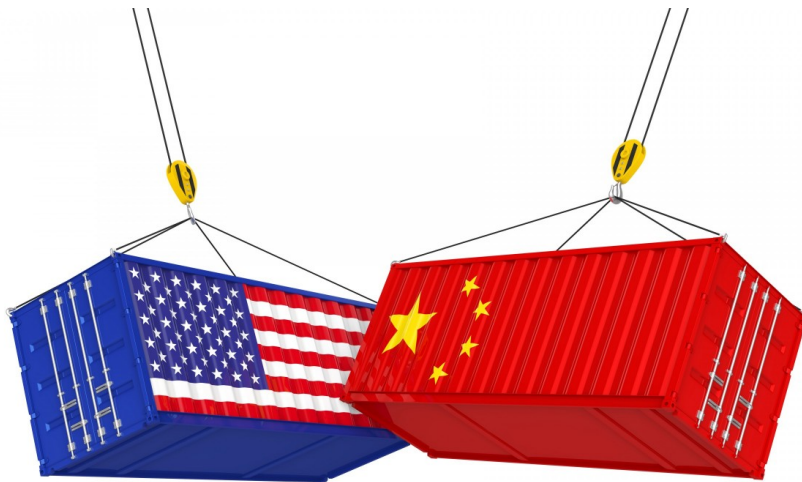


Reality check

Yesterday's Chinese trade data provided a reality check to those who have been peddling a more upbeat trade story on the back of US-China talks. Current tariffs are already doing considerable damage, and merely not adding to that burden will not deliver a turnaround. Indonesian trade data due today will likely show how this is affecting Asia more broadly.



To feed your Brexit cravings - click on following link

We are giving Brexit a break today - plenty of time for that tomorrow - if you want a good news story on what happens next, try [this](#) from BuzzFeed.

It's bad...

The negotiators may be making positive noises, especially from the US side, but we are taking nothing for granted in the trade talks between the US and China, and as yet, little concrete has been announced. There are no promises to roll back earlier tariffs. At best, talks have reduced the possibility of further, higher tariffs. And the Chinese concessions made seem relatively minor. China is pretty much an open door as far as exports of LNG - they have a structural energy shortage, so the more the better. Much the same is true of agricultural products, especially soy.

And they need machinery, especially of the technological kind, to manufacture their higher value-added products. So their pledges to import more of all of these goods does almost nothing to shift China's basic position.

As for the US, some of the more unrealistic demands, the cessation of support for state-owned enterprises (you might as well ask China to abandon the one-party state) may be being scaled back in favour of more achievable goals. Intellectual property remains a thorny issue. Some new Chinese laws to prevent the coerced transfer of technology seems unlikely to be sufficient to win further US concessions. And then there remains the issue of timing. Does the removal of tariffs, or prevention of additional ones depend on some time-dependent and subjective improvement of the trading position by the Chinese? That's unlikely to be an acceptable state of affairs by President Xi, so we remain rather concerned about this story, and as a result, haven't given up on some further dollar strength before the quarter-end.

...it could get worse...

The weakness of the Chinese December trade data are a historical fact now. The details and our view are contained in the [linked note](#) by our Greater China Economist, Iris Pang. Further economic stimulus measures will be needed. The authorities seem to be taking their time to deliver this, perhaps chastened by the overkill of their stimulus in the financial crisis. The eventual package may be very substantial. Its size will be contingent on just how bad the situation in China gets. And that is the nub of this question. What appears highly evident by the run of recent data is that the Chinese economy is already being hurt by these tariffs. We may not see the full effect of this reflected in official GDP figures. Those numbers still seem to be more of a political statement than an accurate reflection of what is happening on the ground. But the industrial profits numbers tell a different, more negative, and probably more accurate story of what is going on.

...and the currency could well be part of any fight back

All of which leads us to the thought that USDCNY 7.0 may have drifted away from traders sights, but over the coming months, the currency is likely to have to be used as well as all the other policy tools at the authorities' disposal, and it is probably too early to throw away those 7-plus forecasts for the yuan just yet.

Could it spread?

Today, Indonesian trade data will shed some light on whether China's trade problems are being transmitted elsewhere in the region. Indonesian trade growth (YoY) has been in a trend decline since mid-2017, and last month's November data punched down through zero to register a year-on-year contraction. The more recent weakness seems to show a steepening of the downward slope, so it already looks as if Indonesia is being affected by China's trade problems. We'll see how much later today.

Korean December trade price data did not make for particularly pleasant reading today either. In year on year terms, the prices of exports are falling (-0.6%), whilst import prices are still growing, (3.2%YoY). So Korea's terms of trade are deteriorating, and not surprisingly, the KRW is looking softer as a result.

China's Money supply and Philippines OFW remittances

Today's remaining data includes Chinese Money supply and new loans data, which always take quite a lot of interpreting as policy measures shunt funds from one area to another. Philippines OFW remittances are usually strongest in December. Today's November number may give us some clues as to how strong that is going to be, and how much of a boost to the PHP.

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