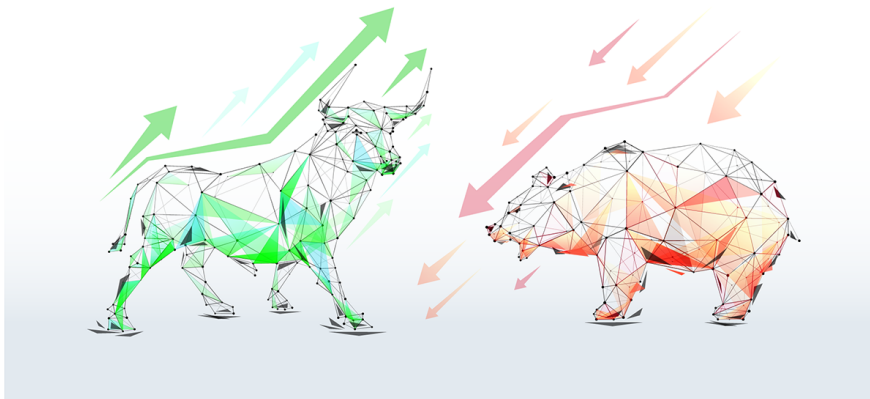


Phase 1 - Market reaction

Market reaction muted - pretty much says it all



Source: Shutterstock

What do I think? Who cares...

I realized many years ago that my opinion on the state of the world was irrelevant to markets. I'm a price taker, not a price maker. So where better to go for a view of what yesterday's phase-1 trade deal than markets.

And the reaction has been a market version of the Gallic shrug, a teenage "Whatever", a millennial "Meh" (...got to be honest, I'm not sure about the last one, but work with me).

US 10-year Treasury yields intraday movements were fairly modest around the time of release of the details of the phase 1 trade deal. But allowing for some time to digest the 94 pages of text ([here's a link so you can make your own mind up](#)) and despite some better retail sales data and more strong financial earnings figures, yields are more or less where they were at open on the 15th before the deal was published.

US stocks were also up on the day. But again, it's hard to disentangle the trade story from the economic data releases or the earnings reports.

Let's see how things were faring on the other side of the world. In China, we'll cut straight to the currency and stock market in the absence of the US' deep and liquid Treasury markets. Given the time difference, I'll focus on yesterday's reaction and it was down, having been largely flat on the 15th. Equity futures today also remain in the red. The offshore CNH is trading at roughly the same rate as at the end of 14 Jan, the day before the deal. So that looks like a bit of a washout too.

Of the other sentiment sensitive currencies in the region, no consistent pattern emerges. The KRW looks a bit weaker, as does the INR and PHP, the IDR looks a bit stronger. These differences most likely reflect local factors, not global ones.

[Here's more on the deal if you want it.](#)

Busy day for China today

Its a busy day for China today, with the release of 4Q19 GDP data. The consensus view is for a flat 6.0%YoY reading. But I guess we should consider what would be the impact of GDP coming in at 5.9%...

Firstly, that would mark the weakest ever year-on-year GDP release, at least based on the history from Bloomberg, which goes back to 1Q1992. As trend growth then was in the mid-teens, and 6.0 was not breached either during the global financial crisis or SARS outbreaks, I think it is safe to say that from a presentational point of view, it would be noteworthy. But then China's GDP will in all likelihood begin to trend lower over the coming years as the population continues to age, and as rising incomes make growth more reliant on technological progress and productivity gains, and less reliant on a simple "catch-up" formula.

So at some point, that nettle will need to be grasped, and with markets relatively relaxed currently, this would not be a bad time to play that card if the army of statisticians at work on these figures cannot reasonably massage and round up the data to deliver a nice round 6.0%. But if they couldn't, and I think we all probably regard China's GDP as a rough guideline to economic activity, rather than a laser-micrometer of value-added, then it would suggest that the underlying picture was indeed rather worse. Perhaps a just cause for some near term selling of risk assets.

That's an outside case though, and our own Iris Pang is more inclined to see upside risks to the data stemming from the stimulus measures that are beginning to bear fruit. 6.3%YoY is her call - at the top of consensus.

Industrial production, Fixed assets, retail sales and unemployment

The China data dump for December will also include fixed-asset investment, industrial production, retail sales and unemployment. The base story is likely to be one showing infrastructure spending supporting other parts of the economy, possibly including industrial production, as planned spending turns into realtime projects requiring the inputs of industry. How this relates to retail sales and unemployment is a bit blurrier.

But we will know more in an hour or two, so not long to wait...

Bank of Korea - nothing to see here

The Bank of Korea (BoK) also meets today, with only one of the 25 surveyed economists in the Bloomberg survey looking for a cut. That rate cut call - it isn't us. We're firmly with the pack on this one. Korea's economy seems to be bottoming and the housing market in places is looking warmer, which is causing some politicians to sweat. I think this no-change call looks fairly safe.

Singapore NODX

The December non-oil domestic export (NODX) figures for Singapore will be due out as this note is going to press, so I won't spend long on these. Watch out for our accompanying note if we feel they are worth a comment. The short story here should be a less negative year-on-year rate, but one that doesn't imply much of an actual recovery, more that things aren't simply getting worse.

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