

## It's me!

President Trump says he is responsible for holding up the US-China trade deal.



### "It's me right now that's holding up the deal,"

I spent two hours yesterday on a conference call which was largely taken up with a discussion on which way the US-China trade deal would go, and who would blink first. Overnight, we have the astonishing revelation from The US President that what is stopping a deal from being done is that he wants China to go back to the previous deal they had on the table, or there would be no deal at all.

There is a good Bloomberg article on this, but for ease of access, I'll include a link here to [RealClear Politics](#) which I find a very useful site, and which also has a video clip of the President's statement. If you click on the polls button, you can also see a time series of the President's approval rating, which is running fairly steady at about 44%, vs a disapproval rating of a shade under 53% (also fairly steady).

So it doesn't look as if the high-risk strategy I wrote about yesterday is harming Trump's support. What is less clear is what it is doing to sentiment in China.

Up to now, China has been very silent on the G20 and the prospects for a meeting of President Xi with President Trump. Today we have the comment from a Foreign Ministry Official, "We have

noted that the US publicly stated many times that it looks forward to arranging a meeting between the Chinese and US Presidents on the sidelines of the G20 Summit. If we have this information, we will release it in due time".

What is equally difficult to judge is whether the US President really views a trade deal as a good outcome, or whether, as he has also tweeted, \$600bn in tariffs would be the best deal in his mind?

Markets, understandably, seem equally unsure. US equities are basically flat. Asian equity futures are equally mixed. The bond market, which doesn't always tally with equities these days, is also roughly flat, with the 10Y US Treasury yield at 2.145% - about the same as when we wrote yesterday.

## Trump's right, low inflation is a beautiful thing

It's not often that I see eye to eye with the US President on matters of economics, as will be clear to regular readers of these daily notes. But his recent tweet that low inflation is a beautiful thing is an area on which we may have some common ground. I haven't time to do this justice today, so may save it up for a quieter day, but it ties in very much with some of the recent comments from FOMC doves like James Bullard who seems to be leading the call for some Fed easing, possibly sooner than later.

Unfortunately, what low inflation does not do, if it represents the new normal, is provide a strong justification for Fed rates cuts. It simply means that the historical target rate is set too high and needs to be lowered.

That said, the Fed seems as motivated by what the market wants as what the economy needs, and so for that reason, a couple of insurance rate cuts do now seem as if they will be forthcoming before the year-end.

## Labour tries to block no deal

A story overnight might give GBP a little support, which is that Labour are planning to put forward a motion to prevent a new pro-Brexit Conservative PM from crashing the UK out of the EU on October 31 by suspending parliament, and preventing a vote against it.

[Here is a link to the BBC coverage of this story.](#)

Any future UK PM also has to deal with the intransigence of the EU on the draft exit bill. Jean-Claude Juncker overnight reiterated that this would not be re-opened for negotiation.

That really only leaves a vote of no confidence and General Election, with the hope that the EU grants another extension while the UK sorts itself out.

## Asian Day

It's a slightly better start to the Asian macro day than we have had for a while, with Japanese core machine orders (a contemporaneous indicator of business investment spending) and South Korean unemployment coming in positively. The machine orders figures, admittedly rather noisy, was up 5.2%MoM for a 2.5%YoY increase, while Korea's unemployment rate fell from 4.1% to 4.0%.

The breakdown of the Korean figures showed a 284 thousand increase in employment, which isn't

bad and has more than absorbed a 184 thousand increase in the labour force (economically active). A lot of that increase was in agriculture, which does make me wonder if the seasonal adjustment is working properly, though there were also non-trivial gains in construction, wholesale/ retail, and business/personal services. The numbers of unemployed also fell exactly 100 thousand.

Data out later include Singapore retail sales (the consensus forecast of a -0.2%YoY fall still implies a fairly substantial MoM increase, which we are a bit doubtful of and so look for a downside miss there). Chinese inflation, which should pick up a bit on food prices. And Indian inflation, which should also move a bit higher on food prices, but without any implications for the RBI.

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