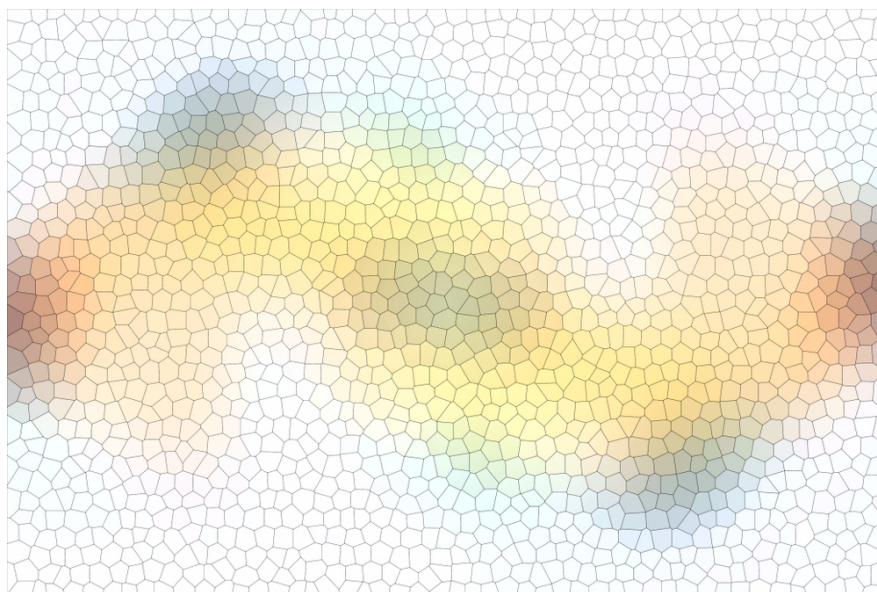


A pattern emerges

Markets rally on softer trade tone from Mnuchin and Navarro, but a pattern is beginning to emerge here, and US negotiating tactics may now be vulnerable



First the good news...

As I wrote yesterday, there is some better news on the trade front - my momentary unease at reporting something positive has passed. Stocks roared back to life in the US yesterday, though the EUR's rebound seems to have dented equities in the Eurozone. Bond yields are also higher on the better news as is crude oil. Asian FX all looks firmer against the USD. This is all good news and I applaud a more open-minded approach to trade from the US.

But there is a problem. For some time now, the US has opted for an inverted version of President Roosevelt's suggested approach to setting policy. Namely: "Speak softly, and carry a big stick". Trump, in contrast, seems to shout loudly, but his stick may be more of a twig, as he seems to accept far more moderate responses to his initial demands. The aluminium/steel tariff announcement seems to add a new country to the exemption list each day (India is now looking to gain exemptions), and the Korus trade deal does not seem to have done much either (though we still await the details - so far it just seems to contain some provisions on steel imports). Now, the intellectual property abuse tariffs on China look as if they could be watered down. All good developments on their own...

However, every silver lining has a cloud, as they say, and before long, someone is going to think that it may be possible to "game" the US President's announcements and call his bluff. This could be on trade issues. It could equally be on foreign policy - North Korea for example. Kim Jong-Un is in Beijing today according to newswires. I don't know why. This worries me.

Day ahead - snore.....

It is a bit of a snore-fest on the data-front today. In the G-7, confidence reports dominate the calendar. US consumer confidence from the Conference Board is trending steadily higher - it could fall today, but it would have to fall a lot to matter and undo the trend upturn - we don't expect that. Anything else is largely trend-plus-noise, and can be safely ignored.

The Eurozone also releases a bunch of confidence indicators - Economic sentiment/confidence, business climate, industrial/services and consumer confidence. It takes longer to work out what the difference between all these indicators are than it does to work out what the data is saying. But the key message seems to be one of continued growth and confidence, albeit slightly slower / dampened.

Asia is also rather quiet today. This is a good day to catch up on some reading.

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