

Fear Factor returns to markets

Another turn on the trade war, this time negative, weak China data, curve inversion, but the only real change is one of attitude. Plucky market resolve and a rose-tinted outlook seem to be giving way...at least until the next dollop of central bank "valium" calms nerves again.



Time to face up to some hard truths

I've talked at length about yield curve inversion in this note in the past, noting that if we were to adjust it for central bank asset purchases, which total over \$11tr, then it would likely not be all that flat at all. But whether it has inverted in "real" terms or not, and the 2s10s slope is now virtually flat if not actually inverted, recent moves do indicate a distinct flattening. In my view, that isn't out of whack with what is going on in the wider world. [James Knightley adds to that narrative here.](#)

For sure, the US economy doesn't quite adhere to this story, with core inflation nosing higher, and a still-strong labour market. But indicators of business investment, like core goods shipments and inventories, haven't looked all that perky for some time, and it is a fair bet that the trade war is crimping business confidence, and at least, delaying some investment plans for lack of a clear route forward.

Overnight, a more somber assessment of the trade war from US Director of Trade and Manufacturing, Peter Navarro, has nudged the market to the view we expressed yesterday - that despite the delay of implementing some of the new tariffs, nothing had really changed. Stock markets in the US have dropped sharply. Asia will likely follow suit this morning.

Outside the US, China data yesterday was rather disappointing. [Iris Pang offers a sober assessment of the situation here](#). In spite of government measures to keep the economy ticking along on a drip-feed of infrastructure spending, industrial production at 4.8%YoY hasn't been this weak outside of a few one-month dips since the early 1990s. Retail sales were also soft, and fixed asset investment, at 5.7%YoY, is stable, rather than accelerating. So the world's second-biggest economy is showing clear signs of a slowdown, even if the world's biggest economy is steady, though uninspiring.

Look further afield - Europe for example - and even outside the Brexit-inspired mess of the UK, growth is notable by its absence. [Here's a link to a piece on Germany, which has just registered negative growth](#). And if you haven't had enough on Brexit, here's another looking at the ["no-deal" likelihood](#). Elsewhere, non-China Asia is still coming to terms with a global tech slump.

Yep, I think the curve slope is reflecting the global direction fairly well. I just don't think it adds much extra value to a story that is already fairly clear. If you want the market to hold a mirror to the global economy, I think the commodity markets, which are real assets after all, and devoid of much of the flim-flam of financial products, do a much better and more consistent job. The ratio of gold to copper prices, for example, is worth comparing against your favourite measure of global activity (inverted). Chart below.

Gold Copper ratio



Source: bloomberg

Asia Day ahead

Australian employment data are our regional equivalent of US non-farm payrolls and every bit as quixotic. But this data release also has the power to drive markets, especially now the RBA is firmly in "active" mode. Yesterday's 2Q19 wages data didn't add much to the picture. A strong employment figure coupled with a rise in the unemployment rate could dampen thoughts of further imminent RBA easing and give the AUD a lift - and vice versa.

Meanwhile, Independence Day in Korea means a speech from President Moon - will he try to mend ties with Japan, or will this be a more nationalistic speech that draws a further reaction from Tokyo? My gut feeling is the latter. It plays better to local politics. But it might not be so supportive

for Korean stocks and the KRW...

And here's some further commentary from Iris Pang on yesterday's weak China data "The cause of such low manufacturing growth was shrinking car manufacturing, which reflects declining demand for car ownership in China. This was also reflected in negative sales growth of cars in the retail sales data. The underlying cause was the trade war and technology war, which has weakened consumer confidence. These two factors will stay for a long time. China will push forward its planned infrastructure projects together with easing monetary policy to keep growth stable".

Indonesian trade for July, which should see the trade balance swinging back into deficit and Philippine overseas worker remittances round off the main data events of the day in Asia. Neither is likely to provide a massive boost to confidence.

US retail sales for July will be the main event out of the G-7 today. They have been holding up well so far. But that probably means the market risk is skewed to the downside, even if the data risk is fairly balanced.

Author

Olivia Grace

Editor

olivia.grace@ing.com

Julian Geib

Junior Economist, Global Trade

julian.geib@ing.de

Zoltán Homolya

Economic research trainee

zoltan.homolya@ing.com

Amrita Naik Nimbalkar

Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz

Senior Economist, Poland

mateusz.sutowicz@ing.pl

Alissa Lefebvre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist
+32495364780
ruben.dewitte@ing.com

Kinga Havasi
Economic research trainee
kinga.havasi@ing.com

Marten van Garderen
Consumer Economist, Netherlands
marten.van.garderen@ing.com

David Havrlant
Chief Economist, Czech Republic
420 770 321 486
david.havrlant@ing.com

Sander Burgers
Senior Economist, Dutch Housing
sander.burgers@ing.com

Lynn Song
Chief Economist, Greater China
lynn.song@ing.com

Michiel Tukker
Senior UK & Eurozone Rates Strategist
michiel.tukker@ing.com

Michal Rubaszek
Senior Economist, Poland
michal.rubaszek@ing.pl

This is a test author

Stefan Posea
Economist, Romania
tiberiu-stefan.posea@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Jesse Norcross
Senior Sector Strategist, Real Estate
jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Senior Economist, Healthcare & Technology

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT
jan.frederik.slijkerman@ing.com

Katinka Jongkind
Senior Economist, Services and Leisure
Katinka.Jongkind@ing.com

Marina Le Blanc
Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan
Junior Economist
samuel.abettan@ing.com

Franziska Biehl
Senior Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne
Deputy Global Head of Editorial and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)
mirjam.bani@ing.com

Timothy Rahill
Credit Strategist
timothy.rahill@ing.com

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Antoine Bouvet
Head of European Rates Strategy
antoine.bouvet@ing.com

Jeroen van den Broek
Global Head of Sector Research
jeroen.van.den.broek@ing.com

Edse Dantuma
Senior Sector Economist, Industry and Healthcare
edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporate Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist

+31(0)611172684

laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Chief Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801
martin.van.vliet@ing.com

Karol Pogorzelski
Senior Economist, Poland
Karol.Pogorzelski@ing.pl

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

Viraj Patel
Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

Owen Thomas
Global Head of Editorial Content
+44 (0) 207 767 5331
owen.thomas@ing.com

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroeder@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Gustavo Rangel
Chief Economist, LATAM
+1 646 424 6464
gustavo.rangel@ing.com

Carlo Cocuzzo
Economist, Digital Finance
+44 20 7767 5306
carlo.cocuzzo@ing.com