

Meaningless photo shoot

US President Trump's week of anti-diplomacy has now even sparked off criticism back home - but it has little relevance for financial markets. Meanwhile, after yesterday's Beijing summit, the EU now signs a trade pact with Japan. The global division lines are being set.



Source: Shutterstock

A week is a long time in politics

The last week has seen President Trump criticise his NATO colleagues, especially Germany and suggest the UK sue the EU over Brexit, followed by a seemingly agenda-less photo shoot with Russia's President Putin. It all makes great news and copy for the journalists. But is any of this stuff ultimately of any market relevance? In the medium term, possibly.

NATO members, increasingly unsure of US support might see merit in a more cooperative relationship with Russia, resulting in a weaker NATO and less stable global environment. The slugging off of Germany for being a captive of Russian gas seems to have been hot air - given the kinder words Trump had for Putin over the Nordstream gas project, and as for the UK Brexit suggestions, I don't really think this merits any comment at all.

But in the shorter run, this policy of America First is rapidly becoming America alone. The EU and China met yesterday in Beijing on a summit to talk, amongst other things, about trade. What was

very interesting, was how inclusively China talked at this summit about reforming the WTO - surely music to President Trump's ears? And how Li Keqiang went out of his way to note that any way forward must bring the US and Russia with it. At least at this stage, it is not EU and China vs the US. But if the olive branch of WTO reform is not taken up, it may well be. The EU, for its part, made a strong representation to China about the non-tariff impediments to investment in their country. China is going to need such investment inflows to balance the tendency for capital outflows when the yuan weakens, and so we would imagine they have listened carefully.

Sticking with this global axis realignment theme, the EU will also sign a trade pact with Japan today. The deal requires ratification in both the EU and Japan, but it is then expected to come into effect by 2019. The deal removes most tariffs except for some agricultural goods. Notably, the deal will not apply to the UK once (if) it exits the EU.

UK PM May dodges a bullet, now looks to dodge onslaught

With the list of resigning UK cabinet ministers getting ever longer, PM May seems to be prolonging the agony on a Brexit bill that looks doomed from almost every angle. Despite winning a vote yesterday by a margin of three, following the acceptance of two amendments from hardline Brexiters, whatever May has to do to get bills passed through parliament, makes it less likely the EU will be amenable. And whatever she has to do to get the EU to give her a deal, makes it much less likely Parliament will ultimately agree to pass any negotiated deal.

The violins on the Titanic are playing at full tilt, but there looks to be only one way this fiasco and the currency is heading, and that is down. Calling an early recess may prolong the misery further, but it doesn't alter the fundamental arithmetic of this negotiation. It is also interesting that a new line of battle has emerged, namely the re-referendum call, led by Justine Greening. This is being flatly refused at the moment. Obviously. The mere hint of another referendum totally undermines the UK's negotiation stance. But it might win an election if it became the main theme for the opposition. I might even vote for that.

NZ downside miss on inflation, but only narrowly

There has been a bit of a flap on about the NZD and its inflation numbers that were out today. Ever since RBNZ Governor Orr mentioned that NZ rates could go down as well as up, the market had had its eyes open for a catalyst for such a cut. Today's 2Q18 inflation data provided that, coming in at 1.5%YoY, lower than the 1.6% consensus, but up from 1.1% in 1Q18. In the event, this miss was not large enough to deliver much of a directional push, likely coinciding with a relatively short market position.

Powell - all well on mainstreet

Yesterday's strong US retail sales provide another reason for Jerome Powell to go to the semi-annual testimony in a bullish mood. I do not think he will make too much of a big deal about what is happening to trade and to the global recovery - despite recent warnings by the IMF. Indeed, the message is likely to be a very steady one. There are critics. Kashkari is one, Bullard another. but their voices are being drowned out by the optimists and by the current run of good data. The doves have a point though.

Singapore - June domestic exports very weak.

Singapore's Non-oil domestic exports (NODX) for June were very poor. Year on year growth fell from 15.5% in May to only 1.1%. And bearing in mind that this was largely pre-trade-war tariff data, the outlook is not encouraging. Electronics exports were soft, falling about \$0.5bn from May, with integrated circuits doing most of the damage. Within the non-electronics cluster, pharmaceuticals fell too from May. We are taking a hard look at our Singapore GDP forecasts alongside all of our Asian GDP forecasts. A small open economy like Singapore is highly exposed to a global trade war, and we will likely be cutting out forecasts shortly.

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