

Surprise, surprise

AUD plunges on China's coal ban at Dalian, but Reserve Bank Governor Lowe seems relaxed, if a little surprised...



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Bets on RBA rate cuts growing

The RBA's Governor Lowe testified this morning to the Australian Parliament and expressed surprise at the AUD's reaction to the coal unloading ban at the Chinese port of Dalian. I'm surprised he was surprised. I'm also surprised to see how many people are now rushing to predict rate cuts from the RBA, with one well known Aussie pundit now calling 2 cuts.

I make these comments from the relatively steady position we have been viewing Australia from for some time. Way back last year, we took a more dovish line than the consensus, which was firmly looking for eventual hikes. We felt the risk back then was two-way. Governor Lowe now does too. But the market seems to be rushing headlong into predicting cuts, in spite of the very strong labour market data yesterday.

Lowe himself this morning suggested that there was nothing particularly alarming going on in the property sector. We concur. And although late to the two-way-risk party, his comment that the outlook is not bad, but the risks are up, remains firmly in the neutral camp. Others may rush to call the next move as a cut, but if its still years off, isn't the right message that the next move is no move? Isn't being early almost as bad as being wrong? We won't be joining the herd just yet.

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More positive noises on trade - no response from USD

The rule of thumb that positive trade news in the trade dispute between the US and China will result in a weaker USD, appears not to be working anymore. However, I think the rule of thumb is still working, it's just that none of this is really news anymore. The market seems to have come around to the idea that there will be a deal of sorts. China's commitment to take on another \$30bn of agricultural goods is as welcome as it was entirely predictable. No doubt we will hear something similar on LNG in the coming days. Then machinery. All things China needs. This is not a breakthrough, it is self-interest at work.

Likewise, the apparent olive branch offered by President Trump over Chinese tech suppliers shows that the US president also recognizes the value in a positive announcement on the trade war. This is all good, it supports (rather than drives higher) risk assets. The risk is now all on the downside in case the prospects of a deal flounder. That would put the USD back on a strengthening tack,

Bullard says Fed went too far in December

It's always interesting to report on St Louis Fed President, James Bullard. For me, although I don't always share his view on rates, I find him one of the most thoughtful of FOMC members, and also prepared to challenge the orthodox view. He argued against the December hike, saying that this was too far. And he is now reported as saying that he thinks the Fed's normalization is done. We wrote yesterday that this was a risk to our house forecast of one more rate hike this year. I still think the house forecast is right. But don't dismiss Bullard. He is no crank. And the market seems to agree, with Fed funds futures showing a small, but perceptible downward slope over the coming years.

Like the trade story though, this dovishness seems to be fully priced in with little room for more. Another reason to be wary of any news that challenges that view.

Asia Day ahead

Japan's CPI for January is already out, and bang in line with expectations, staying at 0.2%YoY, and 0.8% ex-fresh food. The ex food and energy measure lifted slightly to 0.4% from 0.3%. This is insignificant and irrelevant for the Bank of Japan.

And from Prakash Sakpal:

Released yesterday, the minutes of the Reserve Bank of India's policy meeting held in early February, reinforced growth worries in support of the decision to cut policy interest rates by 25 basis points at that meeting. The decision wasn't unanimous though, as two of the policy committee members who voted for on-hold rates cited risks from a surge in fiscal spending, oil prices, already high non-food inflation, and rising household inflation expectations. And Governor Das, who voted to cut, favoured more policy accommodation to growth. That said, we believe the latest cut was the last this year.

Malaysia releases January CPI data. Inflation hasn't been a problem since the GST removal in June last year and it's unlikely to be one at least until the middle of this year. Thailand reports trade data for January with our forecast of steeper fall in exports swinging the trade balance to a deficit

from a surplus in December.

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