

No clues on trade

President Trump's speech at the NY Economics Club offered little new on any prospective trade deal. Markets seem relaxed for now.



Cluedo

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Economics club speech delivers little new

Overnight, US stocks have inched higher, though barely, and 10Y US Treasury yields have headed lower, but again, only slightly. This is the sum total of the market response to President Trump's speech at the NY Economics Club last night. I didn't watch it myself (wrong time zone) but am putting this together from myriad reports on the event, and from reading them, the market response seems to be a fair summary of the content of the speech.

What I mean by that is that it contained little new to judge the imminence of a trade deal with China, and it provided little evidence of the substance of any such deal.

It did threaten even higher tariffs if a deal were not reached soon, and on this, I am surprised that markets shrugged this off so lightly. USDCNY did end up a little higher at just over 7.0. But I guess that for now, the assumption that no "real" news, is "good" news is the main result. We shall find out in due course, though I would add that it makes writing the Asia section of our FX outlook for 2020 virtually impossible, and I fear a hasty re-write if we get a big announcement before the end of next week.

Tactical voting the key to the UK election

I checked again last night, and my postal ballot papers have still not arrived. It has been about ten days now. What is piquing my interest in this election is how tactical it is becoming. On the one hand, we have Nigel Farage appearing to provide Boris Johnson with a free rein in seats where a Brexit candidate might undermine a Conservative candidate's chances. But there are also reports that millennials will be placing their votes on an "Anyone but Brexit" basis.

So far, the polls seem to support a Conservative majority, and that is supporting the GBP. So while a Conservative majority makes Brexit a near certainty, it also provides a deal and a transition period, which takes some pressure off the GBP, which is most vulnerable to a no-deal Brexit and more uncertainty, which is what a 2nd referendum might lead to.

Asia today

The RBNZ will deliver its decision on monetary policy at 9 am today. While we have plumped for no rate change, we are in the minority, and most other forecasters are going with a cut of 25bp to 0.75% taking rates down to the same level as in Australia. The NZD has been weakening ahead of this release and is down from 0.6466 on 4 November to only 0.6336 now. Further weakening on the back of any cut today should be relatively moderate - indeed a small bounce seems quite possible.

We detailed all the reasons why the RBNZ might not want to waste its energy on a cut [at this meeting in the linked note](#). Those reasons will still stand even if the RBNZ does ease further today. It will just mean that they are that much closer to the zero bound. Yesterday's slightly lower 2 Year inflation expectations survey (1.80% from 1.86%), is being cited in some sources as a further justification for any easing today. That seems a very thin justification to me. But then I am the wrong side on this occasion, so I would say that wouldn't I?.

Australia's wage price index for 3Q19 is out shortly and is expected to rise by 0.5% QoQ which would see the YoY wage price index slide to 2.2% from 2.3%. If so, that might rekindle some thoughts of a further cut from them, despite the more upbeat picture being painted by Governor Lowe. Against this, consumer confidence for November has picked up sharply - though it does tend to "saw-tooth" so we will need to see next month's data to draw any firm conclusions about that.

Japan's first post-consumption tax hike (October) PPI reading has risen by 1.1%MoM - just a bit lower than the 1.2pp increase expected. That provides us with some idea of the change we might expect from CPI data due on 22 Nov. A rise of 1.1%MoM by headline CPI would take the headline inflation rate up to 1.3%YoY.

(This from Prakash Sakpal about India's inflation): India's consumer price data for October will condition expectations for the central bank's (RBI) policy move at the next meeting in December. We share the consensus of a spike in inflation to 4.3% from 4.0% in September. A seasonal surge in vegetable prices and a low base effect are working to push inflation above the RBI's 4% policy target. While the first of these two factors will fade with the new harvest towards the year-end, we see the second driving the headline inflation up to 5% in coming months. However, even if the room for easing is narrowing for Asia's most aggressive easer in this cycle, one last 25bp RBI policy rate cut of the cycle in December remains our baseline amidst a weak growth outlook.

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