

2 November 2020

- Asian equity markets traded with cautious gains and US stock index futures were choppy amid tentativeness moving into a risk-packed week
- Chinese official manufacturing & non-manufacturing and Caixin manufacturing PMIs all exceeded expectations
- Reports noted that UK & EU Brexit negotiators were zeroing in on a solution to break the deadlock on fishing access
- UK PM Johnson announced a 1-month lockdown across England from November 5th through to December 2nd
- In FX markets, the DXY marginally extended on gains above the 94.00 level, GBP lags vs. USD amid the latest lockdown announcement
- Looking ahead, highlights include EZ & UK Manufacturing PMIs (final), US ISM Manufacturing, ECB's Rehn, Mersch

CORONAVIRUS UPDATE

US COVID-19 cases +80,392 (prev. +86,900) and deaths +823 (prev. +909), while a major newswire tally stated US cases rose by at least 68,708 to a total of 9.24mln and deaths rose by at least 377 to a total of 231.1k. (Newswires)

New York Governor Cuomo said New York is setting protocols to permit children in virus hot zones to attend school in which the protocol for cluster schools would require testing and children would need to test negative to return to school, while it was separately reported that San Francisco is to temporarily pause reopening amid a rise in cases. (Newswires)

UK COVID-19 cases +23,254 (prev. +21,915) and deaths +162 (prev. +326), while France COVID-19 cases +46,290 (prev. +35,641) and deaths +231 (prev. +224). (Newswires)

UK PM Johnson announced a 1-month lockdown across England from November 5th through to December 2nd which will include people staying at home, closing pubs, restaurants and non-essential shops, as well as restricting household visits, although schools and universities are expected to stay open. **The plans are to be set out in Parliament on Monday with a debate and vote on Wednesday**, while PM Johnson also stated the furlough will be extended during the national measures and that we will revert to the existing 3-tier system after lockdown. Furthermore, PM Johnson stated there is no alternative to a lockdown in England with science showing deaths could be double the first wave if no action is taken and he added they will seek to ease restrictions after December 2nd. (Newswires)

UK lockdown is set to face fierce opposition from a potential Tory rebellion, although there were separate reports that the opposition Labour party will support the government's lockdown. In related news, Cabinet Minister Gove suggested that the national lockdown could be extended if necessary and some ministers also warned the lockdown in England could last until next year, while other reports noted there was a strong feeling that Gove's comments overstepped what the Cabinet had agreed on Saturday. (Newswires/The Times/Sky News)

Austria Chancellor Kurz announced to impose a 2nd lockdown beginning November 3rd which includes an evening curfew and closing restaurants aside from takeaway service, while hotels will be closed to all apart from business travellers. Furthermore, shops and industry will stay open and businesses that shut will get support equivalent to 80% of their turnover. (Newswires)

Portugal announced new lockdown restrictions from November 4th for most of the country, with people told to stay at home except for going to work, school or shopping and it ordered companies to switch to remote working. (Newswires)

Italy PM Conte said they have not yet decided whether to impose further restrictions to tackle the renewed spread of the virus, while he added that expecting distribution of a vaccine before spring is unrealistic. This followed reports Italy's government may move to impose measures over the weekend on cities suffering the most from the pandemic. (BBG)

Belgium imposed new lockdown measures where only one guest will be allowed in another household and non-essential retailers will be closed, while work from home will be mandatory. (Newswires)

Greece PM announced new measures to curb the spread of the virus with masks to be compulsory nationwide everywhere and EUR 1.5bln in support measures. (Newswires)

A fully-at-home rapid COVID-19 test is to move forward following encouraging data from Cellex and Gauss. (Axios)

US CDC ban on cruises expired on Saturday and was not extended which allows cruises to resume operations provided they meet safety regulations. (Newswires)

ASIA

Asian equity markets traded with cautious gains and US stock index futures were choppy amid tentativeness moving into a risk-packed week with the US election, major central bank meetings & NFP data all scheduled, while participants also digested new lockdown announcements and stronger than expected Chinese PMI data. **ASX 200 (+0.4%)** was kept afloat amid expectations of further policy easing by the RBA at tomorrow's meeting but with gains capped by oil sector losses and indecision in financials, as a continued surge in AMP shares after it confirmed the value of the Ares proposal, was partially counterbalanced by losses in Westpac due to a 62% decline in full-year profit. **Nikkei 225 (+1.4%)** was underpinned as focus centred on earnings and with the index benefitting from the tailwinds provided by the constructive Chinese data. Elsewhere, **Hang Seng (+1.1%)** and **Shanghai Comp. (+0.1%)** were varied after the recent blue-chip earnings including mostly weaker results from China's big 4 banks although the PMI data was more encouraging in which the official Manufacturing and Non-Manufacturing PMI data topped estimates, while Chinese Caixin Manufacturing PMI also exceeded expectations to print its highest since January 2011. Finally, 10yr JGBs were steady to provide some reprieve from Friday's selling pressure and breakdown of the 152.00 support level, although the rebound was limited by the tentative gains in stocks and somewhat inconclusive purchase intentions by the BoJ for November in which it raised the amounts of 1yr-3yr and 3yr-5yr purchases but also reduced the frequency of those purchases to 5 from 6 occasions during the month.

PBoC injected CNY 50bln via 7-day reverse repos at a rate of 2.20% for a net neutral daily position. (Newswires)

PBoC set USD/CNY mid-point at 6.7050 vs. Exp. 6.7086 (Prev. 6.7232)

Chinese Manufacturing PMI (Oct) 51.4 vs. Exp. 51.3 (Prev. 51.5)

Chinese Non-Manufacturing PMI (Oct) 56.2 vs. Exp. 56.0 (Prev. 55.9)

Chinese Composite PMI (Oct) 55.3 (Prev. 55.1)

Chinese Caixin Manufacturing PMI (Oct) 53.6 vs. Exp. 53.0 (Prev. 53.0); highest since January 2011.

China's yuan-denominated assets reportedly receives a fresh catalyst this month from some policy measures to give foreign stock and bond managers increased access to China's capital markets, with the PBoC streamlining procedure for inbound investment and allowing access to a wider range of assets including OTC stocks, financial and commodity futures, as well as hedge funds. (SCMP)

China is making it a priority to avoid confrontation and military conflict with Washington amid increasing turbulence expected between now and the US Presidential Election winner's inauguration on January 20th. (SCMP)

Huawei is developing plans to set up a dedicated chip facility in Shanghai that will not use US technology and would enable it to secure supplies for its core telecom infrastructure business. (FT)

US federal judge blocked the US Commerce Department order that would have barred key transactions with TikTok set to take effect on November 12th, while the Commerce Department released a statement that it will vigorously defend executive order seeking to ban the transactions with TikTok. (Newswires)

China's customs is reportedly delaying imports of certain lobster from Australia with officials increasing their inspections on Australian lobster, while it was separately reported that China was said to have rejected the appeal from Australia to remove the tariffs on barley. (Newswires)

UK/EU

UK and EU negotiators are to continue discussions in Brussels from Monday until mid-week as both sides are pushing to avert a no-deal Brexit, while other reports noted that negotiators were zeroing on a solution to break the deadlock regarding fishing access. (Newswires)

EU officials reportedly still fear that UK PM Johnson's Chief Adviser and 'Vote Leave' campaign architect Dominic Cummings could thwart Brexit negotiations after sources noted he was pushing PM Johnson to leave talks without an agreement 2 weeks ago. (Newswires)

UK Trade Secretary Truss has committed to not allowing chlorinated chicken or hormone-fed beef in UK supermarkets, in defiance of demands from the US as part of any possible trade deal. (Guardian)

UK Chancellor Sunak has reportedly warned colleagues that a second lockdown has put the government's efforts to maintain current levels of spending on public services into doubt. (Telegraph)

Nigel Farage is to relaunch the Brexit Party as Reform UK which is a new anti-lockdown platform. (Telegraph)

ECB's Panetta said European authorities could "do anything" to help boost the economy, while he added that he doesn't know what they will and that he wouldn't say if he did know. (Newswires)

S&P affirmed Czech Republic at AA-; Outlook Stable and Fitch affirmed Finland at AA+; Outlook Stable. (Newswires)

FX

The **DX** marginally extended on gains above the 94.00 level as it took advantage of the softness in its major counterparts but with gains capped as it braces for this week's trifecta of major risk events stateside including the FOMC, NFP jobs data and the US election, with the latest Fox News poll suggesting Democrat Presidential Candidate Biden's lead against President Trump slightly narrowed to 8 points from a prior 10-point lead. Furthermore, a WSJ/NBC poll found that President Trump trailed by 10pts nationally, and source reports also alleged that President Trump plans to declare victory on Tuesday night if it looks like he's "ahead" even if the Electoral College result still hinges on a large number of uncounted votes. **EUR/USD** began the week lacklustre with the single currency remaining dejected after the recent slip below its 100DMA of 1.1660 and **GBP/USD** was dragged following UK PM Johnson's announcement to impose a 1-month lockdown across England from Thursday which overshadowed Brexit-related optimism spurred by reports that discussions will continue in Brussels through to mid-week and that negotiators were zeroing in on a solution to break the impasse on fishing access. **USD/JPY** lacked firm direction amid the cautious gains in stocks which also kept antipodeans contained with **AUD/USD** briefly testing 0.7000 to the downside ahead of a widely anticipated RBA rate cut, while CAD suffered in tandem with an early collapse in oil prices although the loonie has since reversed most the weakness after the sell-off in oil eventually moderated.

Turkey President Erdogan said the country is waging war against a "devil's triangle" of interest rates, inflation and exchange rates. (Newswires)

COMMODITIES

WTI crude futures heavily underperformed after prices collapsed at this week's reopen as prices reacted to the slew of COVID-19 restrictions including the approaching 1-month lockdown in UK, while Austria, Belgium and Portugal also announced tougher measures to tackle the increasing spread. In addition, the recent record number of daily infections in the US also adds to the demand concerns for oil and a return of operations following hurricane Zeta, as well as rising Libya supply were also bearish factors contributing to the demise in oil which briefly fell below the USD 34/bbl level to print its lowest since May. **Gold** was steady despite the firmer greenback, as participants await the upcoming mega-risk events with RBC suggesting the precious metal could benefit from post-election turmoil, while **copper** traded indecisive alongside the cautious gains in stocks.

Baker Hughes US rig count (w/e Oct 30th): Oil +10 at 221, NatGas -1 at 72, Total +9 at 296. (Newswires)

Iraq's total oil exports averaged 2.876mIn in October according to the Iraq Oil Minister, while there were separate reports that Libya oil production reportedly increased to 800k bpd. (Newswires)

Chevron said the Fouchon and Empire terminals, as well as related pipeline systems are back to operational status following hurricane Zeta. (Newswires)

Goldman Sachs said virus uncertainty, lockdowns and aftermath of US election points to volatility in oil prices through this month and near-term pressure, while it added that OPEC+ are likely to postpone its 2mln bpd output increase. (Newswires)

GEOPOLITICAL

Armenia formally asked Russian President Putin to discuss defence assistance to the country if the conflict with Azerbaijan spills over into Armenian territory, according to the Armenian Foreign Ministry. (Newswires)

Pakistan PM Khan said on Sunday his government will give provisional provincial status to part of Kashmir, spurring condemnation from India which has long objected to any such changes by Islamabad. (Nikkei)

US

Treasuries managed to eke out losses on Friday, particularly the belly of the curve, despite the losses in stocks and bullish month-end duration extension. By settlement, 2s+0.4bps at 15.6bps, 10s +3.4bps at 87bps, 30s +2.6bps at 165.2bps. Treasury futures volumes were very large on Friday, accompanied by reports that a large asset manager had been dumping Ultras contracts, in addition to other block sales throughout the day. The recent trend of Treasury selling showed strong resilience this week in the face of equity vol and pre-election uncertainty. That showed no signs of abating heading into the weekend either as long-end yields sit close to their highest levels since the early June yield spike. The 10-year yield crossed back over the 200dma at 83bps (which would be the first close above it since 2018), and now looks to test the 86/87bps support levels ahead of the June peak of 96bps; equivalently, the T-Note futures contract is now dipping beneath the key 138-05 support level (double-bottom). The narrative behind the steepening remains the same in that the market expects a ramp-up in fiscal stimulus, regardless of who is in charge of the White House, upgrading the inflation/economic outlook and taking yields of their historic lows. The selling flows evidently overpowered any duration extension due to month-end (which is seen at 0.1yr), and now sees yields exploring higher territory ahead of the election, and the elephant in the room that is the Fed (FOMC on Thursday), although the latter is unlikely to put up a fight to higher yields just as of yet. T-note (Z0) futures settled 6 ticks lower at 138-07.

US President Trump reportedly plans to declare victory on Tuesday night if it looks like he's "ahead" even if the Electoral College result still hinges on a large number of uncounted votes, according to sources. (Axios) These reports were later refuted by President Trump

US Democrat Presidential candidate Biden's policy director Feldman, said that if elected, Biden would provide two relief packages with a short term package before inauguration that delivers "relief to working families" and a long-term one to build back the economy. (Axios)

Fox News national poll showed Democrat Presidential candidate Biden was ahead of President Trump by 8 points at 52% vs. 44% (Prev. 10-point lead at 53% vs. 43%). In related news, **WSJ/NBC poll** found that Biden was ahead of President Trump at 52% vs. 42% among voters nationally, while it showed President Trump faces substantial public anxiety over the coronavirus pandemic but has broad approval of his management of the economy. (Fox News/WSJ)

Numerous people close to the White House economics team do not think there is likely any new policy coming before the election despite the market tremors. (Washington Post)