

## Asia in turmoil

Trade War, possible currency war, N Korea firing missiles, Kashmir a tinderbox, Hong Kong in chaos, I'm probably missing a few others. Asia is not feeling a particularly comfortable place right now - markets are a sea of red



Source: Shutterstock

### Currency manipulator?

What is interesting about China's currency action (inaction probably describes yesterday's depreciation better) is that it suggests that on China's side, there is no, or very little hope left for a sensible trade deal that would result in a "win" for them, as well as being portrayed as a "win" for the US. The CNY had been very steady when the trade talks were alive. And though it won't do a lot to help embattled exporters, a weaker yuan certainly sends a shot across the bows of the US. Is this weaponization of the yuan? I suppose it is. Although at this stage it is still more of a token display of "pique", rather than anything genuinely threatening. However, in the relatively limited act of crossing the USDCNY rubicon yesterday, China announced: "We can use the currency, don't think we can't".

The actions have resulted in calls of currency manipulation from the US President. That's not entirely inaccurate. Though we could argue all day about whether this was purely a market effect responding to economic conditions the US had imposed, or a deliberate action by the PBoC. The answer is almost certainly a bit of both. So that doesn't get us anywhere.

What we need to figure out, is how far, and how fast China intends to take USDCNY higher.

Estimates of today's fixing based on its trading basket of currencies suggest another steep rise today. If the market takes the CNY to the top of its trading range (+/-2%), then it could go to 7.10. But if the authorities set the fix a little lower, then it could signal that this move will not be allowed to run unfettered, which could restore a little confidence and stability.

In the meantime, regional currencies are getting battered, caught in the wake of the CNY move. High yielders including the IDR and PHP, INR have taken a beating. But so too has the KRW, now trading at over USDKRW 1200. Our traders are reporting central bank smoothing activity to try to stem the extent of currency weakness. Equities are also a sea of red. The JPY is acting as safe-haven and USDJPY has dropped through USDJPY 106. This will continue until some calm is restored. Probably by Beijing signaling to markets that enough is enough.

Would the US ever actively intervene to drive the USD weaker? Under G20 rules it shouldn't. But you can't ever rule anything out these days. I'm not sure Washington is that fussed by multilateral arrangements. Call it a tail risk.

## RBA and RBNZ

Back in the relative tranquility of Oceania, the RBA meets today, and will likely keep rates on hold, and the RBNZ meet tomorrow, and likely won't, with a cut seeming the most likely outcome. But this is a less straightforward call than the consensus 16 cut forecasts out of 17 suggests. This morning, we have already had some fairly decent New Zealand labour market data. Employment growth is up 0.8%QoQ in 2Q19. Wages growth has picked up sharply too and the unemployment rate has ticked down 0.4pp to 3.9%.

The NZD has bounced nicely, unlike the AUD, and although I would say that the balance of risks is still tilted towards a catch-up cut, this has become a much more marginal call. I won't be at all surprised if we and the consensus get this one wrong tomorrow, in which case, the NZD will bounce further.

## Rest of Asia Day ahead.

Other than that, it's a relatively quiet day in Asia. Japan has already released household spending and labour cash earnings, both of which are stronger than expected, and might help lift 2Q GDP out later this week, which consensus looks to increase by only 0.1%QoQ.

Taiwanese CPI is out and will remain very weak, at an estimated 0.79%YoY in July.

One side effect of the market turmoil that we are currently seeing is that it may deter central banks from easing until currency weakness subsides - not that we thought there was much risk of a cut from Taiwan's central bank, but it is relevant to others (BI, BSP).

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