

China trade

Most of the macro and market headlines for the next day or so will focus on Chinese Trade: Today, trade data for December, tomorrow, the phase one trade deal signing, and likely the removal of the currency manipulator status. USDCNY heads ever lower. But such trends have a habit of turning on you, so don't get carried away



Source: Shutterstock

December Trade data for China

Not getting carried away is the theme of today's note. China's export and import data for December are likely to show slight increases. The consensus has a 2.9% and 9.6%YoY increase in CNY terms. But bear in mind that this data largely predates the reduction in the tariffs that took place as part of the phase 1 trade deal. Also, remember that the effective tariff reduction from that deal is fairly small, so any bounce in exports may not be terribly exciting even once the tariff reductions are playing a more meaningful impact on the data in the months to come.

Bottom line, China's trade circumstances are still relatively weak, and the tariffs much higher than they were 18 months ago. We should not expect miracles.

Trade War and CNY

Market sentiment on the trade war is such a dominant driver of the fortunes of the CNY, that it is

worth pondering under what circumstances the recent rally could reverse. Such a reversal may already be baked into the phase-one deal, which we believe will contain measures to monitor compliance with criteria such as intellectual property rights and market access. It could also be that once the immediate pork and swine shortage is addressed, China's need for US agricultural products will abate, and the US may also find that market access for banks and credit card companies is not quite what it had thought in a market which is already quite mature.

Moreover, the political pressure for taking a tough line on trade will grow as we approach the US Presidential Election (to be balanced with whatever effect this has on the stock market). So it's all smiles and CNY appreciation now, but from the middle of the year, things may begin to look rather different.

Aggregate financing data due

We're still due the Chinese aggregate financing data for December, though it probably won't be too instructive. Consensus expects the numbers to dip as banks run out of capacity to lend in the last month of the year, having pushed loans out aggressively earlier. M2 money supply at 8.3%YoY would be a fair bit lower than nominal GDP growth assuming the underlying GDP numbers are accurate, which would come in at a little over 10% adding real GDP of about 6% to CPI inflation (as a proxy for the GDP deflator) of about 4.5%.

But the current spike in inflation is, of course, all food-related and should ease off, taking CPI back to its prior 2-2.5% range, which would leave current M2 growth about in line with nominal GDP assuming that remains steady. There's nothing abnormal going on here.

Indian CPI - high

Indian inflation exceeded the consensus estimate of 6.7% in December, climbing to 7.35% (let's call it 7.4% - 2 decimal places for inflation or any other economic data assumes a degree of accuracy in measurement that is frankly unrealistic).

This takes inflation outside the RBI's 2-6% target range, and by quite a bit. We anticipate the next meeting will see the RBI adjust its language to indicate a neutral monetary stance from it's the previously accommodative position.

The increase was mainly a food price phenomenon. Food price inflation was 12.2%, with vegetable prices up more than 60%YoY. Most other components showed inflation running well within the RBI's target band, though there was some upward movement in fuel and lighting, and transport and communication reflecting higher energy and telecoms prices. Nonetheless, Indian inflation will come down from these highs, just maybe not to a level that will enable the RBI to provide further easing anytime soon.

Could rising inflation pull the rug from under markets? Probably not.

In other data releases today, US inflation for December is due, which will likely show headline CPI coming in at 2.4%YoY, and the core rate at 2.3%. If these increases are reflected in the policy-important PCE indices, then we should see December headline and core PCE inflation rising to 1.8%YoY and 1.6%YoY respectively. That doesn't provide any excuse for the Fed to do anything in any direction with policy any time soon. That is a distinctly neutral setting, as opposed to an

outright hostile one, so it doesn't threaten current market ebullience particularly.

For now, the trend is your friend.

Author

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz

Senior Economist, Poland

mateusz.sutowicz@ing.pl

Alissa Lefebvre

Economist

alissa.lefebvre@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.schroeder@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