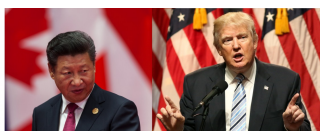


Good MornING Asia - 30 October 2018

The latest tariff headlines aren't exactly news - these additional tariffs have long been flagged - we just now have a better idea of the start date - market reaction could be transitory

In this bundle



China

Tariff news - isn't news

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By Robert Carnell



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Not fake news, just not news

That the remaining \$257bn (give or take) of Chinese exports to the US would eventually be subject to tariffs if no trade deal was found, is not news. We have known this for months. What we did not know exactly, was when these would be implemented. Now, it looks like we can pencil in some rough dates into the calendar.

The idea is that non-talks with President Xi at the G-20 meeting - I don't believe there is a concrete agenda here, a week or so ago, these talks were not even happening - will yield an unsatisfactory trade outcome for the US (that is if they happen at all - Xi has virtually nothing to gain by even showing up). Following that, there will be a 60-day consultation period, when a list of items will be drawn up to cover all remaining Chinese exports to the US.

In practice, that puts the start date of these new tariffs sometime in February, which some are linking to the Chinese New Year, though I find it fanciful that this is deliberate. This will come shortly after the previous \$200bn tariff list sees its tariff rates rise from 10% to 25%. I can't see anywhere anything that says what rate these new tariffs will be - the administration may not have got this far yet, but I suspect the US President's preference is for 25%, and it remains to be seen if he can be persuaded to phase these in starting at 10%, as he did with the last lot.

Market reaction - negative, but maybe not for long

Although these tariffs are not exactly news, the timing of the announcement just before the mid-terms may be construed by some as an attempt to boost President Trump's approval ratings ahead of the elections. Some polls have reported a fall in his approval recently if you take these seriously.

The S&P500 continues to trend down, with this tariff story probably providing a helping hand to further declines. Tariffs will squeeze profit margins and maybe also sales turnover, so theoretically aren't great news for the bottom line, whether it is in the US or China. That's not why they are being implemented though, and in any case, stocks weren't looking particularly strong before, so it's hard to pin the entire blame on the latest stock sell-off this one factor.

The USD has responded as one would expect following the artificial terms of trade boost that a tariff increase will deliver. It has appreciated. The Chinese yuan continues to move steadily in the direction of 7.0 vs the USD, the EUR is also weaker. News that Germany's Angela Merkel will not stand again for re-election as head of the CDU flags the future departure of one of the strongest political figures from European politics. Whichever side you support (if any), that's not a EUR positive development.

China quiet, for now

We haven't heard much from China over the latest tariff announcement. Sales tax cuts on autos with engine capacity under 1600cc from 10% to 5% should spur not only national auto firms but the big foreign producers too - including US auto producers and exporters. But these tax cut suggestions are not a response to the latest tariff announcements, though they might as well be. There are other less headline-grabbing tax cuts too. What these do, is signal China's intent to use fiscal policy (as well as all other policy tools at their disposal) to mitigate the worst of the damage from the trade war. This is not a costless response, but at least it helps to minimize the damage that might ensue from a tit-for-tat policy response, which given the disparity in Chinese trade flows with the US, is not feasible anyway.

The latest news comes hard on the heels of disappointing industrial profits figures, and further stock market losses, in spite of government attempts to use state-backed funds to support the stock market. Yesterday saw the announcement that these firms were buying, not selling, after confusion over recent news that these firms were liquidating their positions caused some anxiety. Easier share buy-back rules could also help stop the rot in Chinese shares, which are down 23% year to date (Shanghai composite).

Asia Day ahead

Newsflow out of Asia has not got off to a terribly good start with Korean business surveys showing further signs of weakness, in particular in the manufacturing sector. Discount store sales later this morning will show whether this weakness is being offset by household spending. So far, the Korean household sector has held up reasonably well. But with unemployment rising and high levels of debt, this remains vulnerable.

Australian building approvals for September have also already been released. And they are weaker than expected, though there is some historical revision at work here, and allowing for that, the figures merely look disappointing at -14.1%YoY (dwellings), though have a way to fall to match the October 2016 low of -23.4%YoY.

And this from Prakash Sakpal on Thailand: Thai manufacturing for September is due today. Our estimate of -0.5% YoY growth is close to the center of estimates ranging from -3.5% to +2.2% in the Bloomberg survey. A surprising 5% YoY fall in exports in September doesn't bode well for manufacturing. Data will help us fine-tune our 3Q GDP growth forecast, currently 4.1% (4.6% in 2Q). Yesterday the finance ministry reaffirmed its 2018 GDP growth forecast of 4.5%, but cut its

export growth forecast to 8% from 9.7% projected three months ago. The ministry expects no change to central bank policy this year.

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International theme: US China trade spat back in focus, Merkel plans her exit

- Separate news reports sparked risk-off sentiment further with concerns about global growth rising. The US is ready to slap an additional \$257 bn worth of tariffs on China if trade talks sour, while Angela Merkel, long-standing Chancellor of Germany, has indicated she may not seek the top post of her Christian Democrat party.

EM Space: Recycled trade war report may hurt Asian sentiment again

- **General Asia:** Asian risk markets may be in for another rough session as the US readies another substantial round of levies on China should trade talks between top officials bog down.
- **Thailand:** September manufacturing index is due today. Our estimate of -0.5% YoY growth is close to the center of estimates ranging from -3.5% to +2.2% in the Bloomberg survey. A surprising 5% YoY fall in exports in September bodes ill for manufacturing. Data will help us

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- **Philippines:** The BSP reported a slowdown in the growth of bank's credit to the real estate sector to 11.2% in the first half of 2018 from 18.6% in the same period last year. The central bank attributed the slowdown in both real estate and consumer loans growth to the then 50 bps policy interest rate hike during the period. We surmise a continued slowdown in lending with additional 100bp rate hike hurting the demand. This will have a knock-on effect on inflation in 2019 as GDP growth will also decelerate.
- **Philippines:** Energy sales in the metropolis grew by 4.8% while customer base grew by 4.7% as of September, pointing to weak consumer demand for energy and a slower GDP print. Other indicators point to a slowdown in growth in 3Q, all the more given the high base posed by strong growth in 3Q 2017.

What to look out for: trade war traces with global export numbers due

- EZ 3Q GDP (30 October)
- US consumer confidence (30 October)
- AU CPI inflation (31 October)
- CH PMI manufacturing and services (31 October)
- TH trade balance (31 October)
- EZ core inflation (31 October)
- US ADP employment (31 October)
- BoJ policy meeting (31 October)
- SK CPI inflation (1 November)
- SK trade balance (1 November)
- AU trade balance (1 November)
- TH CPI inflation (1 November)
- ID CPI inflation (1 November)
- BoE policy meeting (1 November)
- US PMI manufacturing (1 November)
- MY 2019 Budget (2 November)
- US Non-farm payrolls (2 November)

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