Tariff reprieve

Markets are responding with muted relief to the latest round in the trade saga - but nothing has really changed

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Christmas will be less expensive in the US than it might have been

The delay on the introduction of tariffs on some of the $300bn of goods hit by the latest 10% levy, has been greeted by markets with a modest, but fairly muted cheer. Its a stay of execution, not a pardon. And markets remain nervous. Having been off for an extended weekend, reading of a bounce in bond yields on the train on the way into work this morning, I fondly expected US 10Y Treasury bond yields to have risen above 1.70%, where they currently reside. It doesn't feel to me that much has moved on since the end of last week.

The rally in the CNY also leaves it in its new-found range, between 7.0 and 7.10. Our FX strategists look at the currency implications in some more detail.

Stock markets look a bit happier but are off their highs - I can live with that.

But the things that might concern investors remain largely in place:

- Unrest in Hong Kong continues, and there is some talk of Mainland Chinese troops

positioned outside the city - no knowing how reliable such reports are, or what they may portend if true, but it makes me extremely nervous.
- Argentina's problems echo the causes of the last bout of EM risk aversion...there doesn't have to be a causal link for investors to panic in different markets
- The trade war is still on, and the latest delay seems self-serving for the US which can load up for the gift-giving season before tariffs stick up prices early next year.

Can we rely on the Fed?

Yesterday, US core CPI in the US rose to 2.2%YoY. The July PCE deflator and its core measure of inflation are released on August 30. The current core PCE inflation rate is 1.6%YoY, so assuming, as is often the case, that it tracks the broader movements of the CPI, then we should expect it to rise to 1.7% and, if rounding is unhelpful, 1.8%.

This still leaves the Fed with some room to keep easing. But the low inflation excuse is certainly beginning to look less convincing. Any further rises, or some corroboration from labour wages, could undermine thoughts that the Fed will always be there to bail out markets. James Knightley writes about this in more detail here.

Asia Day ahead

Asia has got off to a rocky start as Korean July export prices accelerated their year on year decline to -5.3%YoY, from -2.7%, which suggests that semiconductor prices are still declining, though the month on month decline of -0.2% provides some hope that at least in terms of levels, the rate of decline may be slowing.

It's a better picture in Japan, where core machine orders rose 12.5%YoY, though this is choppy data - maybe some front-loading of orders is happening pre-consumption tax? Either way - this doesn't look significant just yet.

Australian 2Q19 wages data are out shortly, and the consensus view of no change in the 2.3%YoY rate would help keep RBA cuts in play over the year-end. Any rise would be both good news for the economy, but perhaps bad for markets that are banking on more easing.

Chinese activity data is also out later, and our Greater China Economist, Iris Pang writes that she expects "... slightly better growth in investment, production and retail sales from low base effects, and also because some infrastructure projects should have begun to enter the production phase after the projects have got funding from local government special bonds".

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