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A bad day for Hong Kong

The first shooting during these protests - hopefully the last.

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Looking for a way out

The 70th anniversary of the founding of the People's Republic of China was always likely to provide a flash-point for the HK protesters. That it has resulted in the shooting of one (condition as yet unknown) is a tragedy. But what can we conclude from the increasingly violent turn of events that has led to this casualty?

Well, although the protests have turned increasingly violent, there could possibly be a sense in which this was all building up to the national celebrations of the anniversary of the PRC. Hong Kong was also on vacation yesterday - and public holidays provide a good opportunity for rioting. Unlike mainland China, the rest of the week is a normal one, though next Monday (7th) is also a public holiday in Hong Kong.

So far, the demands of the protestors have met very little response from the HK SAR authorities. Nor are they likely to. The dialogue opened by Hong Kong's Chief Executive, Carrie Lam, with the protest movement, and the abandonment of the ill-fated extradition bill barely tick any boxes on the protestors wish list, which includes her resignation, universal suffrage, an independent inquiry into police tactics, and a general amnesty for those involved in the riots. Hopes for any progress here, in my opinion, are vanishingly small, and I would think that the protestors also know this.

So, like most observers outside Hong Kong, I watch these events with a growing sense of despair, but with the ever-present hope that, like the Gilet Jaunes movement, they dwindle into insignificance. The big difference with France is that President Macron has made some fairly substantial concessions to the French protestors.

My personal sense is that there is as big an economic issue underlying these protests as there is a political one. And the big issue, and not just for disaffected youth, but many working people is affordable housing. This won't be solved overnight, but it can be done.

Asian PMIs - mixed

After the better than anticipated China PMIs on Monday, the rest of the region had its chance yesterday. The outcome was a messy one. At the top of the leaderboard, the Philippines with a manufacturing PMI of 51.8, only 0.1 points down from August, followed oddly, by Thailand. I say oddly because the THB's strength ought to be a drag on manufacturing exports, and domestic demand is very soft, so this is a hard index to explain. Vietnam comes next, though the 50.5 reading is well down on August's 51.4 - worrying as Vietnam has been the most notable beneficiary of the US-China trade war. Taiwan also managed a respectable 50 reading, indicating it is only on the verge of a manufacturing contraction, not deeply immersed in one. Recent relocations from Mainland China to Taiwan have probably been helping. Thereafter, it is various shades of contraction, with the worst of the bunch - Korea - not surprising after its weak export data yesterday. Indonesia and Malaysia remained in contraction (49.1 and 47.9 respectively) but did at least manage to move higher.

What's happening in Asia is not so different from what is happening elsewhere. The US Manufacturing ISM yesterday recorded a big drop from 49.1 to 47.8. The consensus had expected it to bounce back to 50. The employment subindex was also particularly weak. In my view, this weakness is a result of the Trade War. The US President apparently disagrees, blaming high interest rates from the Federal Reserve keeping the dollar strong.

Since January 1 this year, the dollar index is up about 3%. You can probably put most of that down to Euro and sterling weakness. A more accurate complaint might be to blame the weakness of manufacturing on the ECB, and weak Euro, though with Eurozone manufacturing also in recession, this doesn't really work. No, it's the Trade War.

Asia Day ahead

There is almost nothing on the Asia calendar today, except for Hong Kong Retail sales. Nothing other than a terrible number is conceivable here.

In the G-8, we await a response from the EU on what seems to be being billed as PM Boris Johnson's big concession to seeking a Brexit deal - a time-limited plan that keeps Northern Ireland in a temporary regime with the EU. I don't anticipate Ireland will be at all impressed, and it is Ireland that has the final say here. Countless others have said this, but I will echo their words, the EU is not about to "throw Ireland under the bus". There is a story in the Guardian that contains some of the details. The Telegraph seems to have the main story, but it is premium content, so you may need a subscription.

Intriguingly, the EU has apparently discussed their own version of a time-limited backstop option. If that has reluctant Irish support, then PM Johnson should grab it with both hands. It would be the best offer he is likely to get and would enable him to get his Brexit with a deal before October 31, avoid death in a ditch, and limit UK "vassalage" to the EU to a few years. I'm not sure about the Irish view on this though, so this story could be a red-herring, or even a pre-emptive discussion on the Johnson plan, in which case it has no substance.

Apart from this, watch the ADP survey from the US tonight. After the weak manufacturing ISM employment index, we might be heading towards a weak payrolls reading on Friday, which might bring the Fed back to play and a weaker dollar and lower bond yields again. Familiar territory.

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