The phone is mightier than the sword

Suggestions from US President Trump that "trade talks are going along nicely" may be accurate, we'll have to wait and see... Hard facts today worth watching are the US labour report and Malaysian budget.

Donald J. Trump
@realDonaldTrump

Following

Just had a long and very good conversation with President Xi Jinping of China. We talked about many subjects, with a heavy emphasis on Trade. Those discussions are moving along nicely with meetings being scheduled at the G-20 in Argentina. Also had good discussion on North Korea!

7:09 AM - 1 Nov 2018

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280 characters cause big yuan rally

A single tweet from the US President following talks with President Xi ahead of the G-20, which were apparently heavily weighted towards trade, and which also were "moving along nicely" has been enough to take the yuan from the lower edge of USDCNY7.0 yesterday, to 6.92 today. I'm not entirely sure what to make of this. But it feels too big a change of direction following the Mike Pence speech some weeks ago to be taken literally. It certainly isn't in synch with the latest charge of a Chinese company for conspiring to steal trade secrets.

Is this wrapped up in some way with the mid-terms? Hard to say. Bashing China over trade has been a cross-party vote winner, so it seems odd timing if so. My gut instinct is to remain sceptical. US growth data remains strong, so the administration there doesn't need to make the first move. And while Chinese growth indicators have looked far more worrying, I can't see China moving sufficiently on issues like Intellectual property to satisfy the US. Perhaps Larry Kudlow is right, some middle ground can be found. I think it is more likely that this is just part of a process, rather than a meeting of minds. I'm unclear what the purpose is. Suggestions welcomed.

Easing on Iran? Easing on oil

The other big change happening right now is on oil, and for some Asian economies and currencies (IDR, PHP, INR) this is a big deal. The US has apparently softened its stance on India and Korea buying Iranian oil, helping the oil market to pull back from the highs of a few weeks ago. Brent crude is now only $72.72/bbl, compared with over $86 at the beginning of the month. This presages some much better (lower) inflation figures in the months ahead if it lasts, and some better (less negative) trade and current account figures too. President Trump has been berating OPEC to get oil prices down, but until Saudi Arabia started to really pump hard following the Jamal Khashoggi murder, this had failed to make much of a dent. Now, just ahead of renewed US sanctions on Iran, the softer approach on buying Iranian oil to allies of the US seems to be helping push oil lower still. Again, the messages are rather contradictory, and I'm struggling to figure out whether there is a new objective, or if this is also some temporary respite before the pressure on Iran steps up some more.

One other thought is that maybe there is some concern that the Iran sanctions were opening a can of worms on the dollar's role as the global reserve currency. It sounds as if some decent progress has been made by the EU on the special vehicle to enable countries to circumvent the US sanctions. The dollar isn't going to lose its reserve currency status overnight, but this could be the thin end of the wedge. I really doubt this is what this is all about though, even if it should be.

Don't get too comfortable, wages data later

Before coming to Asia 18 months ago, I spent 12 of the previous 13 years being disappointed by weak US wages data. Today offers a good chance for this saga of pain to end. Monthly wages growth in the US has been fairly steady at 0.3%, and a repeat of that today would take the wages growth rate to 3.2%, a level it has not seen since April 2009. And that is indeed our house forecast.

Anecdotal evidence strongly supports the idea of higher wages. Our US Economist, James Knightley has recently referenced the extreme hiring issues faced by firms in the small firm NFIB survey. Surely at some stage, the levy must break and wages will rise?

You would think so, but years of disappointment have me looking for reasons why this may yet disappoint. One is the tendency for the previous month's growth rate to be revised lower, which happens a lot. Another is that the seasonally adjusted data isn't, in fact, all that well adjusted, so last October's -0.2%MoM decline may not be the pure aberration it appeared to be and could see some vestige of a repeat today.

That notwithstanding, even a move to 3-something wages, could be enough to have markets doing a 180-degree turn in terms of their fed view. Having priced out a fair bit of 2019 tightening as the stock market fell, faster wages growth may encourage them to price it back in again, If so, the roller coaster on stocks, currencies and bond yields may start all over again - perhaps as early as today. Buckle up!

3.2%

Average Hourly wages growth

ING House view

Higher than expected

Malaysian budget

(And this from Prakash Sakpal): It’s budget day in Malaysia. The inaugural budget of the new government of Prime Minister Mahathir is widely expected to be a tough balancing act in the government’s drive to rein in large public debt (estimated at about 80% of GDP) and at the same time sustain the economy on a strong growth path. The key headwinds to this strategy are the already weak revenue structure now exacerbated by consumption tax reforms and high operating expenditures.

PM Mahathir has signaled new taxes and curbs on development spending. Yet the fiscal deficit is poised to rise above the 3% mark in the current year (ING forecast 3.2%) and remain there through 2020. The tighter fiscal policy stance combined with sustained external risk suggest Malaysia’s GDP growth will remain under pressure in 2019, more likely staying close to the low end of 4.5-5.5%

target.

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