

Deal or no deal

President Trump suggests a compromise to get his wall; UK opposition party backs parliamentary vote that could support a second referendum; Xi talks about "serious dangers" in the light of weaker growth data



Step by step...inch by inch

It's painfully slow to watch, but it looks like the US President and Democratic Party may be inching towards a deal that may end the US partial government shutdown. What has changed? The main thing is that President Trump is now dangling a carrot of something the Democrats want, that is fair treatment for the "Dreamers", with even the prospect of an amnesty for a big enough concession - if recent tweets are to be believed (see below). In return, President Trump wants his wall. These are two big asks, but on a political scale, roughly cancel each other out. This might provide a way forward. This is politics working if it comes off.

How outraged some of the more conservative members of the Republican party would be if this went ahead is another question. But we aren't sure that this provides a fundamental roadblock for any such plan, as there are likely to be sufficient moderates to back a plan to see it get through Congress. Markets are likely to be cautious about such subjective "progress" and rightly so, but it's better than we have had for a while.

Labour amendment may pave way for 2nd referendum on Brexit

Frustration with UK PM May's refusal to shift tack and propose any significant changes to the deal that was catastrophically defeated in the commons a week or so ago, has led to the opposition Labour Party proposing an amendment to the government motion to be discussed on 29 January. That amendment would call for votes on the various ways to stop a no-deal Brexit. The amendment is said to have the backing of opposition leader, Jeremy Corbyn. Corbyn has played an agnostic role in most of the Brexit proceedings, pre and post the referendum. He would, we suspect, rather be fighting a General Election. But if he can't have that, and he has failed to dislodge the government in a vote of no confidence, he may now be turning his attention to the Brexit process itself. Sterling is a little stronger. It would be a lot stronger still if voting on Jan 29th removed the threat of a no-deal Brexit.

Xi is worried

China's President Xi sounds worried. According to Newsagency Xinhua, the President is reported to have said "The party is facing sharp and serious dangers of a slackness in spirit, lack of ability, distance from the people, and being passive and corrupt," This comes the day that China announced that growth was the weakest it has been in nine years.

The commentary suggests that support measures will be ramped up further. But propping up GDP numbers through infrastructure spending whilst private sector firms are going bust because traditional financing isn't reaching them in sufficient quantity is unlikely to provide the stability Xi needs. US President Trump is probably right when he says that China needs a trade deal (another tweet overnight), but equally, the US is asking for more than Xi can realistically deliver. Difficult... USDCNY is beginning to move higher. We suspect we haven't seen the last of this. Give it a few weeks, we may be talking about 7.0 again.

South Korea's GDP rises 3.1%YoY in 4Q18

Coming in considerably stronger than the consensus 2.7% expectation, Korean GDP rose 3.1%YoY in 4Q18. Admittedly, government consumption played quite a big role in that, rising 3.1%QoQ (7.1%YoY). And that is unlikely to persist. But household spending also grew at a respectable 2.5%YoY rate and makes up for some very weak data on business investment (though the quarterly data looks somewhat better than the year on year comparisons, so may offer some hope that momentum here is building).

A strong end to the year makes it likely that on arithmetical grounds, we will need to nudge our full year 2019 growth forecasts higher. But this won't reflect a fundamental shift in view, merely the way numbers work. Korea still has a tough year ahead, with global trade and technology, its two big pillars of growth, in the doldrums.

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