Off we go again

A Reuters story that any phase-one trade deal may not now be signed until next year has set markets off again. Bond yields are lower, though they had been falling anyway, Asian stock futures are mainly in the red following on from declines in US and European equity markets overnight. USD/CNY looks steady for now, but this would normally push CNY weaker.

Source: Shutterstock

Here we go...

US Treasury yields have been falling slowly for some days, and the Reuters story mentioned in the summary has probably only served to give them a push in a direction they were already willing to travel. The obvious question now is how far do they fall?

There are some technical and some fundamental factors to take into account when answering this question. The first is to note the rising yield lows since Aug 30, which would suggest it won't be plain sailing all the way back to the September 1.458% low. Regulations prevent me from saying much more than this, but you can draw your own chart and add appropriate support and resistance lines and draw your own conclusions.

Fundamentally, the key fact here is that from December 15, unless the Schedule 4B tariffs are suspended (I suppose that is possible pending a new-year deal) then we really ought to consider quite a big break by both equity and bond markets. Those tariffs, if implemented would take us into new territory for this trade war, and, moreover, threaten the US consumer, the main support for the US economy right now.

The rest is all politics

I'm oddly glad that there was this trade story to talk about today, as it is at least tangentially to do with economics. Virtually all the other news in my newspaper this morning was market-relevant but political. For example, the Congressional vote on the HK protestors (doesn't help get a trade deal done admittedly), impeachment proceedings and testimonies, UK election hustings, Democrat nomination debates.

The Fed minutes were one of the few other bits of economic news out there overnight, and the gist of these seems to support where the market was already going, as most members still saw more downside than upside risks. We also had one Fed speaker, Lael Brainard, who seemed content that the Fed is done with easing for the time being, but also seemed to indicate that there was some further easing possibility in the future.

Iris Pang in Hong Kong SAR notes another political, but trade-related story, namely that the "...US has approved several licences for US companies to do business with Huawei. And it is also reported that US President Trump is looking to exempt Apple from tariffs. These steps could be the answer from the US to China's request to roll tariffs back to the situation in May. But we do not expect China will accept these as a replacement for lifting tariffs, as these company level exemptions will not be written as a clause in any trade agreement. The exemptions also hint that the US is finding it difficult to accept China's request for tariff rollback". She notes also that the yuan is expected to weaken, which I would agree with though it seems fairly steady right now, as do most Asian currencies.

Not really feeding into the trade story, but nonetheless on a downbeat market note, is the European Commission's (EC) castigation of Italy, France and Spain for not tackling their government debt effectively. While the rest of the world, including the European Central Bank (ECB), is calling for fiscal expansion, the EC is calling for more austerity it seems. No comment from me. You can guess what I think.

Asia today

There is a bit more on the Asian calendar today than there has been recently, including a Bank Indonesia (BI) BI is a central bank that definitely still has some ammunition left should it decide it is needed. We don't think they will move today though, although we still think we have a further 50bp of easing from them, probably in the first half of next year, data permitting of course.

We've also had 3Q19 Singapore GDP data, revised up, a little more than expected to 0.5%QoQ, and taking Singapore a bit further away from recession risk.

20-day November Korean export figures were also out, declining 9.6%YoY, a less dismal reading than the 19.5% decline in October, and providing some further evidence that the worst of the export slump has passed (as we noted yesterday also for Japan).

And Thai trade data for October are also released later this morning. The key expectation here is for some narrowing of the trade surplus on a weak export picture. The surplus will remain large though, and we don't see this result denting THB strength particularly.

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