economic growth, and consequently crude oil demand, would be persuasive drivers for crude oil prices. But for now, we keep to our forecasts of $50/bbl at year-end.



OCBC Bank Source: Bloomberg, OCBC

Policy Implications on Asia

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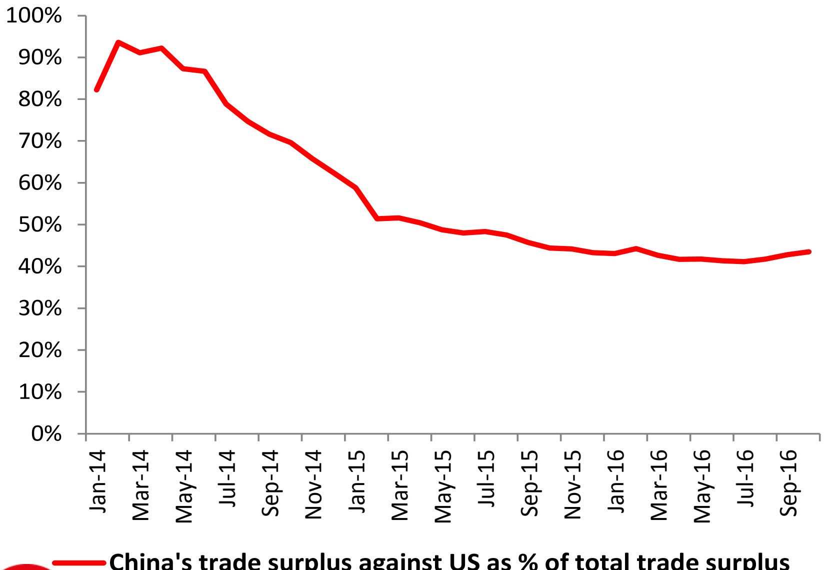
What will this mean for China?

- RMB outperformed most EM currencies today benefiting from the falling expectation of Fed rate hike and correction of DXY.
- Uncertainty remains on whether RMB is able to sail through the unchartered water smoothly under President Trump should he deliver his campaign pledge to impose trade tariff on import of Chinese goods.
- From flow perspective, a 20% loss of China's trade surplus against the US under President Trump is still manageable in our view for RMB.
- From expectation perspective, we think the current mess in the global political system may help adjust if not correct RMB's self-fulfilling depreciation expectation.
- In the world of ugly contest, the problem behind RMB seems less ugly in our view. As such, RMB may benefit from President Trump in the medium term**.**



Inflows	
Goods trade surplus	US$229 billion
FDI	US$76.8 billion
Portfolio inflow	Small but expected to rise
Foreign debt	Net inflow is small
Outflows	
Service trade deficit	US$113.5 billion
ODI	US$121.4 billion
Portfolio outflow	US$37.7 billion

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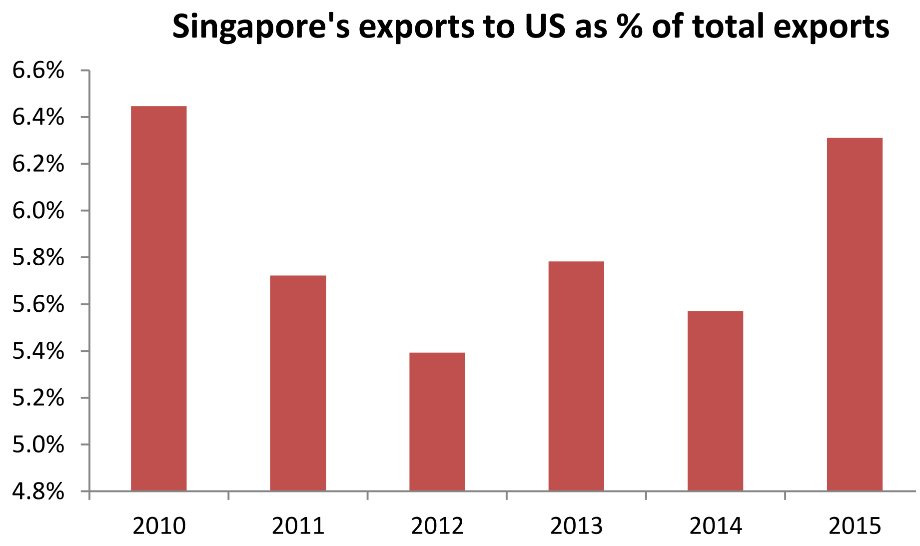
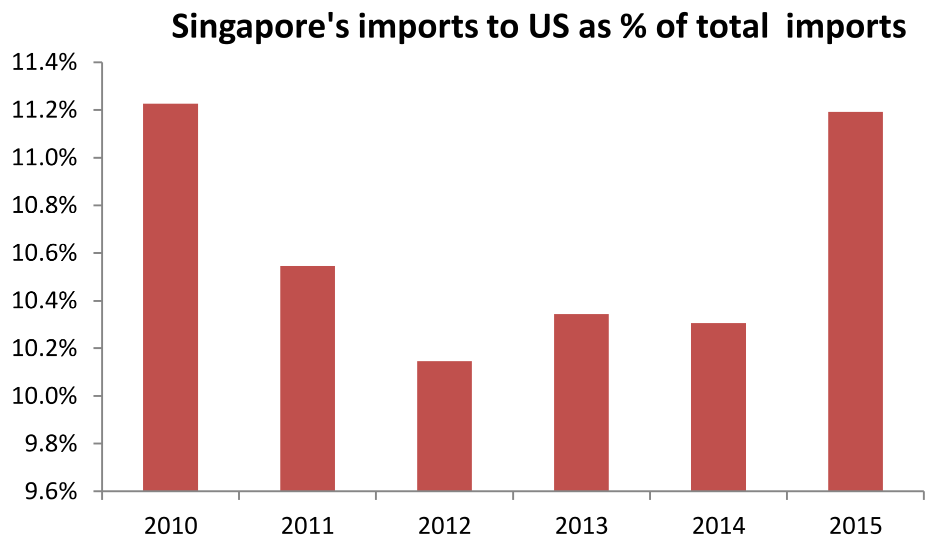
Source: Bloomberg, OCBC Bank

What will this mean for SG?

- Singapore is currently one of the 12 countries involved in TPP, a free trade agreement which covers 40% of the world economy. With the TPP, Singapore will be able to enjoy lower tariff and non-tariff barriers for both goods and services.
- Still, Singapore has close trade ties with the US, given that the nation-state's exports and imports as a total of trade is 6.3% and 11.2%, respectively.
- The absence of TPP coupled with a more trade-resistant US may be less favourable for Singapore.

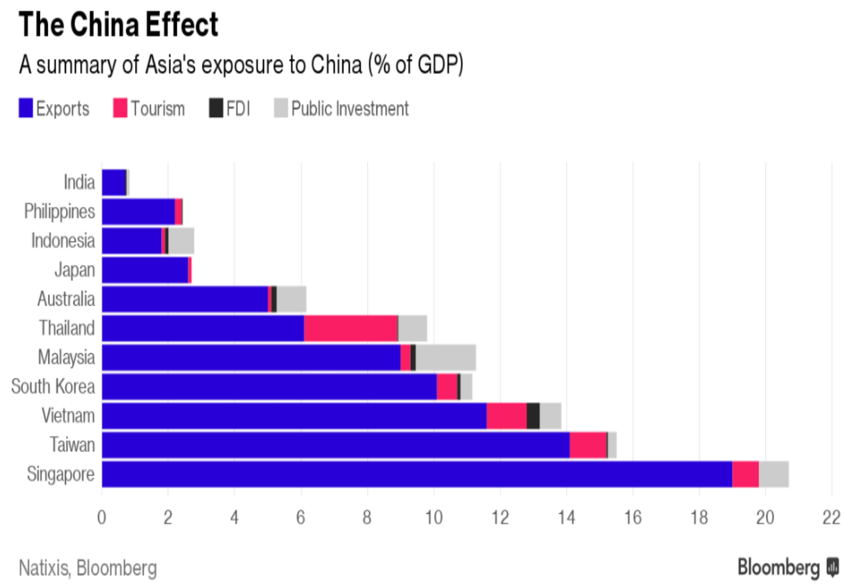


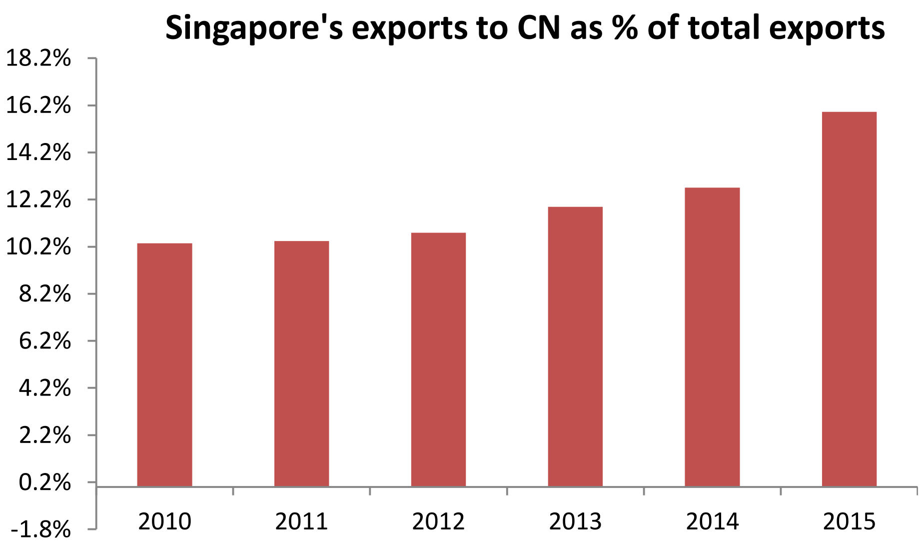


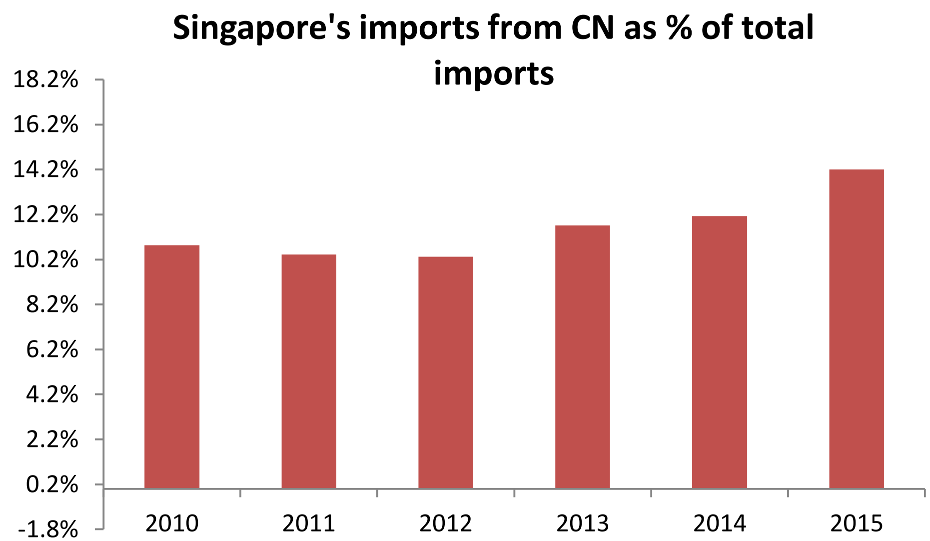
Source: Bloomberg, OCBC Bank

What will this mean for SG?

- Conversely, Singapore's trade ties with China is far more sizable when compared to the US. In fact, Singapore's exposure to China is more than 20% of its GDP, above that of Taiwan, Malaysia and Indonesia.
- Should China's economic growth be negatively affected by the new policies made by the elected US president, Singapore will face negative spill-over consequences.
- This could be mitigated if OBOR and RCEP takes off.







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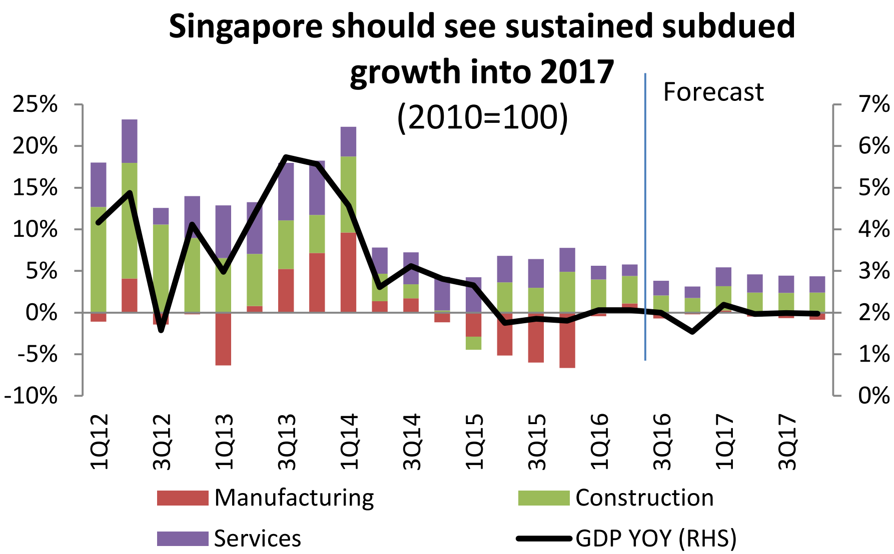
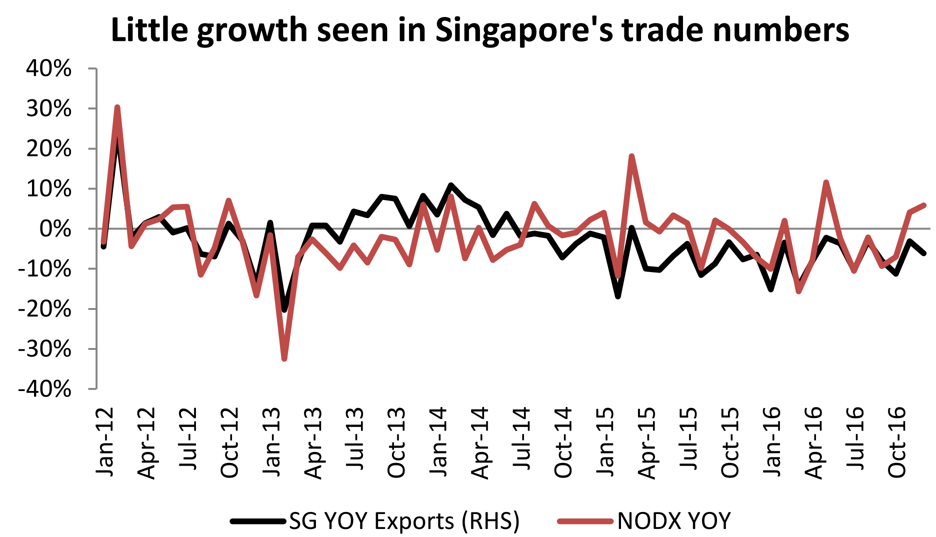
Source: Bloomberg, OCBC Bank

What will this mean for SG?

- In a nut-shell, the strong trade ties between Singapore and China & US exposes the nation-state to greater sense of uncertainty especially if trade protectionism is enforced. The downside risks are exacerbated especially when Singapore is already facing a lackluster manufacturing sector and weaker-than-usual trade numbers.
- The rise in trade protectionism in the US give rise to downside risk to Singapore's headline growth as well. At this juncture, GDP growth is already tipped at a sluggish 1.3% and 1.5% in 2016 and 2017, respectively. **Should protectionism reign into 2017, downside growth risks may prevail.**





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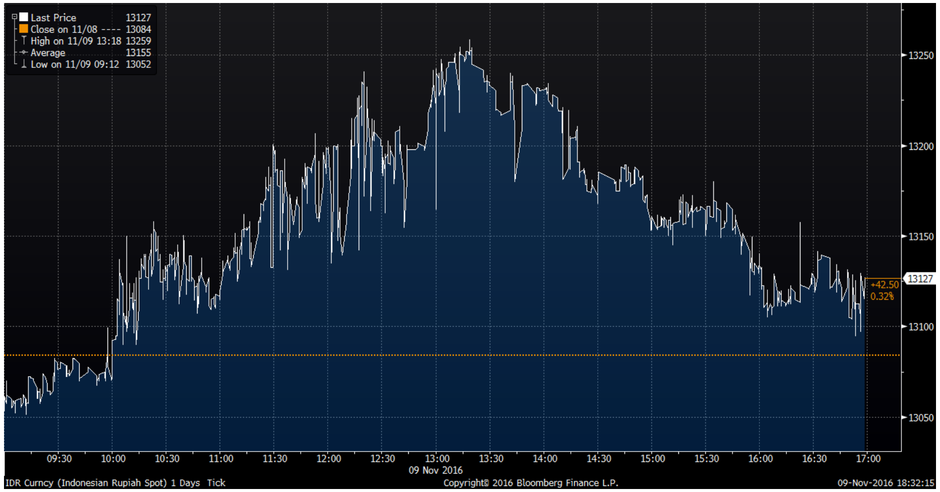
Source: Bloomberg, OCBC Bank

What will this mean for Indonesia and Malaysia?

- Indonesia's Rupiah rebounded after initial weakening. While its financial market may remain prone to global volatility, its domestic-oriented economy should shelter it from any anti-protectionist lurch by Trump.
- Meanwhile, Malaysian Ringgit weakened too but did not rebound. Its higher dependence on exports as a growth driver is a potential factor. So is the effect of lower oil price.

Indonesian Rupiah weakened, before reversing



Malaysian Ringgit did not rebound

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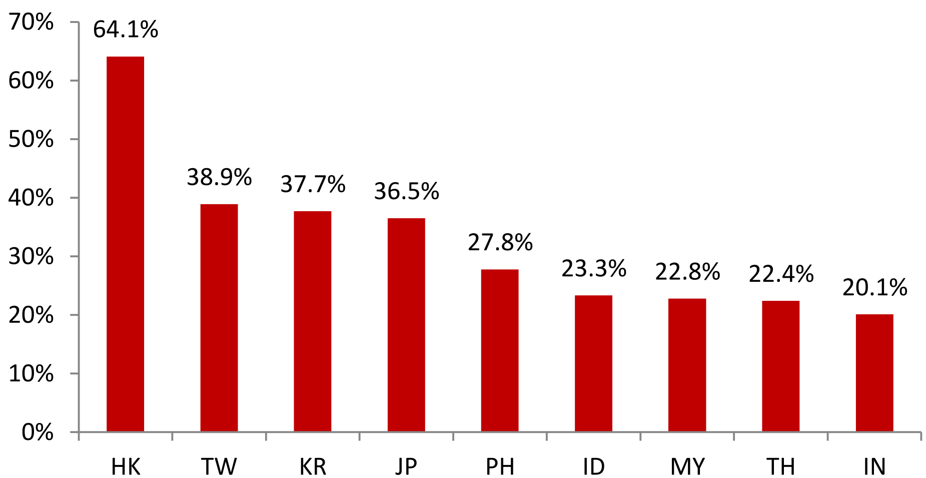
Source: Bloomberg, OCBC Bank

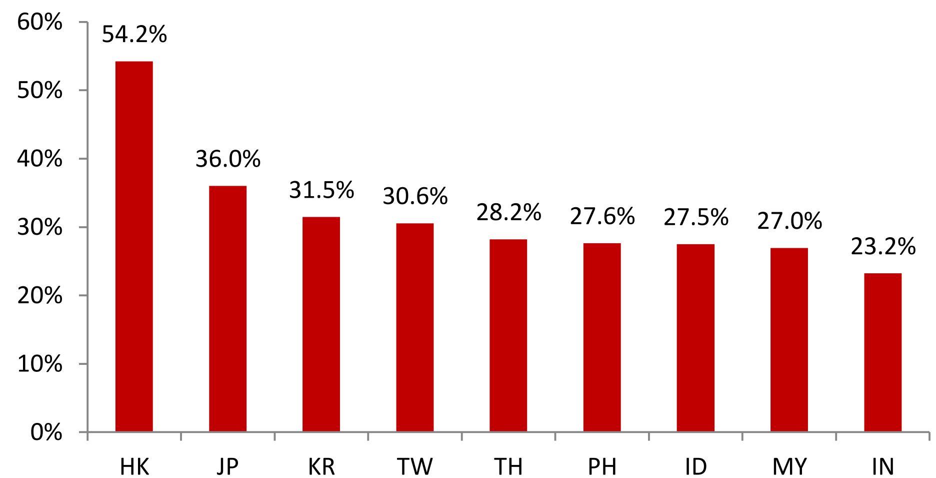
Rest of Asia: Trade Exposures

- Assuming the rise of trade protectionism and negative spillover effects to China, it is important to gauge trade exposures of Asian economies to both the US and China.
- Empirically, Hong Kong has the highest exposure to both the US and China in terms of exports (64.1%) and imports (54.2%). This follows by Taiwan and Korea, which are traditionally strong trading partners with the US and China.
- This suggests that these economies may see higher negative beta effect should trade protectionism is enforced. Conversely, economies like Indonesia, Malaysia, Thailand and India may be less adversely affected when compared to their regional peers.

Exports to US and China as % total exports



Imports from US and China as % total imports



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Source: Bloomberg, OCBC Bank

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