Good MornING Asia - 30 August 2018

Narrowly trailing in importance behind the news that eating meat and cheese is good for you (well done McMaster University, my old Alma Mater), Chief EU Brexit negotiator, Michel Barnier's comments about an "unprecedented deal" for the UK have provided cynics like myself with an unexpected upside surprise. A Brexit deal is possible...

In this bundle

Eat, drink and be merry

Narrowly trailing in importance behind the news that eating meat and cheese is good for you (well done McMaster University, my old Alma Mater), Chief EU...

Make mine a celebratory Philly cheese-steak sandwich

Now that I will clearly live for several more centuries based on my dietary habits, I can take a slightly longer forecasting view, one that sees me past March 29 next year, and the advent of a new era for UK-EU trade relations. And that future is looking a whole lot brighter this morning. Our excellent FX colleagues have already put pen to paper for the outlook for the GBP, and I can't improve on that.

But before I get too carried away, it is worth heeding the somewhat curmudgeonly remarks from the German Finance Ministry that followed, and sapped the GBP rally. These were a salutary reminder that any deal will not only have to pass the ordeal of UK Parliamentary approval (too many factions, any deal will create some problems for all of them), but it will also need unanimous EU approval, including regional governments. How is that going to play out when Spain's approval may be tied to the future for Gibralter? Or the Catalonian government ties its support to more autonomy?

We're not there yet. But "no-deal' was looking highly probable yesterday. This is a welcome spot of good news.

Talking of cheese...

Keeping with our cheese inspired theme today, the dairy industry is still the main hurdle preventing a tripartite deal between the US, Mexico and Canada. A Friday "deadline" looms, and though all sides sound optimistic, Canada is trying to sound a note of caution. This is all about making concessions to the US and the dairy farmers and cheesemakers of Wisconsin. There is no "good" dairy deal for Canada, only varying degrees of giving-in to US demands, and hopefully making this up on a broader trade deal. The CAD has rallied and will rally further if a deal is signed. But there is definitely two-way risk to this one. And as the Canadian negotiators concede, a lot of ground to cover first.

Turkey off the menu

EM risk appetite is on the wane again, with the TRY under weakening pressure as the central bank reintroduced borrowing limits for overnight transactions at TRY44bn. This is not as tight as the TRY22bn limit imposed until August 13, but markets would rather see rates raised than this back-door tightening. Markets are voting with their feet as to this latest policy's effectiveness.

Calls for more rapid IMF disbursement by Argentine President Macri are not helping confidence in Argentina either, with the ARS sharply weaker overnight. So we seem to be back where we were a few weeks ago when EM confidence was evaporating.

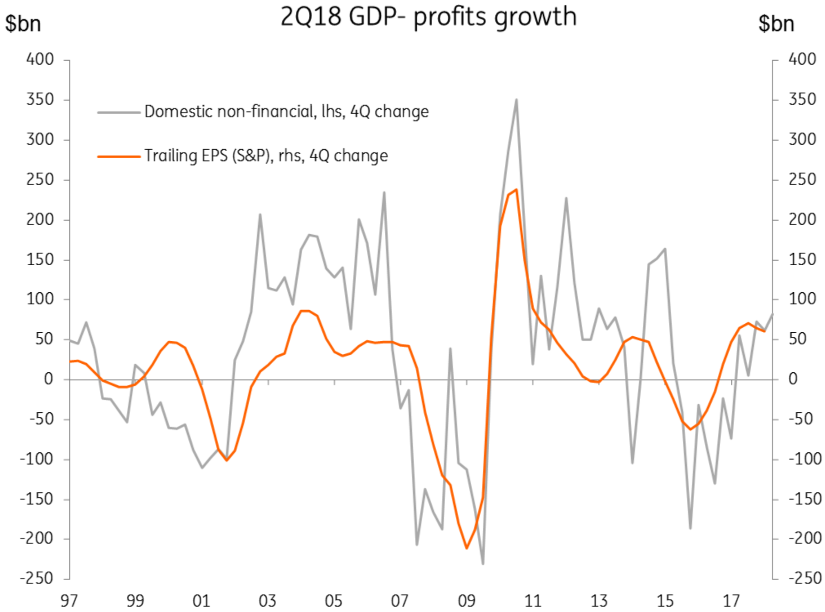
But just as last time, we anticipate only limited spillover into Asia. Of the fragile-3 (IDR, INR and PHP), the INR And PHP seem under the most pressure today. And importantly, the more relevant yardstick for regional currency strength, the yuan, remains reasonably steady at USD/CNY6.8160 against the backdrop of a relatively stable dollar index. No need to panic. Pass me some Jarlsberg.

What about those profits?

We wrote yesterday about US GDP-based profits (it was a quiet day) and as promised, here is the updated chart. It's good news. Although the trailing EPS growth rate seems to be turning over, it remains at a decent level, and the GDP-based profits series too seem to be holding up well, though the slight gain in 2Q18 does hint at a softening of momentum overall.

These indicators can turn on a dime. So it will continue to be worth watching closely. But for now, the data does not suggest lightening risk-asset exposure.

2Q18 GDP-based profits signal all-clear for risk



Asia day ahead

Not a bad start to the Asia region's data releases, with Korean business confidence picking up a little across both manufacturing and non-manufacturing industries. Certainly, recent declines have been sizeable, and rapid, and today's bounce still leaves a downtrend firmly in place. But the recent confidence decline in corporate Korea could be forming a base. Recent policy measures to soften the impact of earlier business unfriendly wage hikes and working hours limits may be beginning to have an effect. Department store sales round off today's releases from Korea. Consumer confidence is plummeting though, so we aren't too hopeful of a good reading here.

Japan's retail store sales also were satisfactory, with the July year-on-year growth rate of 1.5% slipping only slightly relative to June's 1.7% rate, and looking relatively steady. Stronger cash wages growth seems to be helping to keep consumer spending afloat. Good news too for PM Abe and his re-election hopes.

Australian building approvals and capital spending data later this morning will likely reinforce the bifurcated nature of the Australian economy currently. Housing and construction weak, corporate Australia strong. That should be the message here.

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