

Good Morning Asia - 25 June 2018

From retaliatory tariffs to reserve rate requirement (RRR) cuts and WTO rules re-vamping, the broad thrust of news today is Trump vs the rest of the world, and the rest of the world is fighting back

In this bundle



China

Countering the Trump threat

From retaliatory tariffs to reserve rate requirement (RRR) cuts and WTO rules re-vamping, the broad thrust of news today is Trump vs the rest of the...

By Robert Carnell

Countering the Trump threat

From retaliatory tariffs to reserve rate requirement (RRR) cuts and WTO rules re-vamping, the broad thrust of news today is Trump vs the rest of the world, and the rest of the world is fighting back.



This is not just US vs China

There was a time, early on in this global trade mess (let's not call it a war, even wars have rules) when it seemed clear who the combatants were. Trump was preparing to wage war with China (despite his apparently 'great' relationship with President Xi...!) and the rest of the world looked on aghast. Now there are few markets that have not been provoked into some form of retaliation on trade. The latest to join the list, Turkey, is now imposing tariffs on US imports of goods including rice and cars. The EU meanwhile says it will continue to retaliate to US tariffs so that if Trump puts a tariff on cars, the escalation will continue. Where will it all end? The only reasonable answer, not soon enough.

China's latest announcement of another reserve rate requirement (RRR) cut for banks (0.5% worth CNY700bn) is another news story with its roots in the trade mess. Last week, China announced some weaker than expected activity data. It is a bit much to pin that already onto trade sanctions. But as a forward-looking measure, while restructuring efforts continue also to put a squeeze on the economy, it is a sensible offsetting move to Trump's trade policies.

The US, for its part, doesn't seem to want to let the momentum in its trade campaign weaken, with announcements over the weekend of further restrictions on Chinese inward investment into

Robotics and Artificial intelligence firms. Interestingly, China has chosen the moral high ground, and in meetings with US firms operating in China, has said that it will not make life hard for them. This is, however, merely a dose of grim reality, given that China is trying to encourage inward investment to keep the currency firm, while at the same time, the Central Bank is lagging the US Fed in terms of interest rate moves. At least, this is the story for now. Should the Trump administration keep hammering away, blunter, more self-damaging responses may be adopted.

Even the direction of the Brexit negotiation disaster-zone seems influenced to a large extent by the unfurling global trade catastrophe. UK public finances have already been hit by the UK's slowdown more than any once-touted Brexit dividend. So recent announcements of a boost in spending for the National Health Service (will come in handy for curing rickets, cholera and the other 3rd World diseases the UK population will suffer post-Brexit) may turn out to be just a softening ploy for a Brexit that leaves the UK more in than out of the EU - another response to the weakening global trade environment.

With global trade so stuffed up, that seems a more sensible short-term ploy than any that the more ardent Brexit supporters would want. But as even one of those was heard to remark, Brexit is a process, not an event. They can toughen Brexit up later if the mess is ever sorted out.

Today in Asia - prelude to Bank Indonesia?

There are one or two releases worth a quick look today in Asia. At around lunchtime, Indonesia will release May trade figures, which could show a narrowing of the deficit, though more through noise than any improvement in the trend. The consensus is for a reduction of the surplus to -\$531m, and any shortfall from this will likely weigh on the IDR, increasing the chances of a further rate hike later this week from BI (expected).

Singapore's May CPI release will also hopefully provide some further evidence of the economy firming, though the newsflow remains somewhat mixed, so there is scope for some downside surprise here too. Watch both the headline and core figures to try to make sense of whatever comes out (0.4% from 0.1% and 1.5% from 1.3% expected).

Taiwanese production for May is also due. Our forecast of 6.5% is just a little stronger than the 5.8% consensus.

Quiet in the G-7

Outside of the political / trade maelstrom, it is going to be a reasonably quiet day in the G-7, with the week ahead likely to be dominated by the EU summit - Brexit and Immigration are likely to be on the agenda.

Germany's Ifo could shed some light on the momentum of Europe's largest economy, which has clearly slowed from the end of last year.

US New home sales aren't too interesting. The trend is higher, but with a shortage of existing homes for purchase, this is pushing buyers into the new home market. It doesn't tell us much else.

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

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 www.ing.com.