

## G-20 meeting - What next for the trade war?

It's wait-and-see time for the G20 and the much heralded Xi-Trump meeting. Much has been said and written, including by us. But in the end, we can only wait to see what emerges.



### G20 - nothing more to say

We've really reached the point where there is no point saying anything more about the G20 meeting as it is now upon us and the time for speculation has passed. Monday will be a different matter altogether.

With much of the fate of the global economy hanging on the outcome of this weekend, and the likely direction of markets also crucially dependent on the outcome of talks, today has the eerie sense of a slow march to the gallows, listening out hopefully for calls of a reprieve from the prison governor...

### And on China...

Two points from Iris Pang in Hong Kong, the first directly related to the Trade War and this weekend's meetings, and the second indirectly:

1. Huawei is going to be a central topic at the meeting between China and the US on Saturday, with China looking for removal of the ban on Huawei. Even though the Chinese technology

company claims it has paid over \$6billion in patent fees, of which 80% went to US companies, we believe that US President Trump will not take this as proof of how important it is to US companies.

2. On Hong Kong, the possible IPO of a giant Chinese technology company in Hong Kong has pushed the Hong Kong Interbank interest rate (HIBOR) higher than its US counterpart. Banks and brokerage firms have tried to get as much cash as possible to prepare for margin financing for the IPO. 1M HIBOR closed at 2.5355% on 26th June, which is much higher than the 2.34925% on last Friday's close. We believe that the high-interest rate situation will be temporary, and will fall with the USD as the Fed is expected by the market to cut interest rates.

## MAS concern about growth outlook

Monetary Authority of Singapore (MAS) Managing Director, Ravi Menon, has said the central bank is reviewing their outlook for growth this year. The official growth outlook is now a little below the midpoint of a 1.5% to 2.5% range (recently revised down from the April MAS Macroeconomic review where it was previously 1.5% to 3.5%), which would put it a bit below 2.0%. Our ING house forecast is right on this guidance at 1.9% for 2019, though we would characterize that forecast as already having considerably more downside than upside risk.

Mr. Menon is reported as citing the trade and technology war as a headwind for the Singaporean economy. We would also add the technology slump, which both predates the tech war and is regionally more pervasive and important.

With core and headline inflation roughly within the MAS forecast range for 2019 of 1-2% and 0.5-1.0% respectively, there does not appear to us to be an urgent need for remedial monetary policy action despite the much more challenging growth outlook. However, a trimming of the pace of the SGD effective exchange rate appreciation at the MAS' October meeting could be viewed in the same light as an "insurance" easing, in line with what we expect the US Fed to deliver in terms of policy rate cuts later this year.

Weighing against any such move will be concern over how the US Treasury responds to such a policy move, given that they are now monitoring Singapore as a possible currency manipulator, though a small reduction in the appreciation slope ought in our view to be relatively uncontentious.

## Vietnam GDP due today

Another country on the US Treasury watch list as a potential manipulator is Vietnam. They release GDP data today for 2Q19 (which is not yet over,,,) as well as export figures. Vietnam remains one of the few countries in the region which is still showing positive export growth, and a robust 8%YoY figure is penciled in by consensus forecasters for the June reading. The VND has been on a slightly weaker footing in the last couple of days after recovering much of the ground lost in May earlier this month. The export figures may not be enough to pull the trade balance back to surplus from the \$1300m deficit recorded in May.

## City of London beware...

I'm not sure if any lessons can be learned from this for the City of London post Brexit, and I can't see anything from our European team overnight, but the EU has just banned trading of Swiss

equities.

The spat has arisen because Switzerland has not renegotiated a series of treaties on issues such as immigration and agriculture, and the EU is now using the recognition of Swiss stock exchanges as their countermeasure in the argument.

This all boils down to "equivalence" - something the City of London will be hoping to get post-Brexit. What this development seems to show is how little autonomy can be achieved when the EU can withdraw consideration of equivalence on a wide range of unrelated areas. We await some further guidance from this on Europe...

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