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Oil prices are in a whirl as we near a decision on whether the US will remain in the Iran nuclear deal - a decision is due later today from President Trump

In this bundle

Opinion | 8 May 2018

Trump might say “no”...

Oil prices are in a whirl as we near a decision on whether the US will remain in the Iran nuclear deal - a decision is due later today from President Trump

Iran: US in or out?

Markets are confused and so am I. Within minutes of Trump saying that he would make his decision on the Iran nuclear agreement today in Washington, crude oil prices spiked higher - WTI through $70/bbl and Brent through $75/bbl. But then prices fell back. Why? We aren't entirely clear. On the one hand, it could be that European diplomats believe they are close to getting Trump to stay in the deal. On the other hand, it could be comments from Iran's PM Rouhani that Iran will stay in the accord even if the US leaves.

If the latter, then we think that is very near-sighted reasoning. If the US leaves the accord, then few nations will take the risk of trading with Iran, for fear of US sanctions. It doesn't matter what your country decides about Iran if in the process it cuts your businesses off from US trade.

So right now, for me, the only question is whether Trump says "yes" or "no" to the agreement. "No" will be a much easier sell to the US electorate, and for that reason alone, I believe that is what Trump will decide. Its all about popularity. And right now, his is poor.

Financial markets beginning to move again

Markets are showing a little more direction again, with the USD making ground again against the EUR, and consolidating below the 200-day moving average. US Treasury bond yields haven't budged though, and remain at 2.95%. It feels like they just can't go up from here. But they don't want to go down either. Stocks are showing signs of being upbeat - which given the ambiguity of the Iran story, seems wrong, but it takes a lot to take the smile off most equity investors. So until the bad news is broadcast with loudhailers from the Whitehouse, this mood will probably stick.

Day ahead

It's another quiet day in the G-7, with some markets just coming back from holidays. The US NFIB survey is worth a look. It has been pointing (irrelevantly, it turns out) to labour shortages and wage increases. The message may be wrong as far as the main official data on wages are concerned. But as the message becomes louder, the greater the chance that we will finally see some pass through in terms of the non-farm private hourly wages rate, currently stuck at a measly 2.6%YoY.

JOLTS job openings (also due today) and other related JOLTS data have also been sending clear signs of overheating US labour markets for a while. And like the NFIB, it hasn't been working at historical levels. But as the signal grows, this too could become more meaningful. Both worth a watch - though to be treated with care.

German Trade data and industrial production for March could show tentative signs of Europe shrugging off the first quarter soft-patch that enveloped it. If so, it could provide the EUR a crumb of comfort, though it will take more than this to get the ECB taper story for the Summer back up and running again.

In the Asia Pacific region, Chinese Trade data will be foremost on the radar, against the background story that China's Liu He will be heading off to the US next week to pick up trade talks again. Involving Liu He at this level does suggest China is taking this issue very seriously, though is in no mood to be bullied. Some weaker trade data today would certainly make He's job a little easier. I hope that both US and China trade officials explore constructive opportunities for mutual advancement, such as the development of Alaskan LNG liquefaction trains for export of LNG to Asia (China). This is a win-win for both countries and could make a serious dent in the bilateral deficit whilst at the same time, enabling China to clean up its industrial power footprint.

Taiwan CPI is also due today, with the headline likely picking up, but core remaining close to 1.5%YoY, so having little implication for central bank policy which we see as on hold all year.

Australian retail sales likely expanded by only 0.2%MoM in March. That would still deliver 0.7%QoQ retail sales growth in 1Q18, though in real terms, that probably means something closer to 0.3/0.4% QoQ - so not pointing towards rampant consumer strength in the quarter, though not pointing towards capitulation either - the RBA looks likely on hold for the foreseeable future.

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Indonesia: GDP growth mildly disappoints in 1Q18

Household and business spending remained healthy, but government spending and net exports growth rates slowed. BI is likely to consider measured tightening to support household spending

Source: Shutterstock

5.06%

Lower than expected

1Q18 GDP growth rate

Unlikely to deter BI from measured tightening

GDP growth expected to mildly accelerate for the rest of the year, which would not necessarily derail a 2Q BI policy rate hike

Economic activity continues at a pace seen in the past four years of around 5% YoY growth. Household spending grew at a steady pace while business spending accelerated to 8% from the 5% YoY increase in 1Q17. Government spending growth slowed to 2.3% from the year-ago growth of 2.7%. Net export growth slowed dramatically due to high base effects. Import growth accelerated in 1Q18 but exports slowed. We expect net exports in the coming quarters to remain as a drag to overall economic activity largely due to base effects and rising imports. We need to see government spending growth mildly accelerate, especially in 4Q ahead of the presidential elections in April 2019. Leeway for higher deficit spending, however, would be limited as oil price and IDR assumptions for this year's fiscal budget were quite optimistic. We expect subsidies to be revised higher by mid-year and raise the fiscal deficit closer to 2.7% of GDP. This would help sustain a relatively strong household sector. Add to this efforts to contain inflation pressures. A rate hike as early as the 17 May meeting or by June would enhance such efforts through a support for IDR. IDR has slipped by almost 3% YTD. A persistently weak IDR at around the current level would see an average weakness of more than 4% this year, which is also weaker than this year's fiscal assumption. We revise our full year growth forecast from 5.4% to 5.2%. The revised forecast considers measured monetary tightening, improved household and business spending, more manageable import growth and limited fiscal deficit spending.

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Taiwan import slackness reveals long-term export weakness

Taiwan is importing less equipment for semiconductors. This could be a signal for slower export growth for the longer term future

Source: istock

Export and import growth lower than expected

Exports in April grew 10% YoY, lower than the previous month's 16.7% and our estimate of 17.3% YoY. Similarly, imports grew 4.9% YoY, lower than the previous month's 10.4% and our estimate of 7.8%.

Looking at the details, we find that the short-term outlook for Taiwan trade is still fine, but not so for longer term growth. It could be that businesses have already planned for softer growth of trade ahead of Mainland China-US trade talks.

Moreover, the recent inconclusive trade talks could result in shifts in business strategies of the electronic sectors and related supply chain. Trade volume would also change accordingly.

1 Almost all export goods show a monthly fall

The first hint comes from the fact that exports fell on a monthly basis (-5.9% MoM) from electronic parts, and audiovisual products to machinery.

Imports hint exports should grow in a couple of months ...

Looking at imports, we found that imports experienced a similar situation to exports as almost all goods fell in April from March.

Not everything is bad news. Electronic parts imports grew 24% YoY, which indicates exports of electronic products in the coming quarter should still experience strong growth.

3 ... but not the long term

However, there was a 5.1% YoY fall in equipment imports in the January to April period. Businesses may need to prepare for a disruption in the supply chain if there were a trade war between Mainland China and the US. The result could be expanding factories in other emerging economies as well as preparing for softer growth in export volumes.

Outlook for the Taiwan economy under review

As trade tensions between Mainland China and the US escalates, Taiwan's export-oriented economy would be affected, especially when the tension is related to Mainland China's strategy of 'Made in China 2025'. We are putting the Taiwan outlook under review.

We may need to cut our GDP growth forecast, which is currently at 3.2% for 2018, and may also need to revise our USDTWD forecast further from 29.00 by the end of 2018 if coming data show continuous weakness in the economy.

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