

23 October 2020

Minor USD positives overnight lead to modest consolidative gains

- **USD: Fiscal stimulus continues to be in focus** as talks continue between **House Speaker Pelosi** and **Treasury Secretary Mnuchin** overnight, though **soundbites from President Trump** are not particularly encouraging. **Citi analysts** see a pre-election stimulus bill as unlikely but the progress made so far might form the basis for a post-election bill as early as **December** if **President Trump** is re-elected and the **Senate** remains Republican. A **Biden** win on the other hand might see the **Democrats** wish to wait until the new President is inaugurated in late January.
- **USD: The final Presidential debate** will be held this morning. **National polls** continue to reflect a **substantial lead for former Vice President Biden**, but the **most recent state polling** has been **somewhat tighter** (leading to a modest bounce in USD overnight). While there will likely be some “insta-polls” released just after the debate, it will probably be early next week before sufficient robust polling is available to indicate any post-debate shifts.

Big expansion in wage support erases doubts about fiscal sustainability in UK while BoE Deputy Governor pushes back on rate cuts in favor of QE

- **GBP: A key reason for sterling’s sharp reversal** in late September (apart from Brexit noise) was due to doubts about the sustainability of UK fiscal expansion, particularly wage support. However overnight, the **UK Chancellor unveils a significant expansion in wage job support**. The original **Job Support Scheme** (announced 24th September) caused investor disappointment and raised questions about UK fiscal sustainability (with sterling staging a stunning reversal), and which included government wage support amounting to just 22% of total wage costs, with employers expected to cover a minimum of 55% of the remaining wage costs. Overnight however, **the Chancellor announces some very significant changes with an expansion to the Self-Employment Insurance Support Scheme**, now covering 40% of average monthly trading profits compared to 20% previously. **Citi analysts expect this to significantly reduce any increase in unemployment over the coming months –and now expect UK unemployment to peak at around 8.3% in mid-2021.**
- **GBP: Meanwhile, BoE Deputy Governor Ramsden doubles down on QE – pushes back against the use of further rate cuts in the near term**, emphasizing first that “QE is the BoE’s marginal policy tool.” With respect to negative rates, **Ramsden** notes these could cause significant challenges to the balance sheets of 2nd tier UK financial institutions (who generally have a high share or retail deposits).

China – When may corporates start to offload USD?

- **CNY: Recent fast RMB appreciation has been primarily led by offshore while Citi analysts believe Chinese corporates have not meaningfully participated in USD selling yet.** This is likely mainly due to their cautious view around the US election outcome. But if a **Biden win is realized, the team expects corporates to finally start reducing their long USD positions**, which could drive the next leg of RMB appreciation. **Citi analysts** estimate US\$225bn of inventory long USD positioning has been built up by Chinese corporates since start of the trade war. **Stepping up FX conversation ratio back to historical average could bring another US\$20bn/month USD selling.**

Data releases overnight – US jobless claims continue to decline, existing home sales and prices continue to surge

- **USD: Solid downward trend of US net claims suggest still-strong rehiring** - persistent downward trend of US continuing claims after netting-out those who shift from state programs to federal programs **suggests a continued labor market recovery.** From the week of Sep 12 to October 10, continuing claims fall by 4.4-million. While the increase in October payrolls will likely be somewhat less than this net decline of 2.4-million continuing claims, **Citi analysts expect positive job growth in October.**
- **USD: Existing sales and prices continue to surge - existing home sales** rise to 6.54m in September, **the strongest reading since May 2006** while the median sales price of a single family home is up 15.2%YoY, **the strongest reading since August 2005**, and not far off of the fastest increase in history going back to the late 1960s. The surge in housing activity, and existing home sales in particular, is likely due to both pent-up demand as well as the confluence of low interest rates and fiscal stimulus that has substantially boosted savings. **But as inventory levels return closer to normal and pent-up demand is exhausted, housing activity and price gains are likely to slow, perhaps in H2'2021.**

Key data releases due today

- **EUR: Euro area Manufacturing PMI, Oct Flash: Forecast: 54.7, Prior: 53.7; Services PMI, Oct Flash: Forecast: 49.2, Prior: 47.6; Composite PMI, Oct Flash: Forecast: 51.6, Prior: 50.1 – Citi analysts** estimate that the euro area flash composite PMI will rebound in October, breaking the negative trend of the past couple of months despite a sharp increase in number of new Covid-19 cases in Europe.
- **GBP: Manufacturing PMI, Oct Flash: Forecast: 53.8, Prior (Final): 54.1; Services PMI, Oct Flash Forecast: 52.1, Prior (Final): 56.1 - Citi analysts** expect manufacturing PMI to remain well in expansionary territory as **new orders** continue to pick up and also expect the **rate of employment reductions to fall** somewhat. But amid a **renewed increase in Covid cases in the UK, Citi analysts expect the UK services PMI to fall back** though still in expansionary territory overall.
- **GBP: Retail Sales, Sep: Forecast: 0.7% MM, 3.8% YY, Prior: 0.8% MM, 2.8% YY; Ex Auto Fuels, Sep Forecast: 0.5% MM, 4.9% YY, Prior: 0.6% MM, 4.3% YY -** Soft data points to strong continued retail demand but this is likely to fade later this year.

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