TGIF

We didn't learn much this week - The Fed is still bowing to market pressure; trade-talk rumours remain positive, And weakness from Korea kickstarts the day. Enjoy the Weekend.

More positve news on trade talks from the US

Our sense that the announcement of a trade deal will at least be heralded by those involved as a success, is gathering some support. There are plenty of tweets from the US President on this overnight. Not all as positive as the one below which newswires are focussing on. But it looks like President Trump needs a summit with President Xi to dot some i's and cross some t's. This might mean the US is pushing hard for some concession on issues such as China 2025 - one of Xi's aims, which presumably negotiators such as Liu He do not have the authority to change.

I still think both sides want a deal. China wants to avoid higher tariffs and would like to see existing ones removed. The US wants a positive PR soundbite, in addition to any Chinese concessions it can win.

With both sides seemingly working in the same direction, I am optimistic that we will get presented with a "success". What I am less sure is how genuine and final this will be. How many contingent conditions will be attached to no future tariff increases or reductions? And how genuine any commitments from both sides will be? I remain sceptical.

Don't expect too much from non-farm payrolls

The US partial government shutdown may have been temporarily ended, but its effects may well emerge in today's non-farm payrolls and other US labour market data for January. The ADP survey of private sector employees this week showed about a 50K drop from last month - remember, a lot of government work is carried out by private sector contractors. Initial jobless claims for the week ended January 26 (after the payrolls sampling period, but what the heck?) also showed a rise of about 50K.

The consensus is already geared up for this, with a 165K forecast for payrolls, down from the blockbuster 312K in December. We don't expect too much from the wages figures this month due to distortions and a 0.3%moM increase in January last year which raises the bar for an increase in the year on year rate.

Asia today

Korean CPI already released fell by 0.1%MoM in January to take the headline inflation rate to 0.8%. Core inflation was also lower at 1.2%.

We wrote yesterday about Asian central banks that might use current USD weakness to reverse some of their rate hikes from last year. The Bank of Korea definitely falls into this camp. We just may have to wait a few months until such a reversal looks less like an admission that earlier hikes were not well judged.

Thailand also releases CPI data today and it too hiked rates at the end of last year without, we think, much justification. Thai inflation is hovering below 0.4%YoY currently, and could drop below 0.3%YoY in January. With the THB very strong, there is a clear case for a Central Bank re-think on rates here.

Korea's January trade data wasn't much better than its inflation figures, though at -5.8%YoY, the export numbers were slightly less bad than the consensus expectation. But that is splitting hairs. This was a bad release. The trade balance declined from $4342m to $1336m.

PMIs dominate the calendar in the rest of the region, emerging as this note goes to press. After the surprise increase in official PMIS in China yesterday, the Caixin survey will get close attention.

India's budget day today

And From Prakash Sakpal: The growing discontent among low and middle-income voters and small businesses will move the government to push for its re-election bid harder today. Speculation is rife about the government presenting a full budget, departing from the convention of an interim budget or vote-on-account by a government heading into an election in which no big-bang (vote-seeking) measures are announced and only spending appropriations for the remaining term of the government are sought. Yet, among widely talked measures are increases in income tax exemptions, financial support for farmers or possibly farm loan waivers. Meanwhile, we expect spending to push the estimated deficit higher to about 3.6% of GDP in the current financial year ending in March, well above the initial budget target of 3.3%. Even if somehow the estimated deficit is maintained at the target level, its credibility will be in question. Our deficit forecast for the next financial year is 3.4%.

Author

Robert Carnell
Regional Head of Research, Asia-Pacific
robert.carnell@asia.ing.com

Disclaimer