

## Good MornING Asia - 1 July 2019

We didn't have high expectations for the G20 meetings. What we got was realistically about as good as we thought likely. Markets seem to agree, with a modest relief rally in equities and some safe-haven selling. Other Asian currencies rallying.

### In this bundle



#### Could have been worse - G20 does not end in acrimony at least

We didn't have high expectations for the G20 meetings. What we got was realistically about as good as we thought likely. Markets seem to agree, with a...

By Robert Carnell



#### G20: Many bridges to cross before a US-China deal can be cut

The new cease-fire and a resumption of negotiations between the US and China keep hopes alive that a long-running trade war can be avoided. But more is...

---

Opinion | 1 July 2019

## Could have been worse - G20 does not end in acrimony at least

We didn't have high expectations for the G20 meetings. What we got was realistically about as good as we thought likely. Markets seem to agree, with a...



China's President, Xi Jinping with US President, Donald Trump in Beijing, 2017

### US-China, talks back on, long way to go

For the full view of our Trade and China economists, [please visit this link](#). But for the quick and dirty view, the G20 can be regarded as an excuse for a modest relief rally because:

- No additional tariffs have been imposed
- The talks that may eventually lead to a broader trade deal are back on and...
- ...there seems to have been some (modest, and perhaps disputable) concessions on Huawei.

That said, there still seem to be considerable differences in interpretation on what is left to do and on what has just been promised. US President Trump's claims that China will buy more US agricultural produce does not seem to be reflected in Chinese media reports, so there may still be issues ahead.

But compared to an alternative scenario, where Presidents Trump and Xi walked away from Osaka shaking fists at each other in acrimony and accusations of renegeing on earlier agreements, this

can't be described as a bad outcome, and we don't believe much more was realistic at this stage anyway.

The JPY is a little softer on the news (though domestic issues may also be playing a part here). Weaker CHF and gold also back up thoughts of a safe-haven retreat, though this doesn't seem to be playing out in bond markets, or in thoughts of Fed easing, where the probability of a July hike has now risen to 86.5%, up about 10% from the end of last week. Asian currencies like the KRW are rallying. KRW has broken 1150 today. CNH has rallied hard on this news. While trade talks are back on, the likelihood of a CNY depreciation is drastically reduced.

## Tankan declines

Japan's 2Q Tankan survey was a mixed bag with the headline large manufacturing index dropping a worse than expected 5 points to 7 from 12 back in 1Q19. But the downbeat news was not reflected evenly elsewhere, with large non-manufacturers reporting an improvement in conditions (23 up from 21). Small firms in both manufacturing and non-manufacturing sectors registered declines, with the small manufacturing firm index now down at -5 from -2.

Nevertheless, this is perhaps not the disaster outcome that could have the government abandoning thoughts of the October consumption tax hike, and we may need to incorporate that back into our forecasts before too long.

## No end in sight in negotiations for EU leaders

The arguing over who shall lead the EU's various institutions continues, with her proposal to appoint Frans Timmermans (Netherlands) as the new head of the EU Commission ran into opposition from members of her own European People's party bloc. With Manfred Weber (Germany) apparently out of the picture, we are now running well into the list of compromise candidates for those who might fill the role.

Of course, while all this continues, we get no progress on who may fill the ECB role post-Draghi. I wonder if he can be persuaded to stay on in a caretaker role if no agreement is obtained, or whether Vice President Luis de Guindos can be persuaded to keep things ticking over until the EU leaders can agree on a way forward.

## China June PMI data show manufacturing slowing at same rate as in May

Chinese data releases over the weekend don't provide much room for celebration, though underline why it is important that the current trade situation has not actually worsened. The Manufacturing PMI remains at 49.4%, which means that this sector is slowing at the same rate as last month, not that conditions are unchanged (basically these are diffusion indices). The non-manufacturing PMI came in only slightly down at 54.2 (from 54.3) so growth has slowed only very marginally there. The Caixin indices are due today to add some flavour to the smaller private sector.

PMI data from much of the rest of Asia is released later today.

Other key releases include Thai CPI (will remain low, helping the argument for an imminent BoT rate cut) and Indonesian CPI is also due (expected almost unchanged at 3.2% - BI still focussed on

external conditions, so will talk dovish but likely keep rates on hold)

## RBA - may cut tomorrow, but it doesn't really matter

Tomorrow, the RBA decision on rates is a close call, with the consensus of forecasters split, with only a small majority in favour of a cut. We are on the other side of that call, but with low conviction. Later today we publish a more detailed preview of this meeting. Our conclusion is basically that though this is a hard meeting for us to call, it doesn't make much difference to the Australian outlook whether the RBA cuts now or waits until August. More on this later...

### Author

#### Robert Carnell

Regional Head of Research, Asia-Pacific

[robert.carnell@asia.ing.com](mailto:robert.carnell@asia.ing.com)

---

Snap | 30 June 2019

## G20: Many bridges to cross before a US-China deal can be cut

The new cease-fire and a resumption of negotiations between the US and China keep hopes alive that a long-running trade war can be avoided. But more is...



President Donald Trump shakes hands with Chinese President Xi Jinping during a meeting on the sidelines of the G-20 summit in Osaka, Japan

Neither the US nor China reported that any of the disagreements which proved to have been deal breakers in May are closer to being resolved. So, much work needs to be done to prevent another break up of negotiations. China's promise, according to the US, to import more agricultural products from the States while the US postpones new tariff hikes, is not very different than what was already agreed upon in December last year and proved, in the end, to be insufficient for a deal.

For this round of negotiations to be a success, we need to see the difficult issues such as technology, Chinese state aid and the protection of intellectual property, to be resolved. We also need to see rules for the future enforcement of any deal. Since leaders and the American written statement did not say that concrete steps in that direction have been taken, or that the US has dropped its demands regarding these issues, much caution is warranted before anyone can cry victory.

President Trump officially said that the Huawei case can be dealt with at the very end of trade talks. He also mentioned that US companies can sell products to Huawei if those products are not critical to national security; the definition of 'critical to national security' is very much up to US interpretation. So we believe that what President Trump has said is not impactful enough for Huawei and the other seven Chinese technology companies, which were recently included in a US entity list, to get critical components from American trading partners.

From Huawei's perspective little has been gained by the China-US sideline meeting at the G20. So, we haven't yet reached a point where we can abandon our expectations that these negotiations will break up and a subsequent round of tariffs will follow.

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.