

Markets cautious ahead of Fed

US equities down slightly on a mixture of Fed anxiety and Trade concerns amidst a barrage of new tweets



Balancing act for Powell

I'm not quite up to date with my twitter account this morning, but a casual scroll-down shows a greater than usual number of tweets from the White House, covering a range of topics, but including the Fed and Powell, and also China and the trade negotiations.

It would be strange if all of this were to have no effect at all on the Fed and Jerome Powell. It's

interesting to note the difference between Powell's dovish tone currently, and that of a former NY Fed, Chief, Bill Dudley, who sees little need to cut at all. Of course, he is not in the firing line of the US President.

Today's meeting will be a strange one. The cut itself isn't a big deal. 25bp is fully priced in. And the bigger cut that the market was anticipating until quite recently, no longer seems to be regarded as a probable outcome.

What comes next is the bigger question. And if this really is an insurance cut, then the answer is probably "not much" and possibly "nothing at all". Our preference is for "not much" with another cut immediately following this one in September. This would be a very similar style to the recent back-to-back cuts from the RBA, which surprised markets in terms of the speed of delivery, but simultaneously downplayed expectations for the future. It's a tough balancing act to pull off though, so I'll be waiting for our US team's analysis overnight with more than the usual enthusiasm.

For reference, [here's their preview piece last week in advance of today's meeting](#).

Trade talks get off to awkward start

Just as the US-China trade talks start, another tweet from the US President shakes things up. I've included part of what is a multi-tweet comment on the trade talks. Possibly this is intended to encourage concessions from China. It might. Equally, it might make it harder to make progress. Markets seem undecided. So am I.

Either way, with or without tweets, we aren't particularly optimistic about these talks. As our Greater China Economist, Iris Pang wrote on Monday ([whilst also mentioning the increased US agricultural orders from China](#)) there are some pretty tough hurdles to cross from both sides (not least the US entity list). We wouldn't be surprised if this doesn't end well this time, though ultimately, we still expect some sort of deal to be struck.

2Q19 Australian inflation due

A bit of higher inflation might take the pressure off the RBA to follow up its recent back-to-back rate cuts with more. Consensus expects the 2Q19 headline inflation rate to pick up to 1.5%YoY on a 0.5% QoQ gain in prices. But whilst this is ostensibly a positive move for the RBA's target measure (if it transpires) the RBA will also be looking at other measures, trimmed-mean CPI and weighted median measures to get a true sense of where prices are heading, not just to watch as base effects from earlier fuel price weakness drop out. These are not guaranteed to move in the same direction.

RBA Governor Lowe has sounded somewhat dovish recently. I don't think this signals an imminent further easing. but the RBA may not be done with its cutting yet. We should probably wait for the rollout of tax rebates to take effect before drawing too-firm conclusions as to what their next move will be.

Asia Day ahead - HK GDP and Thai BoP

This morning, We've already had South Korean production figures for June, and they were even more disappointing than the consensus expectation at -2.9%YoY (consensus of -2.0%YoY), despite

an upward revision to the previous month's figure.

We were happy to see the BoK start to address the obvious shortfalls in Korean growth and inflation with their July 25bp rate cut. But it seems pretty obvious that their work is not over. We look for at least one more cut this year. And quite probably more next year. The Fed's easing makes this easier to deliver. And we shouldn't see too much further KRW weakness as a result.

We also have Hong Kong 2Q19 GDP. Iris Pang Writes "2Q GDP today...won't reflect the impact on retail sales from protests. 3Q GDP will be a more accurate indicator". Retail sales data for June released tomorrow may hint at what is to come in 3Q.

Following dismal manufacturing data yesterday, Thailand releases its Balance of Payments figures for June today. Prakash Sakpal notes: "Thailand manufacturing data yesterday led us to further cut our 2019 growth forecast to 2.8% from 3.1% ([read more here](#)). Today's balance of payments data for June will reinforce a lopsided economy plagued by weak domestic demand even as exports are weakening.

We see the current account posting about a \$5 billion surplus in June. The persistently large current surplus is frustrating the central bank's (BoT) efforts to curb currency appreciation. As elsewhere in Asia, aggressive policy interest rate cuts may help the process. While the BoT is probably the most hawkish central bank in Asia, don't be surprised if it moves to ease next week with a 25bp rate cut (in line with our expectations).

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