

## No trade deal without talks

You can't negotiate if you aren't round the table - but then why would you come to the table if you see no possibility of compromise? The US-China trade war has no clear end in sight.



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### The forecast - gloomy

With only the occasional glimmer of optimism, our view on the US-China trade war has been fairly unrelentingly gloomy since it started. Few would argue that China's approach to intellectual property, forced technology transfers and the like is no longer acceptable, though many firms have clearly considered it a price worth paying to get a foothold in the Chinese market, so "forced" transfers is probably pushing it. "Coerced" may be a better word.

Are the Chinese prepared to change their tune? Maybe. One imagines that the bulk of such transfers have already happened and that China can push ahead on its own from now on, with sufficient money thrown at R&D, anything is possible.

But with the current \$200bn of tariffs about to be imposed, we also can't see why China should want to come to the negotiating table now. It would look weak both to the US and at home. The US economy is soaring on a wave of fiscal stimulus, but China's, whilst not exactly firing on all cylinders, is not doing too badly either. A few months of tariffs won't improve that, but there is still sufficient stimulus in the pipeline to limit any damage to Chinese growth.

It is entirely possible that the Chinese authorities are waiting to see which way the US mid-term elections go. With generic polls favouring the Democrats, they may feel that the trade environment will be less hostile after November 6. In my view, this is far from certain. A poor result for President Trump at the mid-terms might instead encourage him to double-up a policy that has up to now won him some votes. This isn't our house base case, but it is worth considering as an alternative view. If so, an end to this trade war might still be a long way off.

## Fed Thursday - devil is in the detail

Another Fed rate hike on Thursday won't cause the emerging market investor base to go into meltdown. But hints that rates will be raised faster, and for longer might. That would be an unexpected outcome from Jerome Powell's testimony this Thursday, where a far more likely outcome will be a repeat of the cautious tightening he has outlined before, and in line with the Fed dot diagram.

One thing that might spook markets...with growth and inflation, not to mention the labour market and wages giving no cause for downside alarm, we may see the Fed forecast for the economy push higher, and in the process, some of the doves concede that a bit more tightening is appropriate. Whether this is enough to raise the median dots in the rate projection is less likely, but the direction of travel seems a decent conclusion.

## Oil prices - where's the flow?

Front-month Brent crude oil futures remain a shade below \$80/bbl. Recent OPEC meetings have announced that demand would be met, perhaps in an attempt to appease President Trump, who is berating the oil cartel for keeping prices too high. But at present, there is a shortfall thanks to Venezuelan production difficulties and Iran's issues following US sanctions. Ironically, the best chance for lower oil prices will be if the EU and other supporters of the Iran nuclear deal can work out a financing mechanism for would-be purchasers of Iranian crude that circumvents US sanctions. We understand that work on this is underway, though we have less idea how close to a solution this is, if at all.

## Asia Day / Week ahead

It's a relatively quiet day today in terms of data releases: Singapore's CPI inflation released at 13:00 local time, will likely have nudged higher in August, reaching 0.7%YoY. The core rate may also push higher. Consensus anticipates a 2.1% YoY result for the core. The bulk of any price increases will reflect higher imported energy prices, and we don't believe a reading above 2.0% will lead to any further MAS tightening at the forthcoming October meeting.

There is more action in the week ahead, with the potential for some rate hikes from central banks in the region, BSP and BI are both expected to hike rates 50 and 25bp respectively. For more, see Prakash Sakpal's Asia [week ahead note](#).

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