

Fair, turning unsettled

Right now, the US earnings season is in full swing and the news is good, helping stocks to push above resistance and making the January peak look like the next target. But Alcoa's earnings expectations downgrade on tariff costs for imported aluminium, remind us again that for all those seeking a positive outcome from the rapidly growing tariff wall, there are losers too. Direct gainers may do well, perhaps very well. But they will likely be in the minority. The losers may not lose so much, but they will be numerous, and the net losses will almost certainly outweigh any gains, on both sides of the Pacific.

In terms of hard macro data today, we got Japanese trade figures for June. For Asia so far, the news has already been poor this month. Both Korea and Singapore posted much worse than expected trade figures. And this has happened before the US-China tariffs have really had a chance to bite. Most of the tariffs were not even in place in June. Japan's trade figures today also showed slight signs of weakness, though mainly on the import side. That could point to a lack of 'oomph' in the domestic economy, despite better than expected wages figures in recent months.

Whatever the aggregate Asian story for June, the months that follow will be the real story to watch. On the assumption that this isn't going to be pretty viewing (parents, we suggest at least an 'R'- rating), we have already been taking the knife to our Asian GDP forecasts (watch out for detailed note to follow in a few days) - been nudging up the near-term inflation outlook (tariffs make stuff more expensive, exacerbated by weaker Asian FX) - and been nudging down the longer-term inflation outlook (the ensuing drop in growth and rise in local policy rates to offset the FX and inflation effects will turn the backdrop more disinflationary).

That's not a backdrop in which I would like to be going limit-long the stock market, even if I lack the guts to actually short it today.

Australia - place your bets

This morning's labour report from Australia will likely provide its monthly surprise, with the consensus of forecasters, of which we are a small part, scratching our collective heads to work out why we have got it wrong again. The Australian economy seems to be at a saddle point. It's not obviously slowing, as labour gains keep showing. But it is not growing fast enough to get wages to rise (unless we are very much mistaken again today) and there are pockets of market excess unwinding (five of eight metropolitan areas reported falling house prices in 1Q18), and as a major commodity producer, terms of trade have taken a sharp, turn for the worse. That should weigh on the AUD near term.

No wonder that no one expects anything from the Reserve Bank of Australia (RBA) for a very long time. We would concur with that view. Until wages data are released for 2Q18 in mid- August (15th), that view is not likely to change.

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