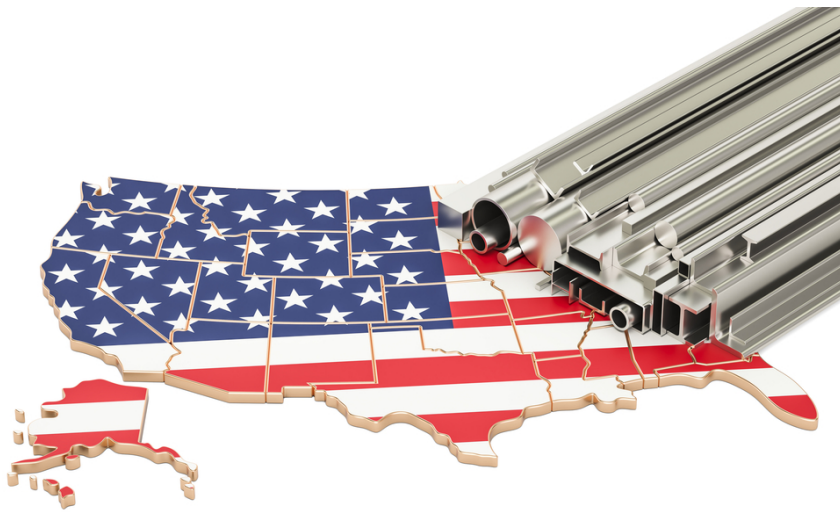


## A bad blow for global growth

Trump administration decides to put tariffs on steel and aluminium on Canada, Mexico, EU etc. With allies like these...



### After reflection, higher tariffs are still damaging to the US / global economy

This is a bad day for global trade. And the US equity market confirms it. The Italian political story may have got us back under 3% for the 10Y Treasury yield, but growing protectionism may push us further down. The EU, Canada, and Mexico are lining up to impose retaliatory tariffs, which may take a week or so. But they are coming, and are not likely to be cosmetic token moves. These allies of the US can reasonably complain about their treatment by the US, and it would not be surprising if their reaction was an emotional one.

Moreover, all of this comes at a time when the US seems to be making progress on its goal of levelling the trade playing field with China, which has announced a long list of (1499) items on which it is slashing its tariff rates to most favoured nation status.

And another thing...none of this is coming at a time when the global economy looks invulnerable. In the Asia region, for example, bellwethers for regional strength, like Korea, have been struggling with an inventory-led downturn in production, especially in the electronics sector. What the world does **not** need now is a headwind to growth and a stagflationary boost to the price level.

## Italian soap opera - latest

5-Star and the League, the two Italian parties trying to form a government, have managed after all, by shifting Paolo Savona away from the sensitive Finance Ministry position, and giving it to an economics professor, Giovanni Tria. Eurosceptic Savona will now get the Ministry for European Affairs. Does this remind anyone of the joke about putting Dracula in charge of the blood bank? No? Anyone?

So now, Giuseppe Conte can try to run the country as prime minister representative of these two, very different and at times, highly eurosceptic parties. Given that the average life expectancy of an Italian government in the post-war period has been a little over a year, we may be returning to this political soap-opera soon.

## Inflation story diverges between Eurozone and US

Thursday saw quite an abrupt change in the European inflation story, with Eurozone composite inflation rising from 1.2% to 1.9%YoY. This puts Eurozone inflation on its "below, but close to 2.0%" target. And although (no doubt) the ECB doves will want to see that inflation rate maintained for a month or two for confirmation, it surely begs a rethink of the ECB taper story. Meanwhile, the US PCE inflation figures were unchanged at both headline (2.0%) and core (1.8%YoY) measures. Combined with the bad turn of events on the trade wars story, this might be a time to reconsider a resumption of some euro strength?

Asian FX is stronger across the board by default today, probably on the back of the trade story weighing on the US dollar. But this probably will not last, as the risk-off sentiment is likely to dominate before long, and should see today's gains dissipate.

## Payrolls, and what else?

In the G-7, apart from payrolls, and the usual scrutiny for some signs of wages strength, there is not much to note today. Payrolls are expected to pick up a bit to 190,000 after only rising 135,000 in April. No change is expected to April's 2.6% YoY average hourly earnings growth. That is still low.

In the Asian Pacific region, Korean 1Q18 GDP was unrevised at 2.8% YoY, but the inflation numbers were surprisingly lower against expectations for an increase. Headline May inflation fell to 1.5% from 1.6% and even core inflation fell to 1.3% from 1.4%. We had already kicked our Bank of Korea rate hike back to 4Q18, and are happy to leave it there for the time being, but with data like this and recent soft production numbers, further push backs are probable.

Thai May CPI will probably move the same way when released later today, as food prices revert after the April Songkran festival. Inflation should decline to 1.0% from 1.1%. And almost all of that is still due to food. The Bank of Thailand is not going to be called into action any time soon.

Manufacturing PMI data is also released across the region today, including China's Caixin index, which we anticipate nosing slightly higher to 51.3 from 51.1.

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