

## Deadline or dead-boring

Trump offers to allow the March 1 deadline to slide, government shutdown deadline may be averted by Congress deal, Brexit deadline apparently not a deadline at all. So when is a deadline a deadline?



egg timer

### Don't shoot!

According to the Merriam-Webster dictionary, the historical derivation of the word "deadline" is "*a line drawn within or around a prison that a prisoner passes at the risk of being shot*".

Recent deadlines seem to lack the same sense of drama. No one appears likely to get shot anyway. Indeed, all recent deadlines look as if they may well be passed without incident. This may not be a bad thing if it means that the chances of a deal of some sort, whether on US-China trade, the US border wall, or Brexit, are increased. Though the reason for holding negotiators to a time-delineated deadline with threats of an economic apocalypse is that it is supposed to encourage participants to compromise and deliver a result.

The fact that it doesn't, is because of a concept in economics called "time inconsistency". Although this sounds like something Dr Who might suffer from, it is the fairly simple observation that if at the time a deadline looms, the benefits of letting it slide without sanction outweigh the perceived costs, then the deadline will likely be crossed, without triggering any incident. Similar arguments apply to monetary policy, where squeezing out inflation through higher rates and a promised recession will only work if the central bank has amassed some credibility, probably by having done

this before. Setting credible targets, and accruing a hawkish reputation all help.

The China-US trade dispute may deliver a result because the US has already imposed tariffs - they seem not to care (so much) that the economic consequences of a trade war escalation for them may also be negative, so long as the outcome is worse for China. On the border wall, President Trump's bluff has already been called once. And while he may not be the most consistent player in a game like this, making it harder for the opposition to play, markets would probably bet on him allowing this one to slide too.

As for Brexit, we are in the dark. Nothing like this has been done before. The consequences of crossing the deadline without a deal seem too apocalyptic, making you think that the time inconsistency argument will come into play, rather than that it will encourage one or other side to blink in these negotiations. That tactic may indeed have been what the UK government had been hoping for if reports of an overheard conversation between Chief UK negotiator, Oly Robbins, and other colleagues in a late night bar are to be believed. But then as the deadline could always be shifted, surely this has always been viewed as a hollow threat by Europeans, and by Brexiters, who don't believe a no-deal Brexit would be apocalyptic anyway. Sadly, probable deadline slippage means we will still probably be following this story in months to come.

## Korean unemployment rises

Korea's unemployment rate rose sharply in January. The January rate rose to 4.4% from December's 3.8%. Unemployment rates are some of the economics profession's most flaky statistics, and can rise when the labour market is improving. This is not the case here, and this rise can be easily classified as a "bad" rise in the unemployment rate - here's why:

1. The actual numbers of unemployed rose from 944 thousand to 1.224 million
2. The numbers of "employed" fell by 406 thousand, with particularly large falls in construction, business and personal services, and smaller but significant falls in agriculture and manufacturing.
3. The numbers of economically active persons (the labour force) fell by 127 thousand. Although this makes it easier for the unemployment rate to go up, as this is calculated as unemployed divided by the labour force, expressed as a percentage, it also means that unemployed are becoming discouraged, and giving up the search for work.

All of which are very good reasons, along with the decline in inflation in Korea, to believe that the Bank of Korea could reverse last November's 25bp rate hike before much more time has passed. It is also a reason to expect some slippage in the KRW, even if optimism on a US-China trade deal is keeping the USD soft for the time being.

## China money supply data

We may get money supply data from China today - and that may show some signs of recent stimulus measures flowing through, which could provide a little support for the CNY, which has been looking challenged again recently.

New yuan loans in January are thought to have more than doubled from CNY1080bn in December to CNY3000bn with aggregate financing up from CNY1589bn to CNY3300bn. M2 growth is expected to pick up a little too (8.2%YoY from 8.1%).

The question is, where is this money going? And is enough of the aggregate lending flowing to the private-owned sector to alleviate the spike in debt defaults we have seen, and to support stable employment? That question remains to be answered.

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