

Let the bad times roll

A quiet start to the week has given way to a deluge of news, with most of it pointing to a restart of economic and political hostilities between the US and China over Hong Kong. Equities seem oblivious...



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Pompeo's remarks clear the way for renewed US-China hostility

It is hard not to see the remarks by Mike Pompeo on Hong Kong overnight as anything but a gloves-off restart of US political hostilities towards China which will likely see trade tensions worsen and tit-for-tat retaliation commence. Hong Kong's autonomy and differential treatment by the US was under annual review status from the US following last year's US "Hong Kong Human Rights and Democracy Act".

Pompeo said, "Hong Kong does not continue to warrant treatment under United States laws in the same manner as U.S. laws were applied to Hong Kong before July 1997," He also added, "No reasonable person can assert today that Hong Kong maintains a high degree of autonomy from China, given facts on the ground."

What does this mean in practice? ING Chief Economist for Greater China, Iris Pang in Hong Kong writes today "We expect there will be more political measures than economic measures imposed by the US on Hong Kong. For example, there could be visa restrictions for some Hong Kong individuals to the US, but sanctions of Hong Kong-based companies are less likely. The US

could impose tariffs on goods coming from Hong Kong. That would hurt the freight service but not production, as these goods are mostly not produced in Hong Kong. This was already a risk during the US-China trade war. Hong Kong companies will need to turn to other markets, e.g. S.E. Asia, Europe, under such policy actions against them".

An important point to note about this, Iris adds is that "China will retaliate".

Personally, I struggle with the markets' calm in the face of this. We are currently in the worst recession globally, possibly ever, and a trade war blow-up can only make things worse. But hey, what do I know?

Bank of Korea

It was no surprise at all to see the Bank of Korea cutting policy rates today by an additional 25bp later this morning, taking the 7-day repo rate down to 0.5%. Markets and consensus were on board for a 25bp cut, though there will have been some hope for 50bp of easing, so the immediate reaction might be some slight disappointment that more was not delivered. However, the following press conference will be of more interest, given hints at the April meeting (no change) that the BoK might move beyond its current policies and announce moves towards full-on Quantitative Easing (QE).

On March 26, the BoK announced new measures designed to support the economy which included a fixed interest total allotment repo auction which has been referred to as QE-Lite, or Korean-style QE. But let's be very clear, this is not QE, even if it hints at warming attitudes to such policies which were reinforced at the subsequent April meeting. Markets will be hoping to see some more concrete steps in that direction today, including possibly some widening of the securities the BoK could potentially buy under such a scheme (though that would probably require a change in BoK law - not a problem for the new majority government should it wish to go down this path).

Europe looks for recovery package

European Commission President, Ursula von der Leyen, has unveiled another iteration of her earlier plan to create a rescue and recovery package for the Eurozone, building on earlier work by Chancellor Merkel and France's President Macron.

[Our Eurozone experts, Carsten Brzeski and Bert Colijn write about the new measures here.](#) The package, which is considerably larger than the original Merkel-Macron plan, includes some loans in place of earlier grants to try to bring some of the less willing Northern European states on board. But it still amounts to a move in the direction of fiscal federalism, which is a big step for the Eurozone.

Emotive language is being used around this proposal, with the Italian opposition leader, Matteo Salvini, reported as talking about pulling Italy out of the EU. This story will be worth following in Asia even if the direct consequences of a deal may be relatively minor for us, the downside is considerable if we take Salvini's comments at face value, and could have severe market consequences even in Asia.

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