Market calm returns...tick, tock

As an uneasy calm returns to markets, but some indicators are still sending a more medium-term bearish message

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All is well...really?

Apparently, the US still wants the Chinese trade team to come to Washington in September for talks. This, according to White House Economic Adviser, Larry Kudlow. But this sounds a bit like being invited to the birthday party of the kid who bullies you at school. I'd probably tell my parents I didn't want to go. That, or fake an illness. But together with China's moderate CNY fixing yesterday and bill sale announcement, this has all poured some soothing oil on troubled market waters.

These factors help to explain the shift in day-to-day volatility. A more permanent balm for markets is the market perception that the Fed stands ready to get out the magic rate-sponge at any hint that the economy/markets may have a fall. And the Fed seems happy to provide that assurance, though unusually, ultra-dove - Bullard - is sounding a little less dovish than usual. He hinted overnight that he would like to wait and assess the data more before any further easing. That said, it seems we simply aren't allowed any sort of meaningful correction in today's central bank steadied world - that is, except the really big ones that follow from this sort of free-money stabilization.

As a result, the S&P500 is still up almost 15% year to date - that - despite the recent large falls, though helped by a bounce yesterday. Of course, the bond market tells a different story, though that is probably the first derivative of the "Fed-put" that I talk about above.

In contrast to financial assets, look at the real-asset world of Brent crude oil prices, down below $60/bbl, copper, at $256/lb its lowest since June 2017, and gold, rising to close in on $1500/oz, and you get a very different picture of what is going on right now. And for my money, it is a rather more credible one.

Asia/Pacific central banks in action today

After the big swings of the past few days, Asian FX seems to be finding some stability. We get some Asian central bank Action today, though the recent currency weakness could tip the balance for the more marginal calls towards no-change.

In no particular order: The RBNZ meets this morning and the consensus is well behind a rate cut. We also sway this way, though we are feeling decidedly less confident after some much stronger than expected labour market data yesterday. The main argument for the RBNZ to cut today now rests on not disappointing markets, which have the cut fully priced in, and catch up with the RBA. Neither are strong arguments, but changing a forecast on the day of a meeting is usually a mistake, so we will stick with this call, cross our fingers and hope for the best. Relative NZD strength helps support the rate cut call.

Prakash Sakpal also offers his thoughts on the Reserve Bank of India and Bank of Thailand below:

"We retain our contrarian view of the monetary policies in India and Thailand as respective central banks announce their policy decisions today. There is a solid consensus backing a 25 bps policy rate cut by the Reserve Bank of India (RBI) but no change in the Bank of Thailand (BoT) policy. In contrast, we think economic conditions in India warrant a pause in RBI easing after three straight rates cuts (total of 75bp cut) in as many meetings so far this year, while the accelerated growth slowdown in Thailand calls for greater policy accommodation. Once again, we don't mind being wrong for the right reasons.

We read RBI Governor Das' recent remarks that the easing was more than the actual rate cuts as hinting at pause. He considered the very shift of the policy bias from neutral to easing in the June meeting as equivalent to an additional 25bp rate cut. We don’t think a prudent policy would want to risk excessive easing for an economy facing higher inflation in the future. In Thailand, talk of imminent fiscal stimulus may have solidified the consensus for no BoT easing just yet. However, there are still heavy political headwinds for the weak coalition government in getting fiscal stimulus through parliament. We don't think the BoT can afford to wait for the economic situation to get worse before acting. And, against the current backdrop of CNY depreciation, contagion on the emerging market FX, the Indian rupee's underperformance suggests the RBI should leave rates on hold, whereas Thai baht's sustained outperformance provides grounds for the BoT to complement its latest effort to arrest rapid currency appreciation with a rate cut".

Elsewhere - Taiwan - rays of light for electronics?

The other main focus today (besides the CNY fix) is Taiwan's trade data. Taiwan's GDP surprised on the upside recently, and their exports also rose in June from the previous year, providing more evidence that a trough is forming. We have seen some similar action elsewhere, Korea for example

- at least in terms of levels, not year on year comparisons - and this may point to some moderation in the global tech slump we have been watching weigh on the region.

Of course, the latest escalation of the trade war could well undo what is probably a very fragile base of electronics demand, and so we won't read too much into any uptick, but it will provide at least a grain of encouragement that all is not doom and gloom in Asia.

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