

## Financial fortnight

2 weeks ago, I went on the road with some colleagues - the trade war has taken its toll on financial markets in those weeks



Fortnite

### Lessons learned

I often say that you're never as good at this job as in the two weeks following a client roadshow. Today's note may put that theory to the test. So what exactly did I learn?

Well, I learned that Asian clients are prepared to listen to a story about Europe, the merry-go-round of top jobs at the various EU institutions, and the ECB outlook. But I also learned that this is an easier story to sell if you wrap it around a message about the global outlook, the Fed and President Donald Trump and the Trade War. I also learned that few of these clients expected, contrary to our Chief International Economist, James Knightley, for President Trump to get re-elected next year. That was a wake-up call for many.

I also learned that many clients were less upbeat than we were on the prospects of a deal in the trade war, though I should stress that neither myself nor Knightley (JK) sees any deal as the end of the war, merely a cessation of hostilities for a period. I have never considered this "an event", and always viewed it as a "process". I think JK agrees.

And in China, we learned from FX clients that they expect USD/CNY to hold below the 7.0 level. But close.

## Sell in May and go away

Reading the news on my morning wrap from one of the big newswires (you should know which one by now) it read today as if we were witnessing a "sell dollar assets" story. That was alarming against the backdrop of stories about China selling US Treasuries. So it is reassuring to check things out over the longer timeframe for which I have been away to see that this doesn't resemble the story at all.

The dollar over the last two weeks is generally stronger, bond yields generally lower, and stock markets lower too. This mix of financial metrics exactly fits a disinflationary trade war scenario. And right now, it is hard to see what will break it.

We do, yes, expect a trade deal. But the timing of that could be anywhere between now and the end of the year. Given the strength of the US economy, President Trump has the luxury of a bit of leeway before deciding when to call off his trade hawks.

What might hasten this decision is further weakness in US stocks, which he has pointed to in the past as the real barometer of his success as President. Though until the election race kicks off in earnest early next year, that is less pressing than it could be, so may not provide the excuse for a cease-fire that many are looking for. It could be a rocky summer for stocks then. The old adage, "Sell in May and go away" might not be such bad advice this year after all.

## Incumbents carry elections across APAC

(From Prakash Sakpal): Consistent with our baseline on the Indian election, exit polls are indicating a victory for Prime Minister Modi's Bharatiya Janata Party, albeit with a narrow margin, and requiring a coalition government for the second consecutive term. However, given the poor track record of exit polls in the past, uncertainty prevails and investors are likely to be on the sidelines until official results are known (23 May - Thursday).

Keeping the pro-incumbent wave in the region, Indonesia's President Jokowi is officially declared the winner of the elections held in April. Likewise, Thailand's new parliament to be convened this week may also endorse incumbent Junta leader Prayuth Chan-Ocha as prime minister of the new government.

## There's plenty of Australian interest today

Following the weekend's shock election win for Australia's Liberal / National coalition, markets are cutting back their expectations of an imminent rate cut from the Reserve Bank of Australia (RBA), rather expecting fiscal policy through tax cuts, to provide the rescue the economy seems to need.

They may be right, but last month's RBA minutes released this morning could provide us with a bit more insight, as could a speech by the RBA Governor today. The minutes will probably not have anticipated the election outcome though, which has taken everyone by surprise. So Governor Lowe's speech may be the one to watch.

## Asia day ahead

20-Day export data for South Korea are a useful sneak preview for full month data, though can be a bit misleading at times. There is no consensus for these, rather, these are what forecasters will plug into their spreadsheets for the full figures, so scope for a market surprise is substantial. We

would need to see nominal exports for May rise to close to USD50bn for the full month if the year on year rate of decline is to narrow. And the base comparison with the second half of last year is a tough one. So ongoing weakness is probably the base expectation.

Singapore's final GDP for 1Q19 is a bit confusing. The year on year figure was a bit lower at 1.2% than either the preliminary number (1.3%) or the consensus (1.4%) but there was a massive jump in the QoQ seasonally adjusted number. Having struggled with reconciling these numbers in the past, I am tempted to put more weight on the year on year figures and largely ignore the QoQ data. This data won't have any impact on our GDP forecasts for the year 1.9% for the full year).

(From Prakash Sakpal): Meanwhile, the Thai GDP report for the first quarter of the year due today is likely to show a sharp slowdown in growth; the consensus centered on 2.8% year-on-year growth is the lowest in four years and down from 3.7% in 4Q18. This combined with heightened trade tension will make it increasingly hard for the Bank of Thailand to sustain its hawkish rhetoric going forward. Indeed, we are reviewing our on-hold forecast for the BoT policy this year.

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