

On a positive note...

Could the \$50-60bn just be the stick to encourage China to provide trade concessions? Treasury Secretary Mnuchin dangles the carrot of a deal.



Glass half full or half empty?

We will try to be positive this morning - for a change. And it will be a challenge. Not only is it easier to write about bad stuff, but it is more fun. China's newspaper, the Global Times, is suggesting that China teach Washington a lesson on trade, which seems to turn the volume up on what has been a very measured Chinese response up to now. But one thing that struck me as I ambled in to work this morning, was the latest suggestion by US Treasury Secretary Mnuchin that there was a way back from the \$50-60bn tariffs which sent equities into a tailspin last week. That was that the US was prepared to talk to see what could be done to avoid going down this route. Such a tactic would be entirely in keeping with the US Steel and Aluminium tariffs of recent weeks, whereby a global blanket tariff is imposed, and bit by bit, it is wound back until not much remains. We observe a similar tactic with the KORUS (Korea US) free-trade deal, which was threatened with being ripped up, but where now apparently a deal is agreed and we expect announcements later today on just what South Korea has had to forgo in order to keep a free trade deal with the US.

So it looks as if maybe the US does not want to slap \$50-60bn of tariffs and quotas onto China after all and a climbdown is possible. What the US does want, is to knock \$100bn (which may turn out to be \$25-50bn) off China's bilateral trade surplus, something we don't believe China would

have too much of a problem with. Especially if, for example, such a reduction came through higher imports of US goods for which it actually has a use - namely LNG (not US autos). We know that China is looking to diversify its sources of this fuel, and the US is looking to export more. This could be a win-win solution for both countries. Smiles and hugs all round in Beijing and Washington?

Day / Week ahead

For a full round-up of the week ahead in Asia, please read [this note](#) from Prakash Sakpal. Suffice it to say that in the G-7, it is really uneventful, and will be a shortened week this week and next for many countries due to the Easter holidays. The pick of the bunch will be US spending and incomes data on the 29th - which will provide a two-thirds picture of consumption spending in the first quarter of 2018, and thereby a tantalizing glimpse of 1Q GDP (maybe I sold this a little too strongly, but it is a quiet week).

For today, the G-7 is not worth watching, except on the political front, where in Italy, 5-Star and the Northern League seem to have managed to agree to work together to elect speakers for parliament, raising the prospect of a deal for governance. This could send jitters through markets if it happened.

On the Asian calendar today, Singapore's February industrial production data will likely flop, though mainly on Lunar New Year grounds. We will need to consider what Jan-Feb together look like to see what this means for output so far this year and if it vindicates our decision to throw in the towel on our long-standing MAS tightening decision at the end of last week.

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