

Bit of a mess

Is the USD weaker on Mexico tariff delay, or is EUR stronger on Draghi disappointment?



Mess

Disentangle at your peril

The apparent market disappointment with the latest ECB package of measures - tweaked forward guidance, and details of TLTRO3 (priced at 10bp above deposit rates) is a bit perplexing. Yes, ECB economists have downgraded their forecasts for growth and inflation next year (which remains well below target), but recent Eurozone data hasn't been too bad - certainly better than the most pessimistic forecasts a few months ago and [may be turning the corner if sentiment indices are anything to go by](#).

Our economists and strategists have been very busy, I've found three separate articles on the ECB meeting on our ["Think"](#) Website this morning home page, or you can click [here](#), [here](#) and [here](#) to see them.

To summarise these, it looks as if anything short of outright rate cuts or renewed QE are proving insufficient to appease a market that is increasingly talking itself into recession mode - and that is in the US as well as Europe.

Mexican standoff

As for the possible delay to Monday's tariffs on Mexico, this is running a pattern with which I am now becoming quite familiar. Raise market hopes for something reasonable, then dash them again. The usual market response to an apparent reduction in US trade aggression with respect to Mexico is delivering a generalized bout of USD weakness, as it should. It is also giving stocks a chance to recover, and bond yields have clawed their way back up to 2.11%.

But such moments of trade peace seem to be fleeting. I would not be at all surprised if we return to the "Not good enough" tweets that have greeted many of these episodes, and a return to falling stocks, a stronger USD and lower bond yields again. Give it a few days.

Today, Gold is a little softer, oil a little stronger. You can probably reverse that too once the "hope springs eternal" mode is replaced with "reality check" in a few days time.

Day ahead

Today will be totally dominated by the US labour report. [James Smith's piece on that is here](#). Following Wednesday's weak ADP and my comments on the usefulness of this and other surveys, James very helpfully unearthed and updated some payrolls reliability work we did years ago. And the upshot confirmed my ramblings yesterday - namely the ADP and payrolls move in the same direction (i.e. they both rise month on month, or both fall) about 62% of the time. That is better than a coin flip, but not much. The ADP has been calling direction correctly at a better rate than this recently, and James' view is that non-farm payrolls may come in a bit softer this month. We'll know soon enough, which may open a new chapter in the saga of Fed chair, Jerome Powell, versus the markets.

Asia is looking pretty quiet this morning. Currencies are steady to firm versus the USD. Bond yields are generally following US Treasuries a little higher, though not much. Like the US, an air of imminent easing hangs over the region, given another boost by yesterday's rate cut in India.

Japanese data this morning is a little disappointing - labour cash earnings beat the consensus (-0.7%), but are still down year on year (-0.1%). Aussie home loan data today will be worth a quick look, given nascent signs of stabilization in the Sydney housing market. And then after that, you can probably take yourself off the gym, or pub, depending on your preference. Sadly I have a presentation to prepare, so will be stuck at my desk - but don't let that stop you!

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