

6 June 2018
Opinion

The “no-news” rally runs out of steam

Markets can go up for a day with nothing driving them, but it seems they need more to sustain a rally - there's still a dearth of drivers

Nothing to get your teeth into

After Monday's inexplicable rally, aside from a lack of bad news, Tuesday showed that you need a bit more substance to keep the positive momentum going and there are enough worries out there to keep markets from relentless gains.

Trade is, of course, one of those worries. But aside from some vague comments about US bilateral deals with Canada and Mexico that sound as if they would circumvent NAFTA, there isn't much to talk about here. These headlines also have just the sort of "Trump-feel" that suggests they are nothing more than a negotiating ploy - divide and conquer! These are becoming a bit obvious now. We suspect both Canada and Mexico can see this for what it is too. It isn't rocket science.

US Trade figures for April are due out later today, and these may provide Trump with some further fuel for ranting tweets and unhelpful tariff threats. The calm may not last long.

The only other potentially interesting rumour is that the ECB is allegedly back to using the June 14 meeting to signal timing on the end to their QE purchases. Coming the day after the Fed is expected to raise rates again, any EUR appreciation that follows should be able to be contained at acceptable levels, and any dollar rally after the June 13 FOMC might prove fleeting to say the least.

A lack of eurosceptic craziness so-far from the new Italian government is surely helping to provide a calmer backdrop for ECB President, Mario Draghi to have another go at ending a policy that is as far past its shelf life as an over-ripe gorgonzola.

Chat rises about BoJ exit

With the ECB maybe eyeing a way out of their current QE quandary, we expect the BoJ to be looking to capitalize on this and use the distraction in Europe to do something similar of its own. Masahiro Kawai, an adviser to Bank of Japan (BoJ) Governor, Kuroda, has suggested that yen weakness associated with further US Fed rate hikes could be countered by raising the BoJ's current bond yield target. He even gave a couple of lines in the sand at USDJPY125 and USDJPY130. We are miles off those level today at 109.90, but the fact that chat like this is beginning to emerge is probably not meaningless.

However, it will be a lot easier for the BoJ to sell a change in policy in a tightening direction if other parts of the economy are looking healthy, and household wages are a key element of this. Today's labour cash earnings for April rose a disappointing 0.8% (expected 1.3%) after the 2.0% gain in March, though most of this seems to have been bonus related, and the more impactful contracted regular earnings rose 1.2%YoY, unchanged from March, but showing a modest pick up from growth rates a year ago.

Eyes down for Reserve Bank of India

We are part of a small minority looking for the RBI to raise rates today by 25bp. Rising fuel prices and the likelihood of a CPI overshoot later this year, as well as rupee weakness, are the underlying

reasons for our call. The consensus may be looking at the current inflation rate which is running at a fairly respectable 4.58%YoY (April), but we think this is a bit backward looking. Also, if the RBI wants to put a little rocket fuel under the rupee, it will get more bang from an unexpected hike than one that is fully priced in. For that reason, a move now makes sense. There is also some merit in the "a stitch in time saves nine" approach to monetary policy. Which for those of you unfamiliar with knitting terms, simply means that you can sometimes manage more for less by acting in a timely manner, rather than a rushed response to weakness later.

Misuse of statistics

"Global growth set to ebb" - [says a headline](#) about the latest World Bank global GDP forecasts. The forecasts for 2018 and 2019 show growth of 3.1% in 2018 and 3.0% in 2019. The rationale for the forecast dip is rising interest rates and an approach to full output. I don't have any problem with that, though I would add the effects of a sharp fall in US fiscal thrust coming the year after the Trump tax reforms, and the potential for the Trump administration to destabilize global growth with aggressive trade protectionism. That ought to do it. But if so, it won't be a 0.1pp difference. That is a rounding error. Anything less than 0.5pp isn't really worth a comment.

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