Markets seem happier

Equity futures - my daily gauge of the market mood - are largely in the green today. Yet if this is a relief rally, it may prove all too short-lived

UK prime minister, Boris Johnson

Please, no more Brexit

I wonder if you can get PTSD from following the Brexit story? Or does the feeling of exhaustion and depression from the seemingly never-ending purgatory have some other name in modern medicine/psychology? Whatever, I had to talk about it at a presentation to "Women in Finance and Treasury" yesterday. They also seemed to share my Brexit fatigue - so we mainly discussed more exciting stuff, like the Asian tech slump. That was a lot more fun.

Overnight (at least as far as Asia-based followers are concerned) the Brexit story had taken the predictable turn of parliament refusing to back PM Johnson's bid for an early October 15 election - or as opposition leader Jeremy Corbyn called it, the "poisoned apple", only, minus the apple.

So Johnson lacks a working majority in the House of Commons, partly due to the defection of one of his MPs to the LibDems, but mainly because he has fired 21 of them. He has also lost opposition to a parliamentary bill to delay Brexit until Jan 31 if no deal is secured by October 31. This bill will likely be signed off in the Lords shortly, becoming law. Which all makes it rather tricky, as Parliament has in doing this, forced Johnson to do the one thing he vowed not to do, to let this process linger past Halloween. This really is turning into his very own horror movie.

Oddly, this, and the news that HK SAR's Carrie Lam has officially buried the extradition bill - a move protestors have deemed "too little, too late" - seems to be buoying market spirits today. From a day-trading perspective, that may make sense, but if your time horizon is slightly longer than that of a Mayfly, then this seems a bit myopic.

CNY fixes stronger

China fixed the CNY fractionally stronger yesterday, at 7.0878 from the previous day's 7.0884 fix and significantly stronger than the 7.14 closing level reached by spot CNY on Wednesday. So for the moment, it looks as if the authorities want to hold the currency stable.

This does not preclude further depreciations in time, though these may be reserved for retaliation in the trade war. Some of the recent tweets from the US President exhorting China to reach a deal before the Presidential elections may be viewed by China as signs increasing worry in the US. Indeed, some of the data is beginning to highlight weakness in the business sector (e.g. the manufacturing ISM numbers the other day, which have dropped into negative territory). See an example below.

Watch out therefore for today's durable goods figures, which will add a little more to the debate about whether the US economy is being supported solely by the consumer. That's fine until the labour market softens...

China to provide further stimulus

In a sign that further liquidity assistance is on its way, Bloomberg reports that China's cabinet yesterday signaled that a reduction in required reserves for banks is looming. Both broad, and targeted reserve cuts were mentioned. We would anticipate that the PBoC would deliver this before too long, in line with our house expectations for further easing this year and next. These measures should continue to support firms suffering from a downturn in demand during the trade war.

And elsewhere in Asia...

(From Prakash Sakpal):

Malaysia: The economy continues to defy the global slump with positive export growth of 1.7% in July and a sustained strong trade surplus foreshadowing steady GDP growth in the second half of 2019. However, external headwinds to growth continue to rise. Yesterday, India raised duty on its refined palm oil imports from Malaysia by 5% to 50%. As such, we believe Bank Negara will look through the present economic strength and cut rates again, as early as next week.

Thailand: The pressure on the authorities to curb Thai baht appreciation has been rising. Yesterday, the Joint Standing Committee on Commerce, Industry, and Banking urged the Bank of Thailand and the Finance Ministry for additional measures including a withholding tax, promotion of outbound investment, and cutting the bond supply. We expect the BoT to cut the policy rate by another 25bp at the next meeting on 25 September.

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