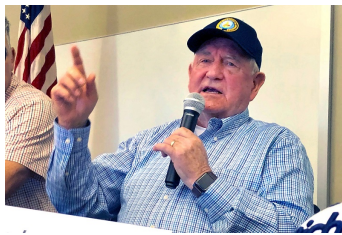


Good MornING Asia - 10 December 2019

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In this bundle



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Asia Morning Bites

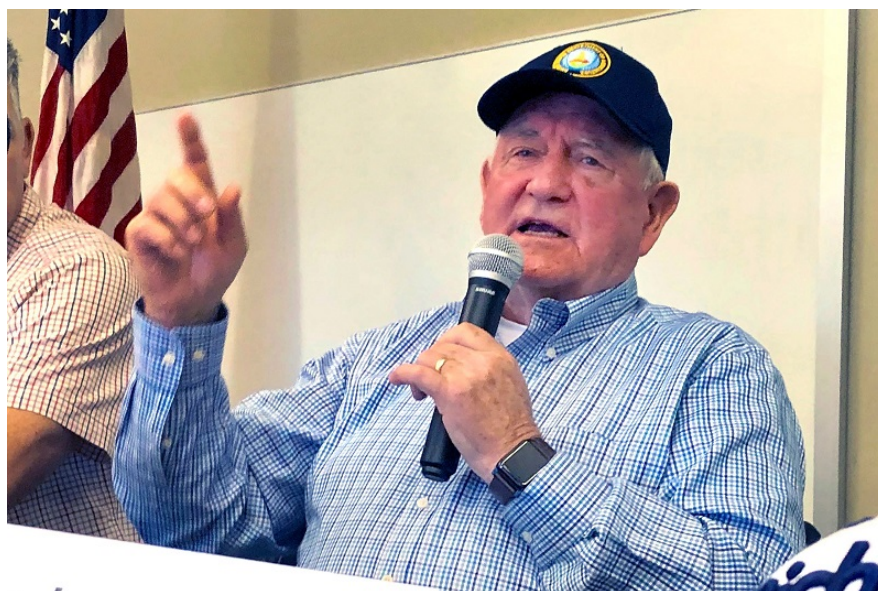
ASEAN Morning Bytes

Investors are likely to stay cautious ahead of the mid-December deadline for Phase one US-China trade deal.

Opinion | 9 December 2019

The Dec 15 trade deadline may be dead

US Agriculture Secretary, Sonny Perdue, is reported by Bloomberg as saying that the extra tariffs due for implementation this Sunday (15 December) may not now be imposed. This ought to be good for market sentiment, and for future growth expectations, but does it mean a phase one deal is still elusive?



Sonny Perdue

Trade tariff deferral - good or bad?

"I do not believe those (the tariffs) will be implemented and I think we may see some backing away." I think it may be the first time since writing about the Trade War that I have come across "Sonny Perdue", Agriculture secretary, so any quote attributed to him comes with a certain nervousness - is he really in the know? Is he authorised to speak about trade? Will this be backtracked later?

But the message is an easy one to accept if legitimate. Let's face it, I don't think there was ever much enthusiasm for this second tranche of tariffs on (partly) electronic consumer goods. This felt like a threat to achieving a particular end that was a little too aggressive even for the US administration and it doesn't seem to have worked.

From the perspective of market sentiment, this should be supportive. The threat to US consumer spending strength from the imposition of this tariff was a real one. And it also threatened to become the \$160bn straw that broke the back of the Chinese economy, which has been

struggling but managing up until now.

But if the tariff threat is to be withdrawn, does this tell us anything about a phase one trade deal? If you believe White House Adviser, Larry Kudlow, then negotiators are drawing close to a deal. But then he has been saying this for quite some time. And there is still no deal. This "the deal is close" reminds me of one of those lessons in mathematical economics, where "n" approaches zero, but never quite reaches it, stretching asymptotically to infinity.

A more optimistic take on this is that the threat is being withdrawn as a deal is actually on the cards, but may not get over the line by December 15. The withdrawal of the tariff threat is simply to avoid the administrative burden of imposing a tariff and then removing it weeks or even days later.

I should take a stand on this, but I think I'm going to sit this one out and see what happens.

Chinese inflation peaking

This morning we will get Chinese CPI for November, and the consensus expects a further rise from the 3.8%YoY recorded in October, to 4.3%. We think it may already have peaked, but if not, then this should mark the top for inflation. And it's all because of how amazing an animal the pig is. Most of China's inflation has stemmed from the African Swine Fever epidemic that has ravaged the nation's swine herds resulting in the deaths of about 50% of the hog population.

China has imported a lot of pork and mobilised strategic pork reserves to help combat the shortage and limit the spillover of price inflation into other meats like beef and chicken. As well as bringing in pork for immediate consumption, China's farmers are having to restock their depleted herds. So how old do you think a pig is before it is ready for breeding? Bear in mind that this is a mid-sized mammal, that has even been used in some space programs owing to its intelligence. The amazing answer according to the interweb is 6 months. Though it also seems some farmers prefer to wait for 7 to 8 months before breeding their sows. And how many piglets do you think they have? The average answer seems to be about twelve, though over thirty is the world record. And they can have two litters a year.

I haven't yet created a pig-breeding scenario spreadsheet, but I reckon that it wouldn't take too long to restore the swine population of China back to its former strength. One of the other interesting facets of this is the development of the epidemic. Now I once studied a little medicine. I was dreadful at it and marginally less bad as an economist, hence the switch. But I remember bits and pieces. One of which is the "shape" of an epidemic. Where there are waves, with the wave following the main epidemic being smaller, as natural immunity began to kick in. [Here is a link to the United Nations Food and Agriculture organisation Swine Fever update, from just a few days ago \(5 December\)](#). Scroll down to the chart of Swine Fever reports by Chinese region (Fig 1). It looks quite familiar.

Of course, there will be future outbreaks of variants of this disease, and others. But in China at least, the worst of the swine fever epidemic might possibly have passed. If so, swineherds and pork supply should soon recover to full strength, and pork and other meat prices should begin to fall. Incidentally, this removes the pressing need for agricultural imports from the US, one of the key elements of any proposed phase one Trade deal...

UK election update

Ahead of Thursday's General Election, an ICM/Reuters poll showed the Conservatives on 42% of the vote, and Labour on 36%, a level at which a hung parliament becomes a distinct possibility. The upward creep by Labour may be down to voters concerns over the National Health Service under a Conservative government. [Newspapers were running yesterday with emotive pictures](#) of a young boy sleeping on coats on the floor of a Leeds hospital. This sort of stuff plays strongly to Labour's favour, and it will be a hard criticism for PM Johnson to rebuff, so close to the election.

With only days until the vote, this suddenly now looks all to play for. After its recent strength, sterling could be hard hit if the polls creep further in Labour's direction, and further hung parliament, and more Brexit uncertainty re-emerge.

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ASEAN Morning Bytes

Investors are likely to stay cautious ahead of the mid-December deadline for Phase one US-China trade deal.



EM Space: Trade continues to dominate sentiment

- **General Asia:** Investors are likely to stay cautious ahead of the mid-December deadline for Phase one US-China trade deal. China's inflation and monetary data may provide some direction for trading, while key central bank meetings (FOMC, ECB, and BSP) are likely to pass as non-events.
- **Philippines:** October trade figures are due today. The consensus of a wider trade deficit of \$3.6 billion, up from \$3.1 billion in September, stems from slightly steeper export fall, while the resumption of government infrastructure spending translates into small import fall. The wider trade deficit could prevent the current appreciation spell of the Peso continuing into 2020.
- **Indonesia:** Finance deputy minister Suahasil Nazara indicates that inflation should settle at 3.1% for 2019 while GDP growth manages to post a 5% expansion despite “ongoing efficiency measures”. Nazara expects foreign direct investments to post an improvement in 4Q as Jokowi orders the improvement in the ease of doing business, which could help bolster foreign investor sentiment and the IDR.

What to look out for: Fed meeting and China inflation

- Philippine trade (10 December)

- China inflation (10 December)
- US inflation (11 December)
- Fed meeting (11 December)
- BSP meeting (12 December)
- ECB meeting (12 December)
- US PPI inflation (12 December)
- Hong Kong industrial production 13 December)
- US retail sales (13 December)

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