

Trade: All is well (give it a few weeks)

An olive branch from China, but this trade war is far from over. We don't think China is about to acquiesce without the US removing a lot of existing tariffs and holding off from new ones, and the US needs a big concession from China on IP and openness, or it too will appear weak.



Take the good news while it lasts

Markets opened with a positive hue this morning in response to China's offering to delay the introduction of new tariffs on the US in retaliation to the US' latest round of tariffs. President Trump told Fox News yesterday that talks with China on trade will occur today, though there are no more details.

Amidst signs that the US may be slowing faster than expected in 2Q19, could it be that US President Trump is about to look for a way to restore calm to markets by finding some sort of deal or truce with China?

Personally, I doubt it. For a number of reasons. Here are a few off the top of my head:

1. President Trump most likely believes that the US is weathering the trade war better than China - that is a moot point, but it doesn't matter what I think.
2. US public opinion would not welcome a weak trade deal with China as much as they would not welcome a slowing economy. This is a trade-off.
3. The decision to call off a trade war is as much a decision for China as it is for the US, and the sort of deal that China needs to get - reversal of existing tariffs, curtailment of new tariffs, better treatment for Huawei and other tech companies, is exactly the sort of deal that the US cannot deliver without appearing to cave in.

I won't go on.

So yes, markets are happy today as a goldfish is with a new rock in the tank to swim around, and around, and around.

I'd be gearing up for the next down-leg personally.

And Iris agrees..

Don't just take my word for it, here's what our Greater China Economist, Iris Pang thinks on the subject: "China's Ministry of Commerce said that to continue to have trade talks there must be necessary conditions for both sides. For China, this means the US would need to cancel the planned tariff increases.

I believe the market has interpreted recent developments too positively. It will be very difficult for President Trump to back down so quickly. It is also completely uncertain if there will be meaningful trade talks in September. Even if there are, both sides may just reaffirm to the other side their pre-conditions for further talks. And for both, this is likely to be that the other side first needs to make concessions. This implies no progress".

India GDP to buck weakening trend

India's GDP figure for the April-June quarter (1Q FY2019-20) today should testify to the elevated concern over growth evident from the massive stimulus the authorities have unleashed this year. However, the consensus of just a tenth of a percent dip in growth (5.7% from 5.8% in 4Q FY2018-19) doesn't quite come across as really worrisome. Nor do firmer exports and manufacturing growth suggest any real growth slowdown. Yes, there have been some pockets of weakness evident from slowing car sales and bank lending, though this largely reflects policy lags (pointed out by an RBI policymaker in the latest policy minutes) with less than 40% of the rate cuts so far being transmitted to the banking system.

We believe growth, in fact, improved in the reporting period to 6.0% making the additional RBI easing by 35bp rate cut earlier this month unnecessary. If so, we would reconsider our view of an additional 50bp of RBI rate cuts in the rest of the year, which isn't really a conviction call, but merely reflects the fact that the central bank is under pressure from the government to do more. (From Prakash Sakpal)

BoK - to hold today

We don't expect the BoK to follow up their July rate cut decision with another at today's meeting.

1. The KRW at 1209 is already very weak
2. The BoK will not want to front-run the US Fed
3. Following yesterday's budget there is less need to use monetary policy
4. Production data today hint that the electronics cycle is troughing - better news for growth.

The final point is good news not just for Korea. We also see evidence of an electronics cycle trough in data from Singapore, which may just side-step a feared recession as a result. So there is some genuine good news out there. I just don't think you should over-do it.

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