

## Countering the Trump threat

From retaliatory tariffs to reserve rate requirement (RRR) cuts and WTO rules re-vamping, the broad thrust of news today is Trump vs the rest of the world, and the rest of the world is fighting back.



### This is not just US vs China

There was a time, early on in this global trade mess (let's not call it a war, even wars have rules) when it seemed clear who the combatants were. Trump was preparing to wage war with China (despite his apparently 'great' relationship with President Xi...!) and the rest of the world looked on aghast. Now there are few markets that have not been provoked into some form of retaliation on trade. The latest to join the list, Turkey, is now imposing tariffs on US imports of goods including rice and cars. The EU meanwhile says it will continue to retaliate to US tariffs so that if Trump puts a tariff on cars, the escalation will continue. Where will it all end? The only reasonable answer, not soon enough.

China's latest announcement of another reserve rate requirement (RRR) cut for banks (0.5% worth CNY700bn) is another news story with its roots in the trade mess. Last week, China announced some weaker than expected activity data. It is a bit much to pin that already onto trade sanctions. But as a forward-looking measure, while restructuring efforts continue also to put a squeeze on the economy, it is a sensible offsetting move to Trump's trade policies.

The US, for its part, doesn't seem to want to let the momentum in its trade campaign weaken, with announcements over the weekend of further restrictions on Chinese inward investment into Robotics and Artificial intelligence firms. Interestingly, China has chosen the moral high ground, and in meetings with US firms operating in China, has said that it will not make life hard for them. This is, however, merely a dose of grim reality, given that China is trying to encourage inward investment to keep the currency firm, while at the same time, the Central Bank is lagging the US Fed in terms of interest rate moves. At least, this is the story for now. Should the Trump administration keep hammering away, blunter, more self-damaging responses may be adopted.

Even the direction of the Brexit negotiation disaster-zone seems influenced to a large extent by the unfurling global trade catastrophe. UK public finances have already been hit by the UK's slowdown more than any once-touted Brexit dividend. So recent announcements of a boost in spending for the National Health Service (will come in handy for curing rickets, cholera and the other 3rd World diseases the UK population will suffer post-Brexit) may turn out to be just a softening play for a Brexit that leaves the UK more in than out of the EU - another response to the weakening global trade environment.

With global trade so stuffed up, that seems a more sensible short-term play than any that the more ardent Brexit supporters would want. But as even one of those was heard to remark, Brexit is a process, not an event. They can toughen Brexit up later if the mess is ever sorted out.

## Today in Asia - prelude to Bank Indonesia?

There are one or two releases worth a quick look today in Asia. At around lunchtime, Indonesia will release May trade figures, which could show a narrowing of the deficit, though more through noise than any improvement in the trend. The consensus is for a reduction of the surplus to -\$531m, and any shortfall from this will likely weigh on the IDR, increasing the chances of a further rate hike later this week from BI (expected).

Singapore's May CPI release will also hopefully provide some further evidence of the economy firming, though the newsflow remains somewhat mixed, so there is scope for some downside surprise here too. Watch both the headline and core figures to try to make sense of whatever comes out (0.4% from 0.1% and 1.5% from 1.3% expected).

Taiwanese production for May is also due. Our forecast of 6.5% is just a little stronger than the 5.8% consensus.

## Quiet in the G-7

Outside of the political / trade maelstrom, it is going to be a reasonably quiet day in the G-7, with the week ahead likely to be dominated by the EU summit - Brexit and Immigration are likely to be on the agenda.

Germany's Ifo could shed some light on the momentum of Europe's largest economy, which has clearly slowed from the end of last year.

US New home sales aren't too interesting. The trend is higher, but with a shortage of existing homes for purchase, this is pushing buyers into the new home market. It doesn't tell us much else.

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