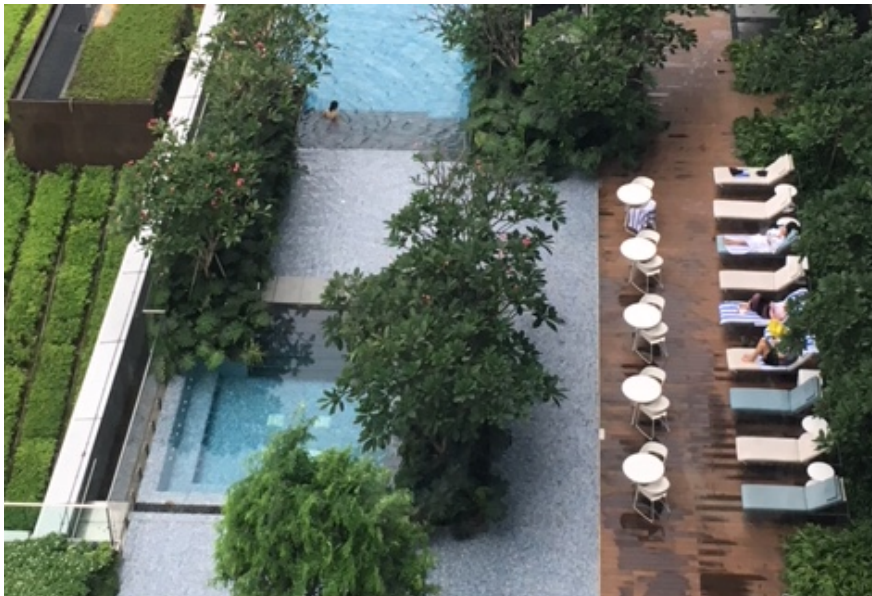


Risk on? Why not?

US rates are going up, and tariffs are being slapped on, markets seem relaxed. I'm not.



Singapore Swimming pool

Source: R Carnell

Bored of bad news

The current market environment could be summed up not as responding to positive news, but simply rallying because the bad news is simply not very interesting anymore. Within the Asia region, the currencies that have been the litmus tests for market anxiety, INR, IDR and PHP all look stable to slightly stronger, and the same, steady to slightly lower yields story plays out in local currency bond markets, by and large.

So don't we care that the Fed is hiking rates, and won't this lead to capital outflows? The answer it seems is, not necessarily, at least, not if the dollar is not responding by rallying, and right now, it isn't. Indeed, the EUR looks as if it is trying to push into new, higher ranges, and make a test of 1.18, after which, there isn't much to stand between it and 1.20. This all feels a bit like the mood prevailing at the beginning of the year, when the Fed could do no harm, China was in a good

economic place, European growth was giving rise to talk of synchronized global growth, and emerging markets, like Asia, felt like nice places to make a good return.

Except the environment isn't anything like as positive. The trade war has barely begun to touch the macro news, the Fed is, it seems, going to gradually tighten rates, at least a little bit too far before paring them back again, the ECB is also going to be tightening, even though its growth numbers don't seem anything like as strong as they did in 1Q18, and China is making the best of the more hostile environment, but is having to give up progress on deleveraging and overcapacity to do so.

Putting it bluntly, about the only way that you can explain this is, all the bad news is priced in, and the market is still sufficiently awash with liquidity, that absent new bad news, the default position is to rally. Nervous anyone?

G-7 wrap

There's nothing "wrong" with Japan's inflation, it just isn't very high. Despite a pick up in the headline CPI for August today to 1.3%YoY, more useful core measures excluding food and energy show inflation at only 0.4%. Admittedly, this is up from 0.3% last month, but in the grand scheme of things, this is essentially zero. This isn't deflation though. Japanese macro data continues to run at an impressive clip, including business investment and, increasingly, consumer spending, helped by wages growth that is trending solidly higher, and that ignoring a volatility-induced spike in July, was running stronger than US wages growth in June.

We aren't learning much from the NAFTA talks about the likelihood for a future theoretical US-China deal, except that any such talks are likely to be tough. Talks continue in Canada today and will continue next week. That is positive. But until we see either a resolution and what Canada has had to give away to achieve a deal or no deal, we won't be much wiser as to the hurdle that China (and before long, we suspect Japan) faces.

Asia Day ahead

Korean 20-day trade data out today for September will be worth a quick look. I'm just back from a couple of days in Seoul, and what I have learned is, depending on who you talk to, you either get a very upbeat, or very downbeat view of Korea's outlook. Informative, just not terribly useful. Korean exports this year have been flat except for electronics, where the demand seems to remain strong, though I'm told, concern is mounting that the current cycle of electronics demand may be peaking. That looks in line with the data I am watching, so any confirmation of this in today's figures will be interesting. Conversely, the KRW's weakness recently must be helping to boost competitiveness, not least with US rivals, so I go into this release with an open mind.

And this from Prakash Sakpal:

Thailand reports trade data for August. We estimate a trade surplus of \$1.2 billion, a sharp positive swing from a \$516 million deficit in July. A report yesterday showed the Chinese tourist arrivals in Thailand fell by 11.8% YoY in August, a sign that services may possibly be a drag on the current account in the last month. The trade and current surpluses are narrowing this year, but not by a lot. Our forecast 9% of GDP current account surplus this year will only be a modest drop from 11% in the last two years. We see the THB remaining an Asia outperformer over the remainder of the year.

The Indian government lifted interest rates on its saving schemes by up to 40bp for the Oct-Dec quarter. These rates are linked to government bond yields and are adjusted quarterly. Yields from the short to the long-end of government bonds have gone up by almost 100bp since the start of the year. The Reserve Bank of India is poised to hike policy interest rates again at the upcoming meeting in early October. The question is whether it will be the conventional 25bp move or more. We maintain our view of the 25bp hike, although the continued INR weakness warrants more.

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