

Politics continues to dominate markets

Just for once, it would be nice to have a week where economics dominated politics - if nothing else, it is easier to draw charts for



Tsai Ing-wen

Source: Shutterstock

Where to start?

I suppose that as I am sitting in Asia, the main starting point today should be the Presidential (and legislative) elections in Taiwan, which saw incumbent Democratic Progressive Party (DPP) President, Tsai Ing-wen win a convincing victory at the weekend.

In a forthcoming note by our Greater China Economist, Iris Pang, Iris notes that the troubles in Hong Kong have probably galvanised nationalist spirit in Taiwan, and she goes on to note that so far, economic policies such as those aimed at bringing high-tech production back to Taiwan from Mainland China have not yielded much substance yet, though they have pushed up inventories and boosted land sales.

Bloomberg News reports in a story today that in their view, the result pushes Mainland China's one country, two systems solution for Taiwan further out of reach. In any case, we don't see the outcome having much bearing on the domestic Taiwanese economy, not that such matters seem to be that important for markets in this age of money printing.

Trouble in Tehran

Meanwhile, the downing of a passenger airliner in Tehran last week has taken a new twist with the Iranian authorities admitting that this was the result of a missile fired in human error. It's not clear if this should be read as a positive shift from political lies to honesty, or as some other newswires are reporting, to outrage at the killings. Anti-government protests in Tehran are underway, but the threat to global oil supplies from any of this is small, given existing US sanctions, and would only really spell trouble in the event that a messy regime-change and a power-vacuum led to internal conflict spilling over into the region. We are way off this yet, and energy benchmark indices seem fairly relaxed for now.

Get out the ceremonial pens

This Wednesday, China and the US are due to sign the phase-one trade deal, which should make for a nice photo-shoot. But besides the prospect that the deal will contain far more substance than we are crediting it at this stage, the likely impact of the signing will be very limited, if any.

What pundits are wondering, is not when or if a phase 2 deal will be struck. I think most analysts, including myself, don't expect to see any further trade deal either side of the US Presidential election, but certainly not this side.

The thornier problem is whether China will actually deliver on what sound at this stage to be fairly "wishy-washy" commitments on things like intellectual property protection. The US maintains that the provisions China will sign up to are enforceable, but this remains to be seen. A plausible scenario in my view is that cracks in this deal begin to spread mid-year ahead of the US elections and that tough trade talk could return ahead of the November election raising tensions once more.

That makes USDCNY a two-way bet over the coming 12 months, though the current trend for CNY strength remains intact and should continue for the time being.

Payrolls, schmayrolls

In the good old days, when my job was a lot simpler, a bad US payrolls report would, at the least, have put a hefty dent into US Treasury yields. The ten-year note now yields 1.8196% (as of writing), not even 4bp lower than the pre-payrolls figure. OK, the headline payrolls number of 160,000 is not actually bad, but about what you would expect from an economy with a labour market as tight as it is in the US. But even with a slight tick up in the average workweek, the standout part of this release was the sub-3% average hourly earnings number (2.9% from 3.1% in November).

For more, [here is a link to James Knightley's note on the Labour data.](#)

India is in the limelight today

It's a quiet day in Asia today, and unless we get some of the Chinese Aggregate Financing data which is due by Wednesday, the main data release today will be that of Indian CPI.

Prakash Sakpal writes "India's December CPI report will show inflation overshooting the RBI's 2-6% policy target for the first time since mid-2016. Besides rising food prices on the back of a disruptive monsoon season, excessive policy loosening last year, which failed to stimulate growth but has helped the INR to weaken, has been pressuring inflation higher. The RBI is coming to terms with

inflation risk as Governor Shaktikanta Das recently highlighted. A shift in the policy stance to neutral from accommodative seems to be a reasonable starting point for the central bank's next policy meeting in early February. We no longer expect the RBI to cut rates this year. Nor do we see any policy tightening on the horizon, at least not until GDP growth recovers to more than 7%. That isn't going to happen anytime soon, we both agree.

Prakash also notes: "In Thailand, Parliament finally passed a THB 3.2 trillion budget for the current fiscal year (a process started in October 2019). The budget passage is seen as a vote of confidence in the ruling pro-military coalition, which holds a slim majority under Prime Minister Prayuth Chan-Ocha. However, a slew of anti-government protests over the weekend suggests that political risk is brewing in the background. From an economic perspective, all this means a slow and tepid economic recovery from the slump last year". It may be worth keeping an eye on the THB, from last year's regional outperforming currency, it is looking rather fragile in the first two weeks of this year.

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