

A spot of recycling

Today's daily contains a must-read link to James Knightley's authoritative take on last night's Brexit votes, and our Trade team's view on the China-US trade negotiations.



Source: Shutterstock

This morning, newswires and papers will be full of talk of Brexit and Sterling. In my opinion, James Knightley's overnight note on this is the most comprehensive and authoritative piece on this subject, and so if you are going to read anything, [you should read this](#).

I won't paraphrase it, that wouldn't do it justice. But it seems the odds of no-deal Brexit have risen somewhat, which has weighed on sterling, and we will now have to wait for Feb 14th (incongruously Valentines Day) to see whether:

1. May manages to extract anything extra on the Irish Backstop from the EU (the phrase, "blood from a stone" springs to mind) and;
2. If she does / does not, what MPs vote to do next.

Our London-based colleagues have a few more late nights to come - although I note from his tweets that one of them has managed to escape at least this vote to sunnier climes.

317

Votes for Brady Brexit bill amendment

Against 301

US-China trade negotiations

Whilst I am recycling my colleague's work this morning (how's this for the circular economy?!), let me also steer you in the direction of a piece on the other big market driver, and the more important one for our Asia region, the China-US trade talks.

In [the linked note](#), our trade economics team look at the prospects for a deal and the implications for global trade and GDP growth. They are even more downbeat than I am, having a no-deal as their base case and higher tariffs by 2Q19. For what it's worth, my own view is that we will have some sort of deal paraded as a victory for the Trump administration, requiring sizeable increases in Chinese purchase of goods such as Soy, LNG and Machinery, but which will fall short of US demands, and leave a progress-contingent threat of tariff increases, or carrot of tariff reductions, depending on various milestones being reached over a medium-term horizon. While my own expectation sees no tariff increases near term, it falls short of the tariff reductions being touted once again by Treasury Secretary Mnuchin. I can only assume he is not on the same e-mail chain as Wilbur Ross and Robert Lighthizer.

Today in Asia

It's another fairly quiet day in Asia as we head towards next week's Chinese New Year holidays. South Korean manufacturing business conditions for February (we are in January?) fell further, and are now weaker than at any time since 2009 in the middle of the global financial crisis (non-manufacturing wasn't much better). A recent trip to see clients in Korea confirmed the downbeat mood of the household sector, and firms were not particularly upbeat either. But in truth, Korea's main problem's are normally its strengths - heavyweight exporter and advanced technology pioneer. Its time will come again, though 2019 is likely to be tough. For more on this, you might even want to read something [I have written](#).

Malaysian trade for December released this afternoon will likely paint a very different picture to that observed for Korea, buoyed by rising oil prices.

Australian 4Q19 CPI inflation could ease down as this note goes to print. But expectations for the Reserve Bank of Australia (RBA) are so muted I am not sure this will have a big negative effect on rate expectations or the AUD. But it won't support either.

In the US, the Fed begins its rate meeting - most of the effort is probably going to be on the message Powell will send to the markets. That is easy - it should be the same one of caution and patience it gave shortly after the last press conference caused markets to panic. Nobody likes change.

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