

Reading the tea-leaves

There is a lot of doom and gloom, but how much of it is justified?



Source: Shutterstock

Today's theme is...

My daily ritual of trying to make sense of all the various news headlines and opinion pieces starts on the way into work and usually concludes within about ten minutes of turning on my PC. It isn't a conscious process, but by then, I've usually arrived at what today's key theme will be all about, or discovered a "straw man", which I will attempt to cut down. Not always, it has to be said...

Today is a mixture of the two. Starting with extremely depressed longer-term bond yields, where yields on the ten-year US Treasury fell further overnight and now sit at 2.26%, quite a long way below 3M USD Libor (2.52%).

10Y yields this low only makes sense if you think the Fed is going to cut rates. Our house view is that they won't. So is my own personal view. Why? Well to envision rates actually being cut, and according to market pricing, quite soon, you have to really imagine the US economy to be in trouble.

That takes me to a headline about factory orders in the US being weak and that this is probably a sign of looming manufacturing weakness brought on by the trade war.

Except it probably isn't.

Yes, April durable goods orders fell (data released a few days ago, this isn't breaking news). I've been looking at this series for decades, and I can tell you that there is no, that is precisely **no**

information in one month's numbers. This data swings all over the place. We would predict recessions 50% of the time if we focused on month-on-month swings in this. Which is why they very helpfully provide a three-month moving average of the core series (four-month would be better, but who's complaining...). Looking at this smoothed series, the numbers look fine, actually quite reassuring. April may be the start of a trend, and a further month of weakness would begin to sow doubts in my mind, but we haven't had that yet. Right now, this signals nothing.

Other areas of weakness include the US housing market. Here, the news continues to run lukewarm. House price growth has slowed right down. But compared to a year ago, the rate of increase is slowing at a slower pace. It looks to be moderating. This isn't alarming. It's actually a signal that there is no bubble bursting, but a market repricing.

Trade war the key

Now the additional tariffs on China may change all that, and the ping-pong of threats is beginning to look quite ugly. Proposed tit-for-tat bans of rare earth exports from China to the US and technology access to China from the US don't improve the picture. And it is possible to conjure up a very dismal outlook over a twelve-month timeframe. It would be very encouraging to hear the US President beginning to steer both sides towards some sort of deal that would also allow China to back away from its' retaliation measures. Other news stories point to further weakness in the Chinese data, though I'm less concerned about that, given China's fairly well-stocked policy arsenal, though this does take place against a steady rise in indebtedness. That is always faintly disturbing.

Harvard's Carmen Reinhart is also fretting openly about the global risk from a China recession - so this isn't all idle fancy by market participants with too much time on their hands. If it were to happen, it would be very bad.

Stocks to show the way?

But then I return to what may ultimately matter more to policy-makers and the administration in the US, and that is the equity market. Right now, it's poised on support. If it drops, it could drop big. And that would take US Treasury yields closer to 2%.

But it is also what probably causes a rethink on the trade war. In my view, anyway.

Asia day ahead

It's quiet today - very quiet. We have had the RBNZ Financial Stability report and statements from Governor Orr - though nothing really to report here. The RBNZ still have some further easing to do in our view, though that wasn't really the subject matter for this discussion today.

South Korea has released business survey data. Soft. This backs up the arguments for a rate cut from the BoK. They probably won't, at this meeting anyway, though the arguments for them to do so are overwhelming, in my view.

And Prakash Sakpal writes on Thailand: Highlighting the lack of fiscal support for the economy, Thailand's finance ministry yesterday announced a delay in the budget for fiscal 2020 (Oct 2019-Sep 2020) by three months due to the transition to a new government. During the transition period, outlays would be capped at 50% of that budgeted for current fiscal 2019. Weak

government spending boosts the case for a June rate cut in our view.

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.