

## Could have been worse - G20 does not end in acrimony at least

We didn't have high expectations for the G20 meetings. What we got was realistically about as good as we thought likely. Markets seem to agree, with a modest relief rally in equities and some safe-haven selling. Other Asian currencies rallying.



China's President, Xi Jinping with US President, Donald Trump in Beijing, 2017

### US-China, talks back on, long way to go

For the full view of our Trade and China economists, [please visit this link](#). But for the quick and dirty view, the G20 can be regarded as an excuse for a modest relief rally because:

- No additional tariffs have been imposed
- The talks that may eventually lead to a broader trade deal are back on and...
- ...there seems to have been some (modest, and perhaps disputable) concessions on Huawei.

That said, there still seem to be considerable differences in interpretation on what is left to do and on what has just been promised. US President Trump's claims that China will buy more US agricultural produce does not seem to be reflected in Chinese media reports, so there may still be issues ahead.

But compared to an alternative scenario, where Presidents Trump and Xi walked away from Osaka shaking fists at each other in acrimony and accusations of renegeing on earlier agreements, this can't be described as a bad outcome, and we don't believe much more was realistic at this stage anyway.

The JPY is a little softer on the news (though domestic issues may also be playing a part here). Weaker CHF and gold also back up thoughts of a safe-haven retreat, though this doesn't seem to be playing out in bond markets, or in thoughts of Fed easing, where the probability of a July hike has now risen to 86.5%, up about 10% from the end of last week. Asian currencies like the KRW are rallying. KRW has broken 1150 today. CNH has rallied hard on this news. While trade talks are back on, the likelihood of a CNY depreciation is drastically reduced.

## Tankan declines

Japan's 2Q Tankan survey was a mixed bag with the headline large manufacturing index dropping a worse than expected 5 points to 7 from 12 back in 1Q19. But the downbeat news was not reflected evenly elsewhere, with large non-manufacturers reporting an improvement in conditions (23 up from 21). Small firms in both manufacturing and non-manufacturing sectors registered declines, with the small manufacturing firm index now down at -5 from -2.

Nevertheless, this is perhaps not the disaster outcome that could have the government abandoning thoughts of the October consumption tax hike, and we may need to incorporate that back into our forecasts before too long.

## No end in sight in negotiations for EU leaders

The arguing over who shall lead the EU's various institutions continues, with her proposal to appoint Frans Timmermans (Netherlands) as the new head of the EU Commission ran into opposition from members of her own European People's party bloc. With Manfred Weber (Germany) apparently out of the picture, we are now running well into the list of compromise candidates for those who might fill the role.

Of course, while all this continues, we get no progress on who may fill the ECB role post-Draghi. I wonder if he can be persuaded to stay on in a caretaker role if no agreement is obtained, or whether Vice President Luis de Guindos can be persuaded to keep things ticking over until the EU leaders can agree on a way forward.

## China June PMI data show manufacturing slowing at same rate as in May

Chinese data releases over the weekend don't provide much room for celebration, though underline why it is important that the current trade situation has not actually worsened. The Manufacturing PMI remains at 49.4%, which means that this sector is slowing at the same rate as last month, not that conditions are unchanged (basically these are diffusion indices). The non-manufacturing PMI came in only slightly down at 54.2 (from 54.3) so growth has slowed only very marginally there. The Caixin indices are due today to add some flavour to the smaller private sector.

PMI data from much of the rest of Asia is released later today.

Other key releases include Thai CPI (will remain low, helping the argument for an imminent BoT rate cut) and Indonesian CPI is also due (expected almost unchanged at 3.2% - BI still focused on external conditions, so will talk dovish but likely keep rates on hold)

## RBA - may cut tomorrow, but it doesn't really matter

Tomorrow, the RBA decision on rates is a close call, with the consensus of forecasters split, with only a small majority in favour of a cut. We are on the other side of that call, but with low conviction. Later today we publish a more detailed preview of this meeting. Our conclusion is basically that though this is a hard meeting for us to call, it doesn't make much difference to the Australian outlook whether the RBA cuts now or waits until August. More on this later...

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