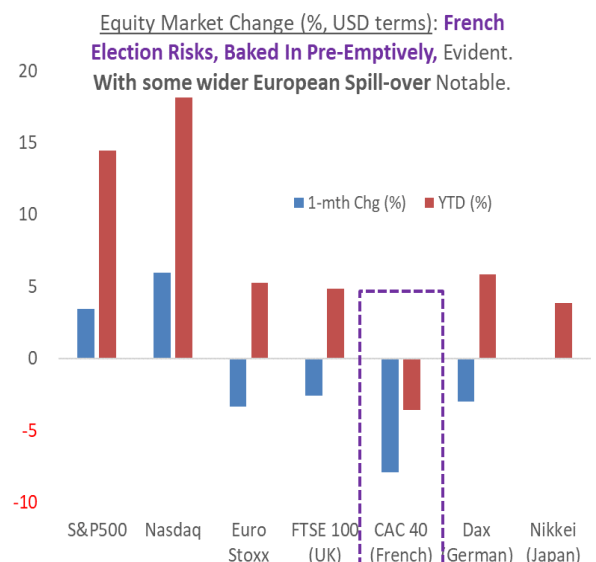
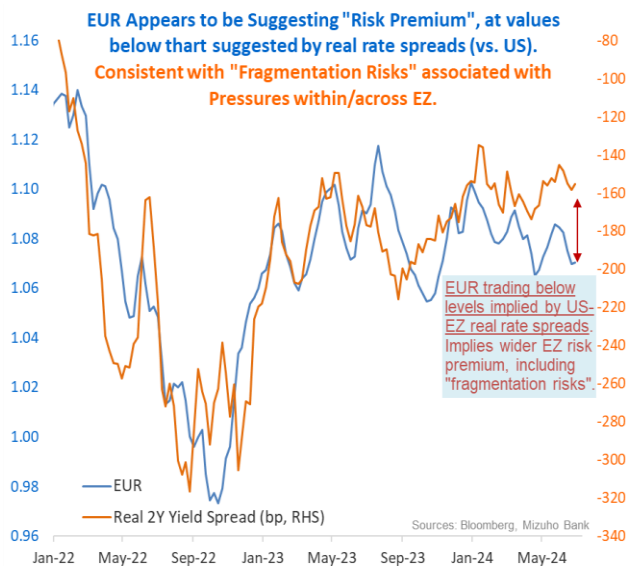


Incumbent Doubts

- **Political risks rule the roost** on both sides of the Atlantic (*US, French, UK*), marked by **doubts cast on incumbents**.
- So much so that *even with monetary policy Minutes* (RBA, FOMC, ECB) worth watching, **it is the hour of politics** commanding attention.
- Hence, **any consolation about impending policy relief**, even when backed by softer US core PCE may be **subordinated to politics**.
- US Elections: At the **Trump-Biden debate**, where *facts mattered less than (not) fumbling*, **Biden's odds of retaining office have dimmed** dramatically. But this was *on the incumbent's stumbles* (playing into allegations of Biden's age-related incapacitation), *rather than the challenger's strengths or verifiable track record*.
- Trump 2.0 from "Unforced Error": **Reluctance to switch the Democrat candidate** (from Biden to Newsom presumably) **so late in the game** is as understandable; given how politically fraught such a move is. Nonetheless, there are **no good options** for salvation. And *sunk cost fallacy may sink the Democrat ticket*; with **Trump 2.0 resulting from Democrats' "unforced error"**.
- French Elections: **Marine Le Pen's 'National Rally'** sweeping a third or more of the first round **relegates Macron's centrist party** (trailing with a fifth of votes). This **undermines President Macron's political sway and reform clout**.
- Blocking Le Pen, Not Buoying Macron: **Second round** of French elections will be *about the incumbent's efforts to block more seats or worse, an outright majority for Le Pen*. But impeding Le Pen is **consolation, not absolution for Macron's beleaguered Centrists**.
- UK Elections: Polls suggest that Labour is set to crush the incumbent Conservative Party this week. Disillusionment with the incumbent, may usher attendant relief from political change.
- Catharsis(?): In turn, this may prompt a **boost for UK assets/Sterling** on account of catharsis from economic stagnation woes. More so, if a change to Labour not only flags prospects of economic boost from public sector-led re-building but also unequivocally rule out imminent tax hikes.
- Differentiated Uncertainty Response: But **not all incumbent doubts invoke the same response** (of fear/caution at the expense of domestic assets) as **political uncertainty may be hedged, embraced or exported**.



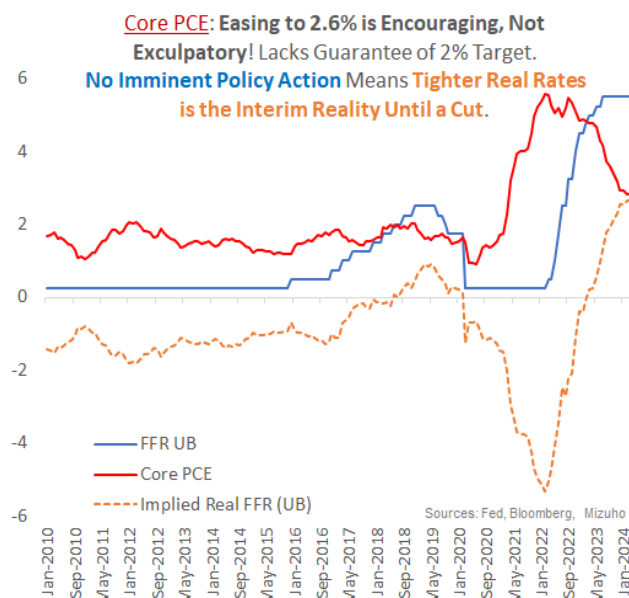
- Hedging, Embracing, Exporting Political Risks: Specifically, *French election risks* appear to be *largely* baked in (*hedged*), *UK political shifts* are *arguably* welcome relief (*embraced*) and the *US “exports” a good deal of political risks* by way of “*our President, your Problem*” type of impact. More so with Trump’s penchant for unilateralism.
- Exporting Trump 2.0 Risks: *US’ “devil and deep blue sea” dilemma* (between age and rage) may be *exported*, with greater macro-consequence outside of US; leaving **allies and adversaries to struggle/scramble to predict and pre-empt the vagaries and vanities of Trump 2.0.**
- FX - USD Not Trumped ...: Admittedly, **EUR** is **buoyed** despite French elections. But this is **on pre-emptive EUR downside hedge**, which is **not to be mistaken for EUR hegemony that trumps USD** (pun intended).



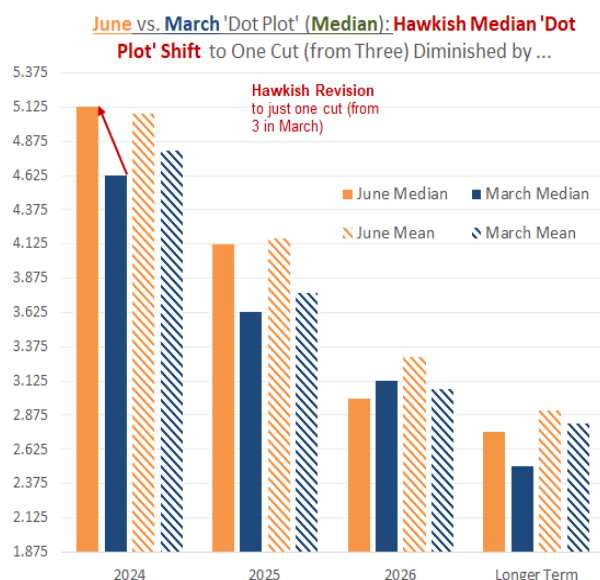
- ... Toppish, Not Toppled: In fact, quite to the contrary, *USD may in fact be propped up on Trump 2.0; as US election risks inflict geo-political/economic threats imposed elsewhere.*
- ‘USD Trump’ Risks: To be sure, **Trump 2.0 is not fully baked in.** Whereas profound and pervasive iterations of attendant ‘USD Trump’ risk persist. Specifically, involving *Ukraine-*

related geo-political headwinds imposed on EUR and/or geo-economic shocks hurled at an already compromised CNH, which could quite easily drown out USD dampening expected from Fed cuts.

- Yields – Higher ...: Yields are broadly poised to be buoyed a confluence of *worries about higher government spending* financed by increased debt/issuances and the inadvertent *inflationary impact from the protectionist tendencies* entailed in the anti-incumbency wave.
- ... & (Spreads) Wider: Crucially, **wider yield spreads for (and within) Europe as political risks compound fiscal pre-existing vulnerabilities.** Wider French bond (OATs) yield spreads (vs. USTs and Bunds) could amplify “fragmentation” risks with more broad-based divergence in European yields. And with Trump 2.0, **wider spreads from risk re-pricing may, at the margin, go beyond Europe.**
- Doubting, Not Derailing “for Longer”: **Front-end rates are also likely to be buoyed as the incumbent “higher for longer” Fed assumption remains while subject to doubt from softening inflation, is not derailed.**



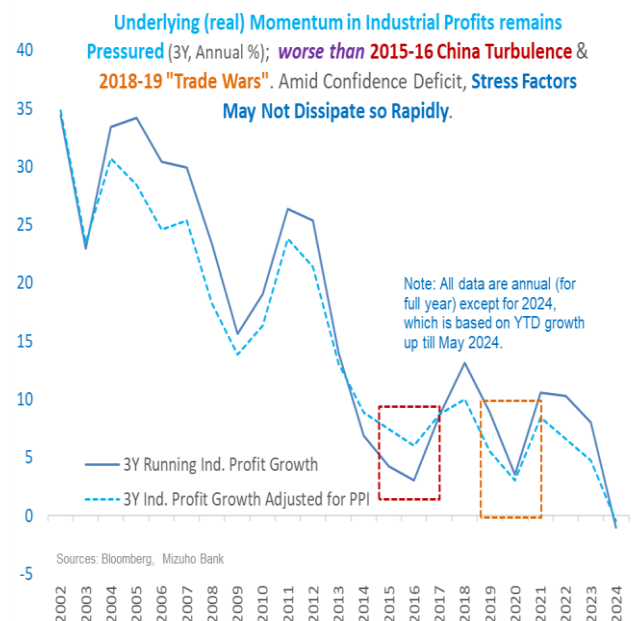
- **Bumpy Inflation:** Especially as **softer core PCE** was **neither unexpected** (telegraphed by CPI/PPI lead up) **nor conclusive** (as Fed Powell had flagged *interim pick-up in core PCE in H2*; which *rules out knee-jerk tendencies to hastily signal imminent easing on core PCE*).
- **Hawkish Restraints in Minutes:** This caution about **bumpy and incomplete dis-inflation**, in the context of being wrong about “transitory” inflation, means that **hawkish restraints are likely to linger in Minutes**. Not just for *FOMC and RBA justifying “higher for longer” pause*, but arguably also for the *ECB contextualizing a prolonged pause post-June cut*.



- **‘Dot Plot’ Consolation:** Admittedly, *FOMC Minutes may soften June’s hawkish ‘Dot Plot’ shift* (from three to just the one cut for 2024), with allusions to close calls between one or two cuts; *nudging UST yields and USD lower but only marginally*. Nonetheless, **overarching inflation impeding imminent cuts will probably provide broad-based back-stop**.
- **Potential AUD (Policy) Advantage:** As for the RBA, express allusions to palpable rate hike options on inflation risks might provide **AUD** with **relative policy advantage** to out-perform

G10 peers as well as AXJ. But **only if downside CNY/China risks do not overwhelm**.

- **Doubting China Policy ...: Doubts that Beijing has a handle on economic revival** are justifiably on mounting. “Official” manufacturing PMI contraction (not offset by a pick-up in the Caixin variant) alongside services PMI deceleration and pullback in industrial profits are merely the latest **data validation of pre-existing concerns of “too little, too late” policy stimulus**. Especially as **domestic confidence deficit** insufficiently offset by policy is exacerbated by external risks from **geo-politics charged by Trump 2.0**.



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