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Trade Talks: Some cause for hope?

The US initiative to revive trade talks with China may come to nothing, but without much else to go on, it does at least offer some hope of an end to this episode

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More to this than meets the eye?

Now I admit that my first thoughts on reading the story that Treasury Secretary Steven Mnuchin was trying to revive trade talks with China's Liu He, were, "...this isn't going to fly". Mnuchin has appeared to be by far the most moderate of the US administration on trade and did manage to wheedle some decent concessions from He last time they conferred. My initial concern was that hardliners in the administration would simply respond to any further offer from China as "...not good enough", and that the trade war would rumble on. Many other observers of this trade war have suggested that China will never be prepared to offer the degree of trade concessions that the US will see as sufficient to call off this war. And if you accept that view of the world, then there is a dim future ahead for global trade and for global growth.

But, and I'm not sure where this thought sprung from, with $200 billion of further tariffs (or some portion thereof) about to be imposed, and a further $267 billion apparently waiting in the wings, this is probably the best time for the US to go back to the table with a "take it or leave it" type of trade demand.

I find it interesting that this offer of talks apparently comes from the US, not from China. So perhaps this has all been a massive negotiating ploy, or maybe Treasury Secretary Mnuchin is just worried about the damage to global and indeed US growth that such a tariff escalation would deliver. The latest Beige Book did seem to indicate worries of tariffs weighing on investment and employment decisions by firms, so perhaps this is what has spurred a re-think. All this is, however, just speculation. I don't have a strong feeling on this. And I certainly don't have any special insight into what Mnuchin is thinking. All I have is some hope, which is a little more than I had a few days ago.

Asian outlook mixed

Asian equity futures don't seem to share my guarded optimism today, though Asian currencies do seem a little stronger against the dollar, so maybe stocks will have a change of heart. The EUR is trading a little stronger against the USD, and that could be lifting Asian currencies a bit. This could be in expectation of today's ECB meeting confirming thoughts of an end to European quantitative easing by the end of the year and a rate hike next September. But with that view already firmly in the price, it is hard to see any such confirmation having a noticeable impact on EUR/USD. There is apparently going to be a slight downgrade to the ECB staff's growth forecasts, though it seems, this is insufficient to cause any change in the ECB's plans (does make you wonder why we ever listen to central banks' claims that policy is data dependent, and that they never pre-commit...?). The nuance of Draghi's comments could be important today for EUR/USD and consequently, $/Asia.

Day ahead - watch for Aussie employment

Australian August employment data is due shortly. A decline in part-time jobs last month did most of the damage, but that could easily flip around this time, and coupled with a modest increase in full-time jobs, could deliver a chunkier figure than the 18K consensus expectation. We are right at the top of consensus at 35K, though the key here is the mix of full and part-time jobs. We anticipate most of our 35K coming from the part-time sector, so not that exciting.

Chinese FDI figures for August might be released any time from today until next week, but could be interesting when they emerge. With FDI a direct substitute for trade in many instances, a boost in FDI could indicate US firms looking to circumvent what they imagine will be the negative consequences of tariffs. Or they could plunge, on fears that Chinese qualitative retaliation will make working in China much harder and less profitable. There is no consensus on this figure, so take your pick and good luck.

Japanese core machinery orders, a good indicator of real-time business investment activity, punched out a solid 11%MoM increase, for a 13.9%YoY gain. Combined with a good outlook for consumer spending, 3QGDP has got off to a good start. This should prompt the BoJ to review their policy stance next week when they meet. But it won't.

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