

70th Anniversary of the PRC

China is celebrating its 70th anniversary today. It would be a happier event without the ongoing trade war, or the Hong Kong protests.



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End in sight?

It would be nice to say that the looming talks between the US and Chinese trade negotiators ushered an end to the trade war - that would be a fitting birthday present to mark the 70th anniversary of the PRC. President Xi will deliver a speech today to mark this event, according to my Bloomberg's sources. And many will be listening hard to see if there is any hint that China is willing to strike a deal with the US.

This is important. For much of this trade war, we have listened to pundits describe this dispute as if it were something only the US could decide. In recent months, it has become clear that this is not just about China passively responding to US demands, but that China actively wants outcomes from a negotiated settlement too. Removal of tariffs is one of those requirements, as too is fair treatment for Huawei and other tech firms on the US entity list.

The US demand for greater protection against intellectual property theft is perfectly reasonable. But for public consumption, China's leaders will want to be seen to be changing its laws at its own

pace and for their own merits, rather than being dictated to by the US. The same goes for any opening of market access, or changes to state-owned enterprise support.

Recent "olive branches" by both sides, more pork and soy buying by China, and a delay of the introduction of some tariff measures by the US, can easily be dissected as self-serving, and convey little about either sides' intentions. And the US is once again mixing optimism about progress in trade talks with unofficial threats that failure to make progress could make things much worse - rumoured ban on public listing, or of portfolio flows to China. I put this down to a negotiating tactic. And not necessarily something to be taken too seriously.

Our house view remains that a faltering US economy and faltering public support for the Trade war will eventually prompt President Trump to tread a softer line as the election race nears. But that, to some extent, does not fully take the China view into consideration. I'm not sure that the moment for a truce has yet arrived. And this is a view on which the risks are substantially skewed to the downside.

RBA - market says cut, I say, why?

Later today, the RBA meets to decide whether it needs to trim policy rates again following the June and July cuts. The market and consensus says "yes". I'm not so sure. I wrote this up at some length yesterday, and as this note has a vanishingly small shelf-life, [I thought I'd give it another plug here as the result is only hours away](#).

Bottom line, the "hawkish cut" some are suggesting would be a massively wasted policy move when the limits to conventional policy are fast approaching. [See also our FX strategists take on what it means for the AUD](#) - even if I'm wrong, they are constructive.

Another argument for BoK rate cuts looming

The calendar today also has South Korean inflation. This has been soft for a long time and is a good excuse for the Bank of Korea (BoK) to ease policy rates further. But today, we will probably see the inflation rate actually turn negative, which is a bit more dramatic. Don't over-react to this though. Negative consumer price inflation is not the same as deflation, and most of it is a factor of food price spikes last year, not a reflection on the current economic weakness.

But there are enough reasons already for the BoK to ease again at its 16 October meeting. This inflation result may not be all that meaningful, but it doesn't help. Exports are already out for September, falling 11.7%YoY. Imports were down 5.6% and the trade surplus widened back out to \$5.973bn.

There is also inflation data due today from Thailand and Indonesia too - as well as Mfg PMIs for the whole region. China's PMIs yesterday were not too bad, though I'm not convinced these are reliable indicators for the region as a whole.

Consumption tax hike is here - so too is the Tankan

The much-speculated consumption tax hike in Japan has now arrived. The tax rate rises from 8% to 10%, and past increases have met with economic volatility, even recession. This one seems to have had far fewer impacts in terms of front-running of expenditures on everything from toilet rolls to houses, and this perhaps bodes better for the immediate aftermath, where a bigger drop-

off may be avoided. That said, much of this data is still awaited, so things could still change on this front.

If things do deteriorate, at least the starting position is better than we were expecting. The latest Tankan survey registers a much less gloomy dip in business sentiment than had been predicted. The headline large manufacturing survey dropped from 7 to 5, not 1 as the consensus had forecast. And there were other misses on the optimistic side too for smaller firms and non-manufacturing entities.

For the next few months, the data from Japan will be dominated by consumption tax effects, which will make interpretation of any data flow extremely difficult. So this is about our last clear look at the economy until next year, when the fog may begin to clear.

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