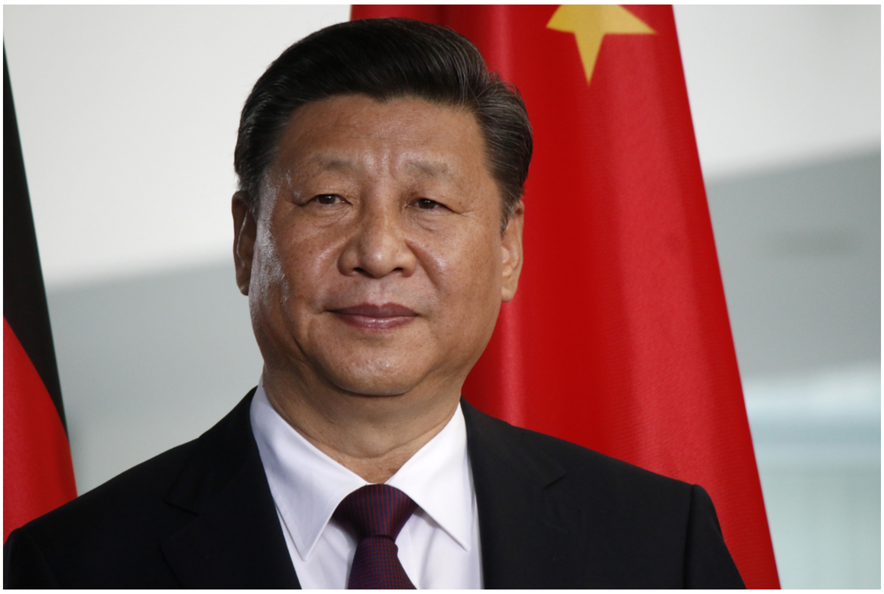
All is well - apparently

Markets are reasonably calm, a little Brexit optimism is in the air, and no one seems too flustered as USDCNY approaches 7.0. But a week could change all that. Friday's US wages numbers may spur thoughts of faster Fed tightening, the passing of the mid-terms may drive up market volatility again and Chinese politicians are worrying about growth.



Source: Shutterstock

Asian PMIs - Caixin is the key figure

Amidst a welter of purchasing manager indices (PMI) today, one, in particular, will stand out - the China Caixin PMI. This index is more skewed to smaller private firms with greater international trading exposure. The risk is that it slips into contraction territory (a figure below 50). The consensus view is that it will be exactly 50, completely unchanged from last month's figure. Judging by the official PMI weakness shown yesterday, that seems very optimistic, and if it happens, will not look particularly credible. Our Greater China economist, Iris Pang, thinks it will come in at only 49.5 - that seems more plausible. Though more worrying.

Overnight, China's Politburo, Chaired by President Xi, has said it will take timely steps to counter the slowdown, so it is clearly taking things seriously. Further weakness in today's figures is likely to elicit further comments of support, though the market will likely need to see some hard cash being flashed before it starts to calm down. Chinese media reports that President Xi has stated the importance of developing artificial intelligence (AI) and becoming self-reliant in key technologies. It should also promote industrial upgrades and productivity. Iris Pang is now expecting a very big support package for China's economy and suspects that the absence of any hard numbers just yet may be to avoid giving the impression of an emergency support package - though that is what it will be.

Korean data a bit stronger

After very disappointing Korean production data yesterday, today's higher inflation figures aren't terribly alarming. The headline October rate of inflation is now 2.0%, up from 1.9% in September, but it is all temporary effects from weather-affected food and crude-affected energy prices. Base effects may prevent inflation falling substantially ahead of the New Year, but any further rises from here should be modest and short-lived. No need then for the Bank of Korea to do anything hasty, like hiking rates, though they seem to have an itchy trigger finger, so this risk is never completely absent.

The October export figures were stronger than expected, coming at 22.7%YoY, but the net effect on GDP will still be negative, as imports surged even more (27.9%YoY) and the trade balance narrowed from $9.565bn in September to only $6.552bn in October. However, the trade balance is in line with the trend prevailing before September, so it was last month's spike in the surplus that was the aberration, not this month's dip

India - RBI-Government truce, but subject to caveats

In India, the ongoing rift between the government and the central bank (RBI) has reignited weakening pressure on the currency. The USD/INR pushed above the 74 level once again yesterday; the previous breach of this level was after the RBI's rate decision in early October. The rift is caused by pressure on the RBI from the government to ease current tight liquidity conditions and relax regulations governing public sector banks in a bid to stimulate lending and boost the economy in the run-up to national elections in early 2019.

This has set the markets guessing about Governor Patel's resignation. Such an event will indeed undermine the RBI's autonomy as well as raise policy uncertainty, which is going to be even more detrimental for sentiment toward the INR. The government has sought to ease the tension with a statement respecting the central bank's autonomy 'within the framework of the RBI Act', though also noting that 'both the government and the central bank, in their functioning, have to be guided by public interest and the requirement of the Indian economy'. We are skeptical that this will do any good to the INR. We maintain our end-2018 USD/INR forecast of 76.5.

Christmas comes early for UK economists working abroad

If you live and work in a high-cost dynamic Asian country but are still essentially paid in sterling and subject to UK taxation, then Brexit Minister, Dominic Raab's optimism overnight about a November 21 Brexit deal is welcome. Admittedly so far, the GBP bounce is extremely modest. But the alternative is far worse. A positive end to this debacle will avoid seeing your converted salary crumble as your home currency becomes worthless, whilst at the same time, UK consumer prices surge, closing the cost of living gap with your host country. Maybe it will also avoid seeing your home government replaced with one that will tax you even more heavily.

Still, if a deal is in sight, it means that one or other side has probably blinked on the Irish border sticking point, and that is more likely to have been the UK than the EU, which leaves open the question about whether any deal struck can possibly pass the UK parliament. Until that vote is passed, the local currency contract will remain an appealing alternative.

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