Opinion | 12 December 2019

Johnson ‘trumps’ Trump amid UK and trade deal drama

UK PM Johnson "trumps" President Trump in the headlines today as his Conservative Party heads for a big majority, overshadowing news that President Trump has 'signed off' on a Trade Deal with China (this is not to say he has actually signed anything official)

The results of an exit poll following the UK general election are projected onto Broadcasting House in London

Love him or loathe him

According to some of the news I am watching this morning, Boris Johnson is heading for a majority of more than 80 seats in the UK General Election, dispelling any thoughts of a hung parliament and giving the pound a big boost. Though whether the majority is 86 or just 6, in the UK parliamentary system, a majority is a majority and will provide a strong boost for Johnson in his efforts to take the UK out of the EU.

James Smith in London and his colleagues are still up and following this story as it unfolds, so follow their comments on social media for the next few hours to see what they think.

Here a couple of their tweets already (see below)

James And Chris Turner have already started to push out the products - here is a link to their first output shortly after the exit poll was released.

What comes next? The trade deal is now going to take the place of Brexit negotiations with the timetable for a substantive deal trade deal looking improbably tight. Perhaps we should take a leaf out of President Trump's book and aim for a phase one deal during the transition, and hammering out a more substantial deal later? Consideration of that can wait for another day though.

Talking of a phase one deal...

Bloomberg is reporting this morning that President Trump has "signed off" on a trade deal with China, and the Dec 15 tariffs on $160bn of goods will now be averted.

The other aspects of the deal include a reduction in the existing tariffs by 50% (presumably meaning that existing tariff rates will be halved) and in return, China has apparently agreed to buy more agricultural products and enhance intellectual property rights.

> *A deal almost looks to be in the bag*

What we are reading - and it is a bit patchy right now, pinning things together from multiple sources - is that the terms of the deal have been 'agreed', but that the legal text is still to be worked on and has not actually been 'signed'. I've also seen that China's 'promise' to buy more agricultural products does not amount to a contractual obligation, more of a gentlemen's agreement. I believe this aversion to making an agricultural commitment was a factor holding up a deal up until now, so if this has now been overcome, it could be viewed as a concession by the US side.

Anyway, a deal almost looks to be in the bag, but until those legal texts are signed - and the translations can be awkward - I don't think we will use the phrase "signed off".

Markets

Markets are in fine form this morning. The reduction of near-term UK hard-Brexit risk and US-China trade deal prospects have lifted the S&P500 to what looks like another record high. Bond yields are higher too, with the US 10Y Treasury back to just under 1.90%. EURGBP is at 0.83, quite a swing from 0.93 back in August last year, and cable has spiked up to 1.347 from 1.32. The euro is also being pulled along by the pound and EUR/USD is up to 1.1185, its strongest in over two months.

Likewise, USD/CNH is down sharply to 6.95 a clear break below the 7.0 level. I suspect China stocks will also take heart from this today

The question is, however, does this now mark the point at which you take profits and bank gains? With the calendar where it is, the temptation is to say yes. Indeed, many trading houses will have pretty much closed their books for the year already. But do they kick off next year in a more cautious form? Or does an incipient trade deal and pause in Brexit angst provide a further boost to sentiment and market prices through 2020?

My guess is that the answer is "both", and that the bears and bulls will spend 2020 wrestling with a combination of altitude sickness, mixed with ebullience. Directionally, that could still be positive on the whole, but don't expect it to be a smooth ride. So keep those sick-bags handy.

Tankan - beware the headlines

As I walked over to do the morning meeting with sales and trading a few minutes ago, I noted TV screens running with the headline "Weak Tankan". Japan's 4Q Tankan survey of business conditions undertaken by the Bank of Japan can be as important as GDP, so we need to get it right. And it isn't universally weak. People tend to focus on the headline index for large manufacturing firms, which fell from +5 to zero, which was a bit worse than expected, and the small manufacturers were also weaker at -9. But the large non-manufacturing firms' survey fell only 1 point to 20 from 21, which was better than had been expected, and there was a similarly better-than-expected outcome from small non-manufacturing firms dropping to only 7 from 10, not 4 as markets were expecting.

The JPY hasn't actually done a lot on this release, which I think is the right reaction, and I wouldn't expect it to now that it has shrugged off the headline news. Likewise, this result doesn't have any substantial implications for the Bank of Japan, and we now await the fiscal stimulus form the government to provide the underpinnings for growth over the next 15 months.

That's all folks

And with that, I'm going to 'sign off' for the year.

I am in on Monday but have an early TV interview, so won't have time to write anything then. And after that its several weeks of lie-ins, tennis, overeating and drinking coupled with a week in Laos to unwind before we get stuck into 2020.

For those celebrating it, have a very Merry Christmas, and for the rest of you, the very best wishes for the New Year.

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