

Clarity may emerge on Brexit this week

For those who wish this will all end, this week may finally see some more clarity on Brexit.



UK prime minister,
Boris Johnson

Source: Shutterstock

Is this the real thing? Is it just fantasy?

I was in India all of last week, hence the hiatus in these daily opinion pieces. There will be a break at the end of this week as I go to Hong Kong to chair EMTA meetings there on Thursday. Then back to near-normal the following week. Thanks to those who asked where the note was.

Anyway, I had to give a lot of presentations in India, many of which touched on Brexit. This usually had me reaching for my phone, to check in case something had happened in the hours since the previous presentation. On a couple of occasions, it had.

Brexit has not been kind to analysts. [James Smith's excellent note about Saturday's votes](#) had a short-shelf life, given the Letwin amendment, that meant no vote took place on Johnson's deal this Saturday and the PM had to send letters asking for a Brexit extension. That letter was left unsigned and was accompanied by other letters stressing that Johnson had no intention of seeking an extension beyond October 31.

Now, we either get a "meaningful vote" today, or more probably, a vote on the "programme

motion", which sets out the timetable for legislation votes over the days ahead. That, if it goes ahead, will still try to meet the October 31st deadline. On paper, at least, it also has the votes to get through, though only by a whisker. 5 votes according to what I have been reading this morning. Sterling has given back a bit of ground, but with the prospects of a no-deal outcome seeming to dim, that weakness may prove short-lived. I have some modest euro-denominated bills to pay, so I may wait a couple of days.

Trade deal also seeming to come together

It also looks as if trade tensions should continue to diminish in the weeks ahead. Vice-Premier, Liu He is quoted on Bloomberg today as saying that trade talks have made "substantial progress", for a "phase one" agreement. So a partial deal does look possible. That could see the CNY make further small moves back in the direction of 7.0 (7.08 today and Iris Pang thinks that 7.05 is possible, lower if we got some removal of existing tariffs). That could also drag some of the region's currencies, (INR in particular) with it.

Iris also notes "PBoC Governor, Yi Gang, commented that the current yuan level (which has been around 7.07-7.20) has been driven by market forces, and this level of the yuan is appropriate. We believe that the yuan will stay at the range of 7.05-7.50 depending on the progress of the trade talks. Though China made a positive statement that the two sides are drafting a partial agreement, China did emphasise that US has to respect China to achieve a deal. As such we still see uncertainties for a deal to be reached".

Risk sentiment more broadly is improving on growing hopes for a partial trade deal, and perhaps also a bit on looming Brexit relief. Yields on US Treasuries have risen. The 10Y is now offering a respectable 1.75%, with a decent 21bp over the corresponding 2Y yield, so perhaps thoughts of recession should be scaled back a bit? The NY Fed's probability of a recession in 12 months indicator has indeed dropped back a bit to 34.8 from its recent high of 37.93%. My own unrestricted model based on the NY Fed's approach shows only about 15% probability, down from a recent 18% high, but still elevated from "normal" readings closer to zero.

Perhaps what this is telling us is that we are not about to lurch into some sharp slowdown, but that a continued slow grind lower is in prospect. For those for whom the semantics of a global recession matter, it is worth noting that there are no widely accepted definitions of this. The IMF has a methodology that is the nearest thing in my view, but, as [the linked wikipedia article shows](#), requires consideration of up to seven indicators, so by the time you've crunched the numbers, it is probably either too late, or you would have emerged on the other side already.

A more workable definition might be that a rate of global growth of 3% or less would constitute a global recession. Any guesses what the latest IMF forecast for global growth in 2019? It's 3%, down from their earlier estimate of 3.2%. In other words, recession, already.

They do forecast a pick up to 3.4% in 2020 incidentally. But I think that will be contingent on the trade war.

3.0% Global GDP
IMF 2019 forecast

Asia today

It's relatively quiet in Asia today. China might trim its loan prime rate (LPR) by 5bp - a small but creeping incremental monetary easing. That would take the 1 year LPR down to 4.15% from 4.20%.

Bank Indonesia meets on Thursday to decide policy. Bloomberg consensus indicates a 25bp rate cut to 5.0%.

Later in the week, we have some preliminary 3Q19 GDP figures out of Korea, which likely won't make great reading. Singapore CPI also out later in the week may also highlight the limited nature of the recent Monetary Authority of Singapore (MAS) easing.

Thai trade data for September out today will likely show weak export growth, but contracting imports, for a net increase in the trade surplus. This adds pressure on the BoT to respond with some easing, but their reticence to act means the more likely result is further THB strength.

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