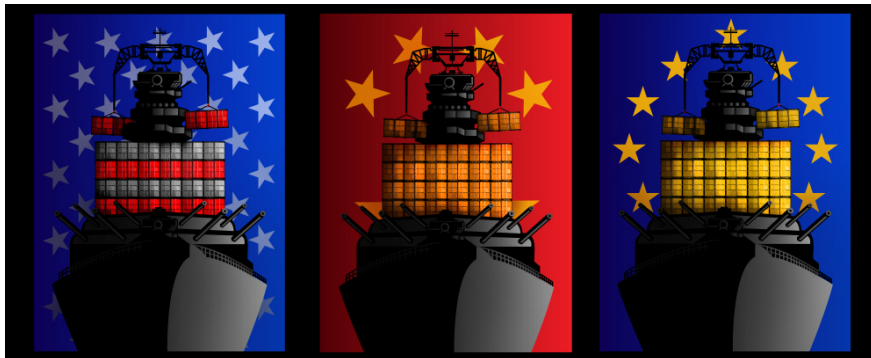


Down we go again

The market's mood has swung again, from current stock and bond levels, there seems to be quite a bit of downside.



Source: Shutterstock

Trade comes back to bite our ankles

In spite of all the other stuff going on globally, trade and the trade war remain the biggest movers of financial markets, and yesterday saw Chinese officials pouring cold water on the prospects for any broader trade deal with the US, even as the mood has brightened on a phase-one, though probably not very significant constrained trade deal.

What does this tell us? Well possibly that China feels it is managing the downturn stemming from the ongoing tariffs relatively well. It may also feel emboldened to harden its position given what may appear to be some growing political weakness in the US - the impeachment inquiries - and economic weakness - recent sub-2% 3Q19 GDP figures.

If this mood lasts, it also suggests we may see bond yields trending lower again. In the last two days, 10Y US Treasury yields have fallen from 1.84% to 1.69%. The October/September low was 1.53%, the August low 1.46%.

Can we make new lows?

Whether or not we will make new lows this time around, the direction seems a decent trend for now. Lower lows will require the recent disquiet from the Chinese on trade deals to broaden into something more unsettling. In the process, trade gloom, plus a further deterioration in the US economy that causes a rethink on the "Fed pause" hypothesis promoted by Jerome Powell earlier this week will likely need to happen.

Both seem eminently plausible. Indeed, later today, October US labour data could add to the sense

of the gloom, though it is reasonably well understood that the numbers will be depressed by the GM strike and release of census workers. Nonetheless, a sub-100,000 figure coupled with a slight upwards nudge in the unemployment rate, and moribund wages growth should add to the low inflation numbers released yesterday (core PCE 1.7%, headline 1.3%) and provide markets with the excuse to start pricing in further Fed cuts again. Don't expect market expectations to stop at just one cut.

HK GDP woes

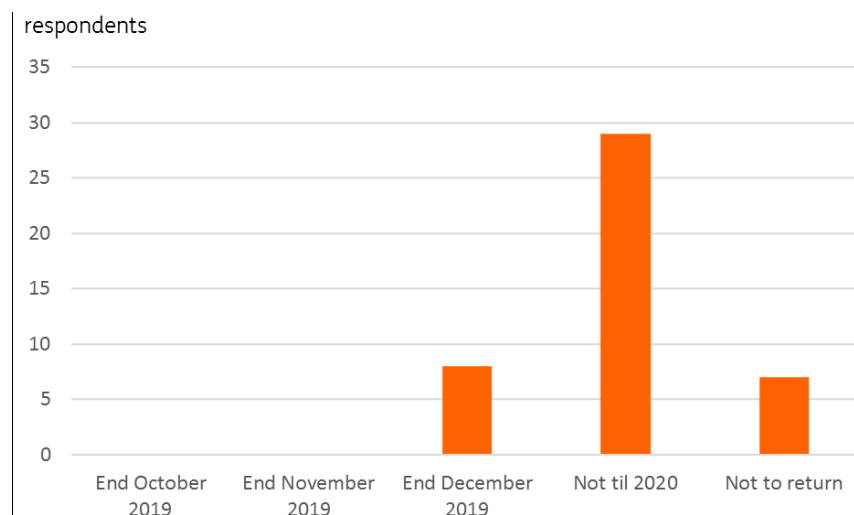
Iris Pang's note on yesterday's HK GDP data is attached in the bundled Good Morning Asia version of this note, but if you are reading this opinion daily as a standalone, [then here is a link](#).

Iris' expectation for HK GDP to decline in all quarters of 2020 is widely quoted in the financial press today. With much of the damage to the economy "self-inflicted", Iris' forecast is also in line with the expectations from a recent EMTA conference I moderated in HK, which asked participants to say when they expected calm to return. The chart below shows that few anticipate any restoration of peace until sometime in 2020.

Perhaps what is most interesting though about this number, is how the consensus, in spite of being able in many cases to see the impact of the protests on the economy first hand, came out with such a limp estimate of -0.4%QoQ, compared to the actual -3.2%QoQ outcome.

Like all humans, economists are bad at predicting outside their comfort range. This has less to do with the accuracy of their models, and more to do with psychology. As Iris points out, you probably have to go back to the SARS epidemic in 2003 to get something comparable. That means that most forecasters need to have been in work at that time, some 16 years ago to have experienced anything similar. Anyone under the age of 40 can therefore likely be excused missing this forecast.

When do you expect calm to return to HK SAR?



Source: EMTA HK 2019, ING

Day ahead - busy

If today's note seems a little rushed - it is - I have to dash off to do some media-stuff. But besides

the US labour market stuff due out tonight, which I've already mentioned, there is a full calendar in Asia today too. Before I forget though, [here is a link to the note on the global technology slump that is affecting Asia, written by myself and my team. Give it a read if you think that sounds interesting.](#)

Inflation figures from Korea (already out and better than expected at 0.0%YoY), Indonesia, and Thailand provide one side of the equation today. Nothing too pivotal to flip central bank policy expectations one way or another in all likelihood. And PMIs from Taiwan, Malaysia, Japan, Korea, Indonesia, Vietnam and of course China's Caixin manufacturing PMI index deliver the bulk of the other side.

Expectations for the Caixin PMI are a little lower than the 51.4 reading from September. The wonder is that this index is above 50 at all, given that this sector should be the most impacted by the trade war. I see little merit in obsessing over a few tenths of a point for an index like this. If the consensus is correct, then the right interpretation will be that China's private manufacturers continue to show weak growth. That isn't a bad result in the circumstances, and a big improvement from the 48.3 reading back in January this year.

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