

## US Midterm Elections & EM Asian Currencies

- Democrats have regained control of the House of Representatives in the US midterm elections, while Republicans expand their majority in the Senate
- It will enable the Democratic Party to block much of President Donald Trump's agenda and launch a series of investigations into the Trump administration
- The focus in global markets will shift to the US-China trade relationship post the US midterm elections, while a split US congress itself is expected to undermine the dollar broadly
- We maintain our long CNH/JPY, short USD/SGD and short USD/TWD positions

**Asia Overview** - Most EM Asian currencies advanced versus the dollar during Wednesday's Asian session. The SGD gained slightly and the JPY dipped somewhat amid risk-on sentiment after the Democrats seized control of the House.

The CNH gained marginally while the CNY closed flat. The PBoC issued CNY 10bn each of 3-month and 1-year bills in Hong Kong on Wednesday, at 3.79% and 4.20% respectively. China's foreign reserves fell USD 33.9bn to USD 3.053tn in October from a month ago. The KRW pared most of its earlier rises, ending a little higher on Wednesday. USD/KRW is likely to fall below 1,120 while staying above 1,100. BoK board member Lim Ji-won said yesterday that the KRW has stabilized this year, making the local currency less of a drag on consumer prices. The TWD inched up amid equity inflows. USD/TWD will likely trade towards 30.5 in the near future. Taiwan's exports rose 7.3% yoy in October versus market estimate of a 8.0% rise, while imports increased 17.6% yoy compared to market prediction of a 12.6% growth. Trade surplus narrowed to USD 3.36bn from USD 4.33bn in September.

We expect USD/INR to trade above the 72 support and look to buy the pair on dips. *Reuters* reported Wednesday that RBI Governor Urjit Patel could resign at the central bank's next board meeting on 19 November, citing online financial publication *Moneylife*. The IDR extended its gains, up 1.5% on Wednesday. USD/IDR is likely to test 14,500 amid portfolio inflows before long. The success of Indonesia's bond auctions Tuesday is supportive of the local currency as well. Indonesia's foreign reserves increased to USD 115.20bn in October from USD 114.85bn a month ago, the first rise in 2018. The MYR gained 0.3%. USD/MYR is likely to gradually trade towards 4.20 down the road. Meanwhile, we stay cautious on risks of credit downgrades after the 2019 Budget announcement. Malaysia's foreign reserves declined further to USD 101.7bn as of 31 October from USD 102.8bn a fortnight ago, sufficient to finance 7.5 months of retained imports or 90% of short-term external debt. The PHP rose 0.1%. USD/PHP will likely test the 200-day MA support line. The nation will release Q3 GDP growth on Thursday. Philippine trade deficit widened to USD 3.93bn in September from USD 3.49bn the month before. The THB advanced about 0.5%. USD/THB is anticipated to trade between 32.5 and 33.0 at the moment.

Regional equity indices were mixed on Wednesday. China's SHCOMP index slid 0.68%, while South Korea's KOSPI index dropped 0.52% with foreign investors selling a net 63.9mn of Korean shares. In the meantime, Taiwan's TWSE index rallied 0.85% as global funds added to their holdings in local main board shares by USD 187.7mn on Wednesday. Malaysia's KLCI index and Thailand's SET index closed up 0.36% each. Indonesia's JCI index ended 0.27% higher amid USD 49.9mn of equity inflows. India's onshore markets were shut on Wednesday and will remain closed Thursday for Diwali holidays.

**EM Asia** • Democrats have regained control of the House of Representatives in the US midterm elections, while Republicans expanded their majority in the Senate. It will enable the Democratic Party to block much of President Donald Trump's agenda and launch a series of investigations into the Trump administration. In general, a split US Congress itself is expected to undermine the dollar broadly.

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**Qi Gao**  
**FX Strategist (Asia)**  
 +65 6305 8396  
[qi.gao@scotiabank.com](mailto:qi.gao@scotiabank.com)

10Y UST Yield vs. VIX Index



Source: Bloomberg & Scotiabank FICC Strategy

10Y UST Yield vs. [US Real GDP Growth + CPI Inflation]



Source: Bloomberg & Scotiabank FICC Strategy

DXY Index vs. ADXY Index (Inverted)



Source: Bloomberg & Scotiabank FICC Strategy

Democrats winning back the House will dim chances for major stimulus initiative, eliminate the potential for more tax cuts and lower the nation's future debt deficit. It could drag down US economic growth and reduce upside room for the UST yields going forward, supportive of risk-on sentiment and prop up EM Asian currencies afterwards.

The focus in global markets will shift to the US-China trade relationship post the US midterm elections.

- *Former US Treasury Secretary Hank Paulson on Wednesday warned of an "Economic Iron Curtain" dividing the world if the US and China fail to resolve strategic differences.*
- *Chinese Vice President Wang Qishan, a close confidant of President Xi Jinping, said at the Bloomberg New Economy Forum in Singapore on Tuesday that Beijing remains ready to talk with Washington to resolve a bitter trade dispute.*
- *The second round of US-China Diplomatic and Security Dialogue will be held on Friday 9 November.*

A House flip on Tuesday is not necessarily good for the US-China trade dispute that has gained a bipartisan support. We stay vigilant, while expecting the US and China to deescalate their trade tensions to some extent at the Trump-Xi Summit set for 30 November-1 December. The Trump administration could face increasing pressure from Republicans to pursue more cautious economic and trade policies in preparation for the US Presidential Election of 2020.

**We maintain our long CNH/JPY, short USD/SGD and short USD/TWD positions, after taking profit on our short USD/KRW position at the target of 1,120 on Wednesday.**

**TODAY'S CALENDAR**

Time (HKT)	Economy	Type	Release	Period	Consensus	Actual	Last	Significance
04:00	NZ	RBNZ	RBNZ Official Cash Rate	Nov 8	1.75%	1.75%	1.75%	high
10:00	PH	GDP	GDP YoY	Q3	6.2%		6.2%	med-high
10:00	PH	GDP	GDP SA QoQ	Q3	1.9%		1.3%	med-high
~11:00	CN	TRADE	Exports YoY	Oct	11.7%		14.5%	high
~11:00	CN	TRADE	Imports YoY	Oct	14.5%		14.3%	high
~11:00	CN	TRADE	Trade Balance	Oct	\$35.15bn		\$31.70bn	high
15:00	MY	BNM	BNM Overnight Policy Rate	Nov 8	3.25%		3.25%	high
16:00	SG	DATA	Automobile COE Quota Premium for Category A	Nov 8			25,556	med
16:00	SG	DATA	Automobile COE Quota Premium for Category B	Nov 8			31,302	med
16:00	SG	DATA	Automobile COE Quota Premium for Category E	Nov 8			32,900	med

**CONTACTS - GLOBAL FX STRATEGY**
**Shaun Osborne**

Chief FX Strategist

T +1 416 945 4538

[Shaun.Osborne@scotiabank.com](mailto:Shaun.Osborne@scotiabank.com)
**Qi Gao, FRM**

FX Strategist (Asia), Associate Director

T +65 6305 8396

[qi.gao@scotiabank.com](mailto:qi.gao@scotiabank.com)
**Eric Theoret, CFA, CMT**

FX Strategist (G10), Director

T +1 416 863 7030

[eric.theoret@scotiabank.com](mailto:eric.theoret@scotiabank.com)
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