

## Signs of economic stabilisation

Trump signs Hong Kong SAR pro-democracy bill into law. No evidence of any spillover to Asia from the currency turmoil in Latam. China is borrowing more to spend on fiscal support. And recent numbers from the US suggest that at least there, things aren't getting demonstrably worse.



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### Trump signs pro-democracy bill - USD CNH spikes up

I had been wondering if President Trump was just going to leave Congress' pro-democracy bill on his desk and pretend it had not arrived. I don't think he wants to inflame trade tensions. And I get the sense that he sees this as a problem for China and Hong Kong, and maybe is reluctant to get involved. He also knows that President Xi will not be impressed with this, and he has a lot of time for him.

Having said that, he has now just signed the bill, so any speculation over whether he would or not is now totally redundant. This is probably why USDCNH has spiked higher today - I can't see any other reason for this. but it already seems to be coming off again as I write.

[There is a pretty good article on this story in the Washington Post online](#), which sets out the background on these issues, and notes the potential for sanctions on officials in China and HK SAR.

We aren't of the view that this changes a great deal, either on the trade front, or in terms of any potential for renewed protesting in HK, though Iris mentioned when chatting to her today that the sources she follows indicate a return to protests shortly.

## China special bonds quota front-loading

A newswire story today is running with the notion that China's Ministry of Finance brought forward CNY1tr of local government special bond quotas to this year. As I sat on the MRT into work this morning, I thought, I wonder if this signals concern that the trade deal won't happen? After all, it is these bonds that China uses to finance infrastructure projects and other fiscal stimulus programmes to offset the negative consequences of the trade war.

A quick call to Iris Pang puts this story into better perspective. Iris writes "China used CNY1 trillion 2020's quota of local government special bonds for the issuance in 2019 as reported by Bloomberg. This confirms our view that fiscal stimulus via infrastructure projects should reach CNY 3 trillion this year. The policy allows local governments to use quotas left by last year and quotas of next year, this preferential policy is valid until the end of 2021. So we expect local government to borrow quotas from 2021 for special bond issuance in 2020 to support infrastructure projects if the trade war continues without large enough rollback of tariffs".

In other words, this isn't exactly "news", and if China runs out of 2020 quotas, they can dip into 2021, and then later, 2022, etc.

## Its grim down south

News out of Latam isn't looking very good right now. I'm clueless on the subject, so I leave commentary on that stuff to our Latam expert, Gustavo Rangel. [Check out what he has to say on our Think Latam page.](#)

But back in 2018, Argentina's woes, coupled with some other EM difficulties, caused problems nearer to home. In particular, the current account countries of Indonesia, Philippines and India, where local currencies took a battering.

Of the three, the Philippines has recently managed to turn its current account deficit into a surplus. Though that may owe more to the budget delay in government infrastructure spending, and this will need watching in coming months. Indonesia too seems to have at least stabilised the current account, and maybe even improved it a little. I'll reserve judgement on India. The recent figures have been quite erratic, and it is hard to draw any clear conclusions until we can see further evidence for a trend emerging. In any case, there seems to be no spillover contagion from any of Latam's woes - probably because they seem largely domestic/political, though that was also the case to a large extent last time, and that didn't stop it.

## Data isn't bad, isn't good either

There is quite a lot of coverage about the revised 3Q19 GDP figures from the US overnight - not really clear why. A rounding error on the first release has led to a slight uptick in something that happened between 2 and five months ago, this doesn't much help me decide what is going on in that economy. But the Fed's Beige book released overnight was given a slight upgrade, business investment indicators weren't as bad as normal (though the three-month annualised core orders and shipments data still look very weak), and household income and spending figures show the

household is not throwing in the towel on spending, even if incomes are not growing as strongly as they might be.

In short, there is nothing in the overnight run of economic data that should cause us to downgrade our view of the US economy or the Fed any further than it is already. OK, if you want an excuse, then the PCE deflator figures still show no inflation.

I am still entertained (sounds less curmudgeonly than "irritated"), by comments from Fed speakers (recently Brainard) that they might tweak their mandate by running inflation targeting on an "average" basis, implying that they might run it high after periods when it has undershot. If current policy is therefore not already doing that, then I shudder to think what financial distortions would follow from an attempt to run the economy "a little hot". Hasn't anyone been paying attention?

Happy Thanksgiving by the way (if you are celebrating it, then you probably aren't reading this!)

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