

Nothing good to say about trade

The weekend has produced no positive trade developments and a few more negative ones. The world stands on the brink of a trade war



Showdown looming at this Friday's G-7 (G6+1)

The past few weeks have seen China moving to mollify the US on trade - making it very clear that it has no interest in a trade war. Tariffs on a welter of goods have been slashed. Vice Premier Liu He has been sent off to Washington to try to seek an agreeable outcome, signalling just how seriously China is taking this. Some days, you get into the office and it looks as if it is working. Others, like today, it looks anything but promising.

Despite some apparent progress in weekend talks on the bilateral China-US trade deficit, President Trump's revival of a plan to impose \$50 billion of tariffs on Chinese goods has turned these negotiations on their head once more. China is now threatening to remove all of the concessions it

has made so far if the \$50 billion of tariffs go ahead. At least, it is threatening to withdraw them for the US, which opens the interesting, if divisive prospect of a China+ Rest-of-world excluding the US trade bloc.

In a different theatre of this unfolding trade war, we have Trump's economic adviser, Larry Kudlow, claiming that Canada's prime minister, Justin Trudeau, is over-reacting in response to tariffs levied on Canadian steel and aluminium on security grounds. Kudlow further admonishes Europe and Nafta, as well as China, for the escalation of the trade war. These comments simply leave me wondering if my medication stopped working? Does the US general public really accept this as a credible version of reality?

So if my reading of the situation is correct, Trump will meet an angry and emotional group at the G-7 meetings in Quebec this Friday. Some of the G-7 finance ministers may have felt sorry for Treasury Secretary Steven Mnuchin at the talks this weekend in advance of the leaders meeting. But I suspect there will be little sympathy for Trump unless he has a change of mind (again). That said, I am doubtful that these talks will have any impact on the US President. Yes, he seems to change his mind more often than some people change their socks, but he has a habit of coming back to the same starting point in the end. This Friday's talks may serve only to inflame tensions further. It also suggests that the legal framework of the WTO that has served world trade for so long is crumbling.

Labour data seals fate for June 13 FOMC meeting

The data focus for the week ahead is going to be mainly a build up to the FOMC meeting on the 13 June, with US labour data last week making this a virtual certainty for a 25bp rate hike. US May inflation data out this week will have no bearing on the June meeting but may help thoughts about what comes next, against the backdrop of a number of Fed speakers beginning to sound a more cautious tone about how far this tightening needs to go.

Other central banks meeting this week include the Reserve Bank of Australia (RBA) and Reserve Bank of India) RBI. The RBA will almost certainly do nothing, and with the trade environment as uncertain as it is currently, I can see no merit in the RBA even signalling that they may be getting closer to moving. This could well be a singular non-event. 1Q18 Australian GDP is out this week too. And though the consensus sees this coming in quite strong at 0.8% (2.7%YoY), GDP isn't really where the RBA focus is. It is the lack of inflation and wages growth that is keeping the RBA on hold, and the passthrough from GDP to either of these two measures, as elsewhere in the world, appears to be exceptionally weak these days.

The RBI is a bit more interesting, as we are part of a minority (about 3:1 against) looking for a rupee-supporting 25bp rate hike. The Indian rupee has been behaving a little better in the last week or so, but that may be on thoughts of RBI action, so doesn't mean they won't hike. Inflation too has been reasonably well behaved, but it appears now to be trending higher and will be under pressure from higher energy prices in the months ahead, which might reward a rate hike now rather than waiting.

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