

## Bad is the new good

Equity markets love the weak payrolls figures, as it encourages them to think rate cuts. They probably liked President Trump's re-think on Mexican tariffs too.



### Pass the mop and bucket

It's a bit like a game of chicken, where you watch the oncoming financial car-crash, but take solace from every snippet of bad news that comes along, because it raises the prospect of a "Fed put".

But if we have learned anything at all since the global financial crisis (and I do wonder sometimes if we have learned anything) it is that the Fed isn't terribly good at mopping up a mess. It isn't their fault, and they do it better than most other central banks. But "financial janitor" simply isn't an efficient use of a central banks' time. Realizing this, equity bulls might want to rethink their elation at a weak payrolls figure (just 75,000 - interestingly, the ADP is working well currently). For more on this, see our [US economists reaction piece here](#).

10Y Treasury yields are down again, resting at 2.08%, and the 2Y at 1.85%. That isn't a big fall, but probably reflects the mixed emotions of the increased prospects of a Fed rate cut. The market-implied probability of a July rate cut has now pushed above 78%. it was a little over 66% last Thursday.

Gold has had another little rally, and is nosing towards \$1350 - low real yields on USD money market instruments raise the attractiveness of the zero-yielding shiny yellow metal. Oil is managing a slight rally as US shale rigs are idled at a greater rate at these prices, which should

speed a return to balance, though maybe not quickly, if global demand really is weakening.

## Mexico dodges a bullet

The threat of tariffs on Mexico due to be implemented today has been lifted, though if social media is any guide, those in Mexico feel this is more of a postponement than a cancellation. The peso has gapped down today. Asian currencies look relatively quiet today.

US Treasury Secretary, Steven Mnuchin, has apparently had constructive talks with the PBoC Governor, Yi Gang on trade in the sidelines of the G-20 meeting. The meeting itself doesn't appear to have thrown out much of interest apart from [a communiqué that noted the "tensions" posed by escalating trade and geopolitical factors.](#)

The opening paragraph ends with "We will continue to address these risks, and stand ready to take further action". Further action? What action are they talking about? Most of the actions of the last six months have worsened, not improved both trade and geopolitical tensions.

It's a busy week in Asia this week, though mainly with the monthly China Data dump of fixed asset investment, industrial production and retail sales on Friday. Today China releases trade data.

India also releases data this week on inflation, Production and trade. For more, see Prakash Sakpal's ["Asia Week Ahead"](#).

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