

Troubled New Year

A belated Happy New Year to everyone, though in markets, that rings slightly hollow today with news of an Iranian attack on an Iraqi base hitting the headlines. So what will 2020 bring? More uncertainty offset with more stimulus would be my best guess. Good luck trading that



WAR

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Happy New War

Having spent the best part of last year trying to second guess unpredictable politicians' actions with respect to a damaging and dangerous trade war, the beginning of 2020 beckoned a period of calm. Instead, we seem to have moved from a trade war to a real one.

Even so, the Phase 1 deal looked to be more about "message" than "substance". And that's potentially a problem for the US and China down the line. But for the greater global picture, signing a deal, any deal, at least offered a period of calm where markets could begin to reflect fundamentals, rather than provide us with a series of knee-jerks in response to never-ending twitter feeds.

Right now, you would be hard-pressed to find any interesting news on the trade deal, phase 1 or phase 2, and for good reason. Rather than speculate on what actions Iran might take in response to the US killing of Qassem Soleimani, we need only read the Bloomberg top news story, which

indicates that Iran has started Operation "Martyr Solemani" by attacking a base (possibly two) in Iraq hosting US troops.

Clearly this story takes precedence over anything else today as far as markets are concerned. The JPY is rallying hard, crude oil prices are heading north again rapidly, gold is doing likewise. US Treasuries seem slightly less clear which way to trade at the moment, though it seems hard to argue against lower yields, especially as (if true), this report is almost certain to elicit a forceful US response.

Asian FX response

There are essentially three considerations for Asian FX in all of this:

- 1) A move to a general risk-off will likely weaken all Asian FX (and fixed income) except the JPY and possibly THB (is rallying currently), but it should hurt those reliant on overseas finance the most - so PHP, IDR, INR
- 2) The likely rise in oil prices will be a bigger problem for those countries whose current accounts are most sensitive to crude fluctuations (INR, PHP) or where it likely chokes off potential central bank easing (IDR)
- 3) And in the first instance, where currency managers are scrabbling to offset losses, the bigger, more liquid currencies can often take a disproportionate bettering, not for any direct reason, but merely as they are easier to sell - KRW.

There are some fairly clear repeat offenders in these lists, INR, IDR, PHP, KRW and while all of non-japan (and possibly Thai) Asian FX might be under pressure while this story unfolds, these in my view are likely to be the biggest losers.

And nothing else really matters today...

On a day with such a dominant headline narrative, little else will really matter...

- Weak Japanese labour cash earnings simply echo the story of weakness that is taking hold post-consumption tax hike. The offsetting fiscal measures simply absorb most of this weakness but set up a new fiscal cliff-edge for 2021 - no need to worry about that just yet.
- Australian building approvals later are more or less without meaning until we can get to the heart of what damage to the economy the bushfires have done - and in my view, unlike some commentators, this will be substantial and brings RBA cuts in February back into play.
- FX reserve data out of Indonesia and Philippines today will become more interesting if these currencies come under sustained weakening pressure - which until this point, hasn't been the case, so we can probably ignore these too.

This is, without doubt, a very disappointing way to start the New Year. Though my hopes and wishes for you all are that this does indeed turn out to be a peaceful, prosperous and healthy year. It doesn't look likely today though. Fingers crossed this all blows over quickly.

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