Most Asian markets are rising this morning and the yuan is appreciating as traders monitor the first virtual summit between President Joe Biden and the Chinese leader Xi Jinping. US Treasuries are declining, with the yield on the 10-year note above 1.6%, on renewed concerns about inflation and the possible timing of the withdrawal of central bank stimulus. US equity futures are little changed, as well as the US dollar and gold.

Joe Biden and Xi Jinping’s virtual meeting is underway as of the time of writing, with trade and Taiwan seemingly at the top of the agenda. Actually, both sides aim more at stabilising relations than achieving breakthroughs, given the unwillingness of either party to budge much on any major issues. Both are hoping to be able to coexist with each other, though one may wonder how in the end that could be possible, with China gaining consistently ground with its assertive attitude and the incumbent power increasingly uneasy about that. Yet, at this stage dialogue seems to be more important than ever, since, being each side much in the dark about the other’s capabilities and intentions, “to expect that wise decisions will be made ... is an act of faith ... that I don’t accept”, said ex Secretary of State and National Security Advisor Henry Kissinger in a recent interview. And the fact that China, much to the US astonishment, tested a hypersonic missile and on top of that is planning to quadruple its nuclear arsenal by 2030, speaks a lot to how advanced that dialogue is. And AI is nowadays only complicating matters, since wars can be now fought by gaining advantages in an invisible way, which once more goes against the basic principle of avoiding a confrontation via talks and transparency. Can it be of comfort for the United States that the former head of AI at the Pentagon recently resigned because he thought that the
cyberwar against China “is already over”? Of course China will be aiming at stable relations with the US, it is within the confines of that stability that it has so far managed to make impressive inroads without the headache of a confrontation.

Views on the outlook for US policy rates next year are wide-ranging, from a no hike, to accelerated hikes, the former for instance expected by the Morgan Stanley’s macro strategy team, the latter by none other than ex New York Fed president Bill Dudley. At Morgan Stanley they think that, by the time the March FOMC meeting is due, inflation will come down and supply bottlenecks ease, so that pressure to tighten will substantially be gone, and most likely with an even more dovish Board composition than today’s. This would be a mostly benign scenario, but not shared in the least by Mr Dudley, who sees rates peak “probably 3% to 4%”, holding the view that tightening would start after June and “go to a higher rate than people think”. Being this the view of the ex-president of the most influential district bank, equity bulls might as well hope for such a severe slowdown in 2022 that any kind of tightening plan would be promptly shelved. It is maybe not so much who says what, as what is believed collectively, in the sense that, never mind the single opinions, as long as the market discounts no hikes or a very shallow tightening cycle, risk assets are supported. And currently this seems to be the message from gold, which broke out to the upside of a four-month range last week after the thirty-year high in the CPI, suggesting the Fed will fall behind the curve in tackling inflation. Of course, a hawkish shift in tone by the Fed chair, especially as we draw closer to the end of the tapering process, would be changing the market’s ‘groupthink’ to align it more with Mr Dudley’s viewpoint. After all, why would any Fed chair be crashing the market now, rather than buying more time and waiting to see how the economy changes?

President Biden’s popularity continues to drop and has now reached an all-time low of 41%, according to a latest Washington Post poll. The majority of Americans now disapprove of Joe Biden’s performance, with harsh judgements also about the state of the economy. Should the Democrats start to be concerned about the prospect for the 2022 midterm elections? History shows they should. Consider the net approval rating - approval minus disapproval - of each president since the end of WWII. According to historical data there is a strong correlation, more than 80%, between the net approval rating of a president at this point and a year from now. Most presidents tend to lose ground from now simply because, starting popular, their approval ratings tend to revert to the point where half the population likes someone and half doesn’t. What statistics won’t tell us is whether Mr Biden will hold his ground, like for instance Bill Clinton in 1993, or lose it with double-digit declines, like Barack Obama in 2009. Also, judging from how historically Americans would have voted for either party at this point in time according to an average of polls, and how that party would be faring one year from now, the Democrats cannot rejoice at all. Here correlation is even stronger, at 0.9%, showing that the party in the White House has usually lost ground from this point until the midterm, and Democrats and Republicans are now basically tied as per an average of polls. There will be no survey ever telling us what kind of hopes Democratic candidates have entertained at this point in time, but no doubt that all of them are hoping they are outliers this time.

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