No news is good news

With the clock ticking until the Schedule 4B list of additional tariffs due on December 15 is implemented, there doesn't seem to be much progress on an elusive trade deal. The S&P 500 is grinding ever higher though. Bond markets are treading water. USDCNY is flattish to a little higher.

Source: Shutterstock

Schedule 4B - what is it?

As I trawled the net this morning looking for any news other than the fact that Fed Chair, Jerome Powell and President Trump had met and apparently had a cordial conversation (I would have loved to have been a fly on the wall at that meeting!) I found this, which is a list of what Chinese goods exported to the US will be subject to 15% tariffs on December 15th - otherwise known as the Schedule 4B tariff list.

The first thing that jumps out at you is how dated the product descriptions sound. I mean, who would thank you for a "pocket-sized cassette player" for Christmas? And when was the last time you listened to a music box? Or used a photographic flashlight apparatus?

Still, the list does contain some items that would please the Grinch. Arts for Christmas festivities are on the list, as are snow-shoes, socks, scarves and mittens.

Seriously though, it is interesting how currently, despite rumours that the trade talks are having problems getting over the line for a phase-one deal, stocks are still rising, and indicators of risk sentiment remain broadly positive. The clock is ticking though. There are about 25/26 days until the tariffs on this list are imposed - smack-bang in the middle of the gift-giving season in the US. I wonder if markets will get a little more jittery once we hit December? It also makes me wonder about the commercial possibility of a new tariff-related Advent calendar...

RBA minutes

On November 13, financial markets were pricing in less than a 50% chance of a further rate cut from the RBA out until May 2020, when the probability ticked up to 54.5% and didn't rise any higher beyond that. On November 14, the October labour market report came out and was exceptionally weak. On November 15, the implied rate cut probability had risen above 50% by February 2020, and reached a peak of 67% by June 2020. It has fallen back a bit since.

Today, the RBA provides minutes of the last meeting, when they left rates unchanged. Governor Lowe at the time seemed to suggest the RBA was about done with easing as the economy moved into a gentle turning point. The minutes today may indicate whether there are more downside than upside risks to that view. But actually, they probably won't make it much clearer.

Panel data

I've been on a couple of panels recently - always good fun when your other panellists are thought-provoking. On two of them, the subject of inflation came up. I find it interesting that people can still talk about the possibility of central banks running the economy a "little hot", as if they were in complete control of where inflation would go. If recent evidence has shown us anything, it is that central banks are unable to generate even their inflation target. Exceeding such targets is simply unrealistic, and the attempt to do so would merely create substantial and possibly dangerous financial market distortions.

The other inflation remark was in response to comments I made that a return of inflation would be "bad". I made this remark as it would require central banks to remove much of the monetary easing that they have engineered over recent years, and I suspect that would generate a lot of bad feeling, especially amongst stock owners, but also high yield credits, which might suddenly find that the amounts of debt they had on-boarded were no longer serviceable.

The criticism was that economies like Japan would benefit from a little inflation. The implication is that current Japanese inflation is in some way impeding consumer spending growth. I admit, Japanese inflation, at 0.2%YoY, is rather low. But I see no evidence that this is weighing on consumer spending. There really is nothing all that wrong with Japan. It is just a low growth, low inflation economy. But outside of the Bank of Japan, this doesn't seem to trouble anyone particularly.

Very quiet - too quiet?

There is almost nothing on the Asian calendar today besides the RBA minutes. NZ PPI is not very interesting. US housing starts are barely worth a look, though there is some evidence that the US housing market is beginning to lose some steam now that the support of ultra-low bond yields and consequently mortgage rates have passed. It is perhaps worth a quick look.

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