US PRESIDENTIAL ELETIONS:

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Trump's victory and market implications:

Nov 10, 2016

After the fact of a Trump's victory.

Yesterday as news of a Trump's victory seeped into the investment psyche, Asian markets dived for safety at the prospect of a more trade-antagonistic US president. It was almost reminiscent of the trading mayhem after the Brexit referendum stumped markets. The key differences are that Trump the president-elect sounded more conciliatory in his victory speech (as opposed to his campaign bluster), Republicans have a clear sweep of both Congress and the House of Representatives which imply a clearer (if controversial) policy mandate in contrast to earlier gridlock expectations, and many financial markets have quickly recouped initial kneejerk risk-off reactions on what was perceived as another black swan event.

24-hours later, some financial markets may choose to breeze on.

With some digestion, market players have chosen to focus on Trump's potentially more aggressive fiscal stimulus plan, and its implications for inflation amid a tight laboar market that is already near if not at full employment. Notable moves include the spike in the 10-year UST bond yield above the 2% handle on the prospect of a more aggressive and reflationary fiscal stimulus (lower taxes and more spending, especially on infrastructure), which may prompt global yield curves to bear-steepen as well. At this juncture, monetary policy influence by Trump is still unclear – Yellen's term as chair will run till Feb 2018 and the Federal Reserve Act only permits the US president to remove Fed governor "for cause". As such, our core view remains that the Fed would proceed with the Dec rate hike barring further deterioration in economic momentum and growth prospects. Nevertheless, policy rhetoric going ahead would be interesting to watch given that Trump was not the baseline case for most. Moreover, the more uncertainty in the macro-economic environment, the more cautious the FOMC is likely to be, barring any inflation upside surprises in 2017 and beyond.

How to trade going into December and beyond?

Going into the year-end, it remains sensible to take some profit off the table to protect profitable positions, but reset for 2017 on a fresh slate. The Italian constitutional referendum on 4 December and the 15 December FOMC meetings remain key events ahead. Meanwhile, the political calendar for 2017 also remains fraught with risks, with the French and German elections on the cards. Political surprises may become a regular feature on the horizon from here, and periodic but hopefully short-lived bouts of volatility are here to stay.

Implications for Asia.

At first glance, the anti-China (especially on the currency and trade front) and anti-trade (bye-bye to TPP and Asia pivot?) will have negative spill-over effects for Asian trade and growth prospects amid an already sluggish economic environment. Trump could prove to be a double-edged sword for China, if the threats of labelling China as a currency manipulator and levying punitive tariffs (45%?) on Chinese exports are actually just a negotiating stance. That said, given China's difficult economic rebalancing phase and growth slowdown challenges, Asian economies could be facing more choppy external headwinds and modestly higher downside growth risks into

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2017. Note that many Asian leaders are already reaching out to Trump. One example is Japanese PM Abe who is considering holding talks with Trump in New York next week. Even before Trump's victory, some Asian countries like the Philippines and Malaysia had recently shown a greater willingness to work with China, especially in areas of economic cooperation and investments, notwithstanding ongoing South China sea tensions.

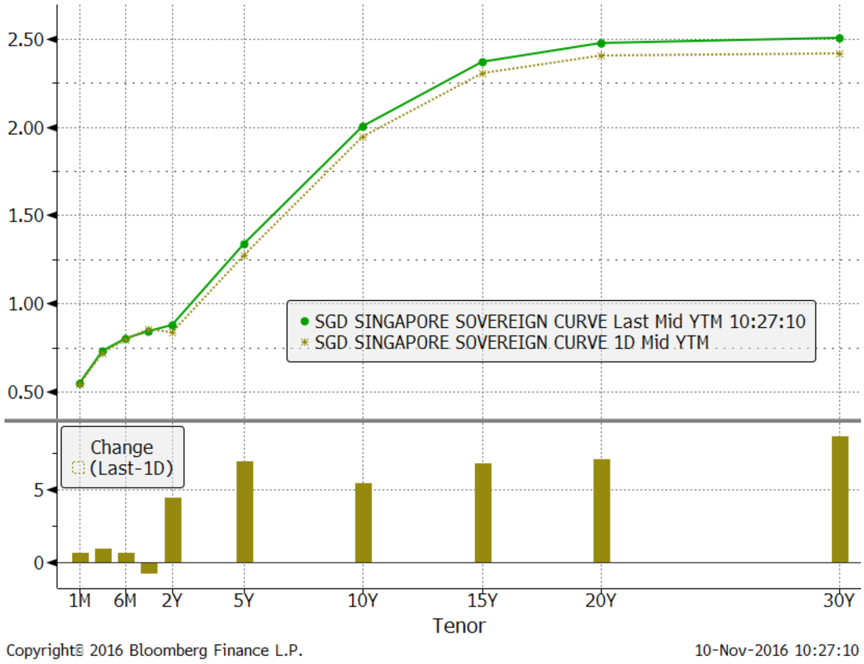
Where to from here?

Given the myriad uncertainties if Trump the president-elect will be the same as the Trump the presidential candidate, there are a couple of things to watch out for. First would be his cabinet appointments, and here market talk are as follows:

- Former New York mayor Rudy Giulian for attorney general.
- Former UN Ambassador John R.Bolton and Senate Foreign Relations Committee chairman Bob Corker for Secretary of State.
- House Homeland Security committee chairman Michael McCaul for Homeland Security secretary.
- Senator Jeff Sessions for defense secretary.
- Steven Mnuchin to head Treasury.

What has changed for Singapore?

While the USDSGD has briefly ticked higher to test the 1.40 handle intraday, last seen in March this year, the short-term domestic interest rates, namely SIBOR and SOR may remain fairly well-behaved in the interim even as the SGS bond yield curve has shifted higher in response to the sharp sell-off in US Treasury bond market overnight. MAS had already flagged its neutral for longer stance at the recent MPS in mid-October. Given that GDP growth and inflation dynamics remain sluggish in the near-term, the policy options remain on the table for a more supportive fiscal response in the form of the FY17 Budget for both broad-based cost-alleviation measures, especially for the SMEs who are struggling with both external demand and domestic cost/manpower challenges, and for potentially targeted but limited help for specific beleaguered sectors like the offshore marine industry. Accordingly, the Committee for Future Economy (CFE) recommendations will be focusing more on the longer-term economic strategies to ensure the competitiveness of the Singapore economy and re-gearing the labour force to minimise labour mismatch and to close the skills gap.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