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China finally loses patience with the US, citing subsidies for the soybean sector - expect action to follow if Trump escalates trade war

In this bundle

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By Robert Carnell

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An escalation of the trade war is more important than social media infringements

It barely makes it onto the top stories of newswires, but the comments from the party-backed newspaper "The Global Times" that China "...must take strong restrictive measures", in response to soybean dumping by the US has the potential to be a lot more meaningful than the woes of tech stocks, which seem to be taking top billing.

Coming from the media, these comments suggest that China is still trying to avoid being sucked into a trade war. But with rumours rife that Trump will announce the results of the investigation into intellectual property abuses as soon as this Friday, this may be viewed as an early retaliatory shot.

Until now, you could have made the case that the US was taking a clever approach to trade - threatening much but then offering opt-outs for those willing to sign up to Trump's conditions on steel and aluminium. The rush to do so has been marked only by the EU's refusal to join the throng and their announcement that they expect to get exemptions anyway. With Korea, Brazil, Australia, Canada, and Mexico all saying they have exemptions or are aiming to get them, what started out as a global tariff, has become more and more China-focused by the day.

The intellectual property rights investigation, however, screams out "China" from the very start, and together with the global ganging up on Chinese steel and aluminium, does raise the chances of a more forceful response from China, and in turn, further retaliation in kind from the US.

It could just be me, but I think this is a bit more important than some data-infringements by social media giants.

Powell makes FOMC debut tonight - things to watch

Rather than re-hash our colleague's excellent note on the Fed - First of four - please read the real deal.

The abridged version of which is:

1. The Fed will hike 25bp tonight
2. Watch the dot-plot median to see if three hikes become four
3. Watch the words, "gradual" rate hikes, "tailwinds" from fiscal policy, "solid" growth and "robust" jobs market.

Wild-cards:

There really is only one, and that is trade. How will Chairman Jay Powell dodge criticism of Trump's trade policies, given that almost all reasonable economists would do so? One opt-out is that Powell is not an economist, so he may decline to comment. We suspect if asked, he will suggest that the Fed has it as a "watching brief". That should buy them time to figure out what is really going on.

Day ahead

Aside from the FOMC, the UK may provide some market interest today, with forecasters expecting January wages growth to push up to 2.6% YoY from 2.5% in December. With the Bank of England also meeting this week (tomorrow) this might give them more room to talk up the prospects of rate hikes this summer - though we still struggle to see the point of hiking against a temporary inflation bump that is almost entirely currency-driven.

In Asia, there should be no automatic response to the Fed's expected tightening tonight. The one central bank that may respond tomorrow or in coming days with some tightening is the People's Bank of China, though it may do so only by 5bp.

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