

Recession - 'He who denied it...'

"...surely supplied it..."



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Unprompted denial begs questions

Apologies for the lapse into primary-school poetry this morning, but grasping for a theme for today's note, the thing that sticks in my mind from all the various news stories I have read so far is the apparent denial of recession expectations from White House Advisers Larry Kudlow and Peter Navarro.

And in all fairness, I don't see much evidence for looming recession in the US either, and not wanting to put words into his mouth, but reading between the lines (and looking directly at his forecasts) neither does our Chief International Economist responsible for the US, James Knightley.

What makes me slightly uneasy, therefore, is why come out and make the case for no recession? Yes, I know the 2s10s yield curve briefly inverted last week - and data wonks and nerds the world round have been discussing this and the 3m10Y and various other curve slope permutations for more than a year now. My guess is that this has not yet entered dinner-party conversations for the majority though. Let's just say, if you were to go and ask Joe or Joanna Public whether the yield curve was inverted or not, my guess would be that the majority answer would be "c" what's the yield curve?

Other than that, US jobs numbers remain OK, wages steady if a bit slow to grow, house price

growth in line with nominal GDP growth, and the stock market? It finished up again on Friday, and though off its recent highs, it is still up more than 15%ytd (S&P500).

So I'm just wondering, as a result, do they know something we don't?

For those of a bearish persuasion looking for a smoking gun of impending doom, my suggestion this week would be to watch the core durable goods orders and shipments data due next week, with an appetizer from the PMI indices later this week. The only place where we can see consistent signs of weakness so far is some of the soft business sector data like these.

Asia - the worst is over?

I don't usually link to my own notes, and this one is very short, but we finished last week [with a rare piece of decent news out of Singapore on exports](#). The smaller than expected non-oil domestic exports (NODX) contraction comes after months of declines and actually contained a month-on-month increase in electronics exports. Now, this stuff is extremely choppy, so don't get out the champagne bucket just yet. But it echoes some slightly better electronic export data seen elsewhere around the region and lends weight to my suggestion that this sector is beginning to find a bottom.

This doesn't herald a dramatic upturn, however. Cyclical though this sector is, demand for these goods is still extremely weak, and not helped by the trade war. But even if this cycle is more "L" than "V"-shaped, that beats an ongoing slide, and brings the prospect of better times for Asia a bit closer.

HK rain affects play

Asia has been nervously watching events in Hong Kong in recent weeks, anxious that protestors don't provoke a heavy-handed reaction from Mainland China that could see the Special Administrative Region status (SAR) challenged. This weekend's protests passed mainly peacefully according to the reports I have read (though I don't vouch for their accuracy), and if true, that should help calm markets. I've always felt that rioting was a good-weather event, and heavy rain may have helped keep things calmer than they would otherwise have been.

Provocatively, a separate story about Shenzhen being granted special status, legal reforms and freer flows of capital was interesting. Could this be the way Mainland China responds, without police or troops - but creating a sort of "Hong Kong-Lite" right on the border... ? Your thoughts (as always) welcome.

Possibly in the same vein, China has announced some further liberalisation of its interest rate system over the weekend, which can be viewed as a further very small step in the direction of currency liberalisation. [Iris Pang provides more detail here](#).

Asia day ahead

It's a quiet start to the week here in Asia, though the mood is probably fairly good. Weak Thai GDP later today may not create too much disappointment if it encourages thoughts of further rate cuts. Bank of Thailand minutes on Wednesday may shed more light on that.

Bank Indonesia also meets this week, but will most likely continue to err on the side of caution whilst Emerging Market currencies remain vulnerable to volatility. Nothing from them is expected.

In Developed Market space, the Jackson Hole meeting later this week will hopefully provide me with some more content to write about, though a number of online stories suggest that it may be a damp squib. The Fed's Jerome Powell is due to give a speech at 10 am Eastern Time on Friday. A bit late for most of us in Asia.

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