

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

Amrita Naik Nimbalkar

Junior Economist, Global Macro
amrita.naik.nimbalkar@ing.com

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@asia.ing.com

Michiel Tukker

Senior European 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

Sector Economist, TMT & Healthcare

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@asia.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

Senior Editor 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

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

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 Corporates 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

Piotr Poplawski
Senior Economist, Poland
piotr.poplawski@ing.pl

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@asia.ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, 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