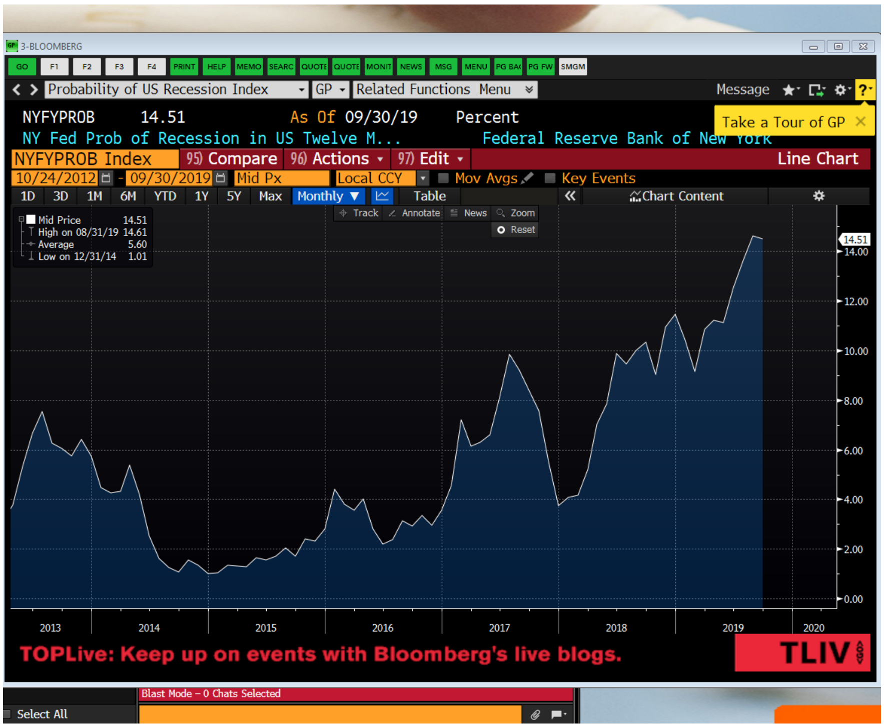
Asia anxious as US stock rally fizzles

Market confidence is a funny thing, you don't appreciate it when you've got it, but when you lose it, it is hard to restore



Reasons to be miserable

Making a list of bad things is always easy, and often fun. At the top of the list today I would cite poor earnings guidance from big-name industrial US firms. Some of these have been citing rising input costs, putting the blame on tariffs. Some of them have sizeable overseas earnings, which no longer look too rosy. This reflects another item on the "bad" list - a faltering global outlook. The US looks fine for now, and this will likely be confirmed later this week with strong US GDP data for 3Q18, but Europe and Asia have looked better. In Europe, the spectre of a messy Brexit has been hanging over heads for months now. But tensions are rising as deadlines draw near and a no-deal break up seems a real possibility. Add to that the Italian deficit standoff, and this isn't helping matters either. Geopolitical tensions are also peaking higher again as the Khashoggi murder ramifications ripple through markets. China's weak stock markets are a symptom rather than a cause of all of this, but add another risk factor into the equation, given the importance of pledged equity collateral in exchange for debt in the country.

Reasons to be cheerful

A list of positives is usually less dramatic and rarely as exciting to prepare. On this front I would start with the rather dramatic fall of oil prices. Saudi Arabia - hopefully chastened by the Khashoggi debacle - seems to be trying to make amends by pumping oil hard. The resulting rise in inventories of oil globally is weighing on crude prices - good news for Asia's inflation-challenged nations - Philippines, India (not now, but soon) and also the externally challenged (same list, but add Indonesia). Not that this yet makes enough of a difference to affect our expectation for more rate hikes from the central banks in these economies, but it all helps and makes it more likely that this is achieved with less currency weakness than would otherwise have been the case.

And then there are China's policymakers. We have had plenty of statements of intent from all the most powerful in the land, and some outlined policy initiatives, centering around further liquidity provisions. We now have to see what impact this will have on the ground. We don't expect markets to turn on a dime, but there is always the option of direct purchases if Chinese stock markets fall to levels which threaten debt recall and defaults. Such a plan is already in the works, roping in big financial institutions and potentially SOE's. It just doesn't seem to have got off the ground yet. Further stock declines could see the implementation of this plan accelerated. Though that is a bit like hoping to get sick so you can receive some medicine, I'm not sure that really counts on the list of positve things.

Market disaster indicators not providing much of a clue

What if anything can we learn from market indicators? Not much if truth be told. In terms of doomsday scenarios, there are a great many recession indicators readily accessible. Many of them, like the NY Fed recession probability indicator, mainly drive off the slope of the US Treasury yield curve. Probabilities have risen in recent months. But I'm not sure this is telling us anything more than if we simply looked at the yield curve slope and see that it flattened (before steepening again more recently). For what it is worth, the NY Fed index stands at 14.51% currently (probability of a recession in the next 12 months). If it gets to 50, then start worrying. Actually, if it gets to 30, you probably want to worry too.

But most of these indicators are pretty useless, telling you when you are in a recession - you will probably know as you will have lost your job - or working with statistical probit models, which seem to give a happy "all-clear" signal before spiking up instantly to "certain recession" with no room for reaction.

Other hoary old market indicators offer us little further insight. The so-called "smart-metal", copper, so-called because it is supposed to be a good bellwether for global industrial demand, is up from its September lows. Nothing wrong here. And the oil price declines seem more reflective of supply increases, taking crude back into the global sweet-spot of $65-75/bbl than anything more worrying.

My favourite - the GDP-based profit data, is now looking very dated, and we won't get an update (I think) until the second release of 3QGDP, which won't be for another month. But currently, it looks inconclusive but unthreatening. And the trailing EPS figures have nudged higher, even if the forward indication from firms is now softening.

The bond-equity correlation chart I referred to a week or so ago is still in positive correlation territory, though it is also turning down again. This will be worth watching - it looks as if it will have to break one way or the other before too long, and my guess is down. Likewise, EURUSD, seems to find it easier to make new lows than make new highs. That is keeping Asian currencies on a broad weakening front. A bigger break on the downside for the USD could see Asian FX under severe weakening pressure again, with the USDCNY 7.0 level under particular scrutiny.

Author

Amrita Naik Nimbalkar
Junior Economist, Global Macro
amrita.naik.nimbalkar@ing.com

Alissa Lefebre
Economist
alissa.lefebre@ing.com

Deepali Bhargava
Regional Head of Research, Asia-Pacific
Deepali.Bhargava@ing.com

Ruben Dewitte
Economist
+32495364780
ruben.dewitte@ing.com

Kinga Havasi
Economic research trainee
kinga.havasi@ing.com

Marten van Garderen
Consumer Economist, Netherlands
marten.van.garderen@ing.com

David Havrlant
Chief Economist, Czech Republic
420 770 321 486
david.havrlant@ing.com

Sander Burgers
Senior Economist, Dutch Housing
sander.burgers@ing.com

Lynn Song
Chief Economist, Greater China
lynn.song@asia.ing.com

Michiel Tukker
Senior European Rates Strategist
michiel.tukker@ing.com

Michal Rubaszek
Senior Economist, Poland
michal.rubaszek@ing.pl

This is a test author

Stefan Posea
Economist, Romania
tiberiu-stefan.posea@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Jesse Norcross
Senior Sector Strategist, Real Estate
jesse.norcross@ing.com

Teise Stellema
Research Assistant, Energy Transition
teise.stellema@ing.com

Diederik Stadig
Sector Economist, TMT & Healthcare
diederik.stadig@ing.com

Diogo Gouveia
Sector Economist
diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com

ING Analysts

James Wilson
EM Sovereign Strategist
James.wilson@ing.com

Sophie Smith
Digital Editor

sophie.smith@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Adam Antoniak
Senior Economist, Poland
adam.antoniak@ing.pl

Min Joo Kang
Senior Economist, South Korea and Japan
min.joo.kang@asia.ing.com

Coco Zhang
ESG Research
coco.zhang@ing.com

Jan Frederik Slijkerman
Senior Sector Strategist, TMT
jan.frederik.slijkerman@ing.com

Katinka Jongkind
Senior Economist, Services and Leisure
Katinka.Jongkind@ing.com

Marina Le Blanc
Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan
Junior Economist
samuel.abettan@ing.com

Franziska Biehl
Senior Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne
Senior Editor and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)
mirjam.bani@ing.com

Timothy Rahill
Credit Strategist

timothy.rahill@ing.com

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Oleksiy Soroka, CFA
Senior High Yield Credit Strategist
oleksiy.soroka@ing.com

Antoine Bouvet
Head of European Rates Strategy
antoine.bouvet@ing.com

Jeroen van den Broek
Global Head of Sector Research
jeroen.van.den.broek@ing.com

Edse Dantuma
Senior Sector Economist, Industry and Healthcare
edse.dantuma@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Rico Luman
Senior Sector Economist, Transport and Logistics
Rico.Luman@ing.com

Jurjen Witteveen
Sector Economist
jurjen.witteveen@ing.com

Dmitry Dolgin
Chief Economist, CIS
dmitry.dolgin@ing.de

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Egor Fedorov
Senior Credit Analyst
egor.fedorov@ing.com

Sebastian Franke
Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga
Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier
Head of Corporates Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter
Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen
Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com

Thijs Geijer
Senior Sector Economist, Food & Agri
thijs.geijer@ing.com

Maurice van Sante
Senior Economist Construction & Team Lead Sectors
maurice.van.sante@ing.com

Marcel Klok
Senior Economist, Netherlands
marcel.klok@ing.com

Piotr Poplawski
Senior Economist, Poland
piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Marieke Blom
Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering
Senior Macro Economist
raoul.leering@ing.com

Maarten Leen
Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller
Head of Financials Sector Strategy
Maureen.Schuller@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Inga Fechner
Senior Economist, Germany, Global Trade
inga.fechner@ing.de

Dimitry Fleming
Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu
Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com

Sophie Freeman
Writer, Group Research
+44 20 7767 6209
Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA
Regional Head of Research, Americas
padhraic.garvey@ing.com

James Knightley
Chief International Economist, US
james.knightley@ing.com

Tim Condon
Asia Chief Economist
+65 6232-6020

Martin van Vliet
Senior Interest Rate Strategist
+31 20 563 8801
martin.van.vliet@ing.com

Karol Pogorzelski
Senior Economist, Poland
Karol.Pogorzelski@ing.pl

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

Viraj Patel
Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

Owen Thomas
Global Head of Editorial Content
+44 (0) 207 767 5331
owen.thomas@ing.com

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroder@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Gustavo Rangel
Chief Economist, LATAM
+1 646 424 6464
gustavo.rangel@ing.com

Carlo Cocuzzo
Economist, Digital Finance
+44 20 7767 5306
carlo.cocuzzo@ing.com