

Happy (Trade / Brexit) Friday

Some better news for once on trade and Brexit - the next 24 hours could be decisive one way or another for one or both of these issues.



Asian beach

Source: Shutterstock

Not just happy Friday - Lazy Friday too.

In case the concept of "Lazy Friday" is new to you, let me enlighten. You have worked hard all week. It is Friday. You are tired, and though you resisted the notion of calling in sick and turned up to work as usual, the likelihood of you doing anything very productive over the next 10 hours or so is pretty remote. Tidying your desk, emptying your email inbox, catching up on expenses or personal chores, an extended lunch break. Such are the ways of a "Lazy Friday".

In fact, some people have taken this concept to such an art form, that they practice it every day. French Economist, Corrinne Maier, wrote a book on it, "Bonjour Laziness: Why hard work doesn't pay" (available in all good booksellers and online - you can find your own link!). By way of providing this note with some balance, shortly after publication, Corrinne was fired from her job.

Taking a leaf out of Corrine's book I am going to leverage the effort of my colleagues today, whilst I will be kicking back and relaxing (hoping that I don't go the same way as Corrinne of course!)

First up Brexit:

Our Brexit expert, James Smith, sent me some notes overnight: I'm sure he is planning on publishing later today, so I've trimmed them back quite a lot so I don't steal all of his thunder. But the following is all down to him. No effort from me. Interesting to see he retains his somewhat pessimistic stance:

"The pound has received a substantial boost following a surprisingly positive joint statement from UK prime minister Johnson and Irish Taoiseach Varadkar. Both sides said they could see a "pathway to a deal".

However a lot needs to happen in the next week - a deal being agreed and approved over the next week or so **still seems unlikely** (my emphasis).

Up until now, the gulf between the EU and the UK has been pretty wide, and the thorniest issue of all relates to customs. Varadakar's optimistic tone after the meeting and his suggestions that a deal was possible has led to speculation that there has been a climbdown from London.

There has long been speculation that the British government could pivot back to the so-called Northern Ireland only backstop. This was the EU's original backstop proposal, and would involve NI remaining in the single market for goods. But could this fly in the House of Commons?

There is undoubtedly an increased willingness to get a deal done. But a lot will depend on the details which are not available. The EU's Chief Negotiator Barnier will reportedly sit down with UK officials on Friday (**today**) to see if a deal is possible - and this will be a key 'make-or-break' moment.

But the bar still seems high. It's possible that these positive signals reflect an aversion on both sides to being seen walking out of negotiations. Britain is almost certainly heading for an election later this year, and the optics surrounding UK-EU talks may well play a role in campaign messaging.

So, for now, our base case remains that **no deal** will be agreed before 19 October, after which there will be another Article 50 extension followed by a UK election later this year"

Next - what would a US-China currency deal look like

Continuing the shameless plagiarism, next up, Head of FX Strategy, Chris Turner, writes about what a US-China currency deal may look like. Remember, the next 24 hours will show whether a narrow deal has been achieved (we don't hold out much hope of a broader deal - on which [see also this from Raoul Leering](#), but also [this from former Australian PM Kevin Rudd](#), one of our "Think Outside" contributors). And within this, the US is apparently pushing for a currency arrangement to prevent future currency manipulation. A form of an agreement had, apparently, been laid out earlier in the year before talks broke down. [Chris takes a look at what this might look like](#).

For those practicing Lazy Friday and too lazy to follow the link - the key element will likely be regular reporting of FX intervention data, lifting concepts included in the USMCA trade deal. Chris notes that Korea, for example, has started publishing such data on a 6-month aggregate basis

(with a 3-month lag).

For once, President Trump has been uncharacteristically cryptic about the chances of a deal today, after earlier suggesting that talks were going very well (see Tweet below).

Pensions - the other angle of low rate damage

For those with access to Bloomberg, Cameron Crise is on the money as usual in his Daybreak column. I have laid out the household angle of how low rates hurt activity often enough in this note, but I haven't spelled out how the corporate angle works - though I have made the same arguments often enough verbally.

Crise runs through the funding gap problems for corporations as interest rates keep falling, which is another reason why we don't see low rates spurring investment, as profits have to be increasingly shoveled into the bottomless pit of the pensions fund.

See, I'm not the only critic of Central Banks' current low rate obsession.

Asia today

It's a bit busier than usual in Asia today. India, Indonesia and Malaysia all release production data for August. Malaysia is also slated to deliver its 2020 budget.

Ahead of next week's 3Q19 GDP release and MAS (Monetary Authority of Singapore) meeting, we also get Singapore's August retail sales data. The consensus here is for a nasty 4.3%YoY decline, which would set up the MAS to trim the nominal effective SGD appreciation path to flat from a modest appreciation currently.

China's monetary supply data for September still hasn't been released and will either come today, or over the weekend.

And on the political front, India's PM Modi is due to meet China's President Xi in an unofficial summit as tension at their mutual border grows.

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