Plan B - It’s plan A

No significant movement by PM May on Brexit despite cross-party talks; US President's attempts to restart government meet opposition from both sides; US-China trade talks progressing well; but China GDP data could be weak. Is this a good or a bad start to the week?

plan A

It started well

A quick look at the universal green numbers on the equity screens today, both actual and futures markets, suggests that markets start the week in ebullient mood. Its been a choppy start for the EUR/USD, which spiked as high as 1.1410 in early Asian trading but seems to have calmed down now to about 1.1370, and there is little significant movement in the Asian FX pairs this morning so far.

That does not necessarily signify all is well though, and there are a number of reasons why we ought to start the week in a more cautious fashion than equity markets suggest.

The international scene is far from rosy

We will keep the Brexit commentary brief this morning, as 1) Our London-based colleagues will be all over it when they start work in about eight hours, and 2) there is nothing much new to add, save that Prime Minister Theresa May is sticking to her utterly failed plan A, and calling it Plan B merely by having talked to a few cross-party leaders and having failed to secure a bilateral arrangement with Ireland over the backstop.

The week in parliament will see all manner of amendments to the Brexit bill being suggested with the vote on these on 29 January. These will doubtless include a Norway-style single market option, as well as a second referendum. The question is, is there a single resolution that could command a majority of MPs? We'll find out in eight days.

President Trump has offered a compromise to try to end the long-standing US partial government shutdown, providing an extension of three years for "Dreamers" to stay in the US whilst their residency status is being determined. This has met opposition from both sides of Congress, but at least it suggests that answers are being sought. Not much comfort for those still on furlough, but better than nothing.

And according to Larry Kudlow, there is still good progress being made on trade talks with China before the 1 March deadline. Ok, good, but he would say that wouldn't he?

Davos this week, watch the news TV channels for pictures of famous and extremely rich people incongruously dressed in improbable skiwear. Otherwise, skip. Nothing here for most of us, or for markets in all probability (sour grapes because I have never been invited - not that I'm an avid skier, far from it. But I do love a drop of vin chaud).

China 4Q18 GDP - confirmation of what we already know?

We are looking for a 6.3% print for Chinese 4Q18 GDP today, a shade lower than the 6.4% consensus figures, down from 6.5% in 3Q18, and itself one of the lowest GDP results since the financial crisis. The consensus low is 6.2%. It really doesn't seem all that bad does it? But if it beats on the upside, most of us will dismiss this as statistical fudging. We know how the quarter shaped up in 4Q18, weak industrial production, fixed asset investment, and disappointing retail sales. A boost from a falling GDP deflator will not excite the market, but that could be where any upside surprise lies.

Asia rest of the week - CBs dominate

Following China's GDP release today, Asia Central banks will dominate the data for the rest of the week, though none are expected to change policy rates.

The Bank of Japan meets on Wednesday. Most watchers expect it to trim its GDP and inflation forecasts for 2019, and some are using this as an excuse to back out of consumption tax hike plans for later this year. There may be something in this, though I haven't written off Japan yet, and am still viewing 3Q18 GDP weakness as a weather-induced aberration.

Bank Negara Malaysia also meets this week. No policy moves for them whilst inflation remains well behaved and growth a little subdued, nor from the Bank of Korea, where we are still trying to understand the motivation for the 18 October 25 basis point rate hike.

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