

## Uneasy calm

The dollar looks weak against Asian FX and the majors. Over time, there is a very good chance that it will go weaker still against Asian FX. But the chance of a final market-busting hurrah remains. Here's how...



Source: Shutterstock

### Continued trade progress

Progress on trade negotiations, we are told, is ongoing. That is reason number one for taking a relaxed attitude to risk and holding any Asian currency except the USD. That trade progress may be supported by a foreign investment bill being discussed by China's NPC Standing Committee today, which will support US calls for China to open up its markets, and some further USD weakness.

At the same time as all this is going on though, the US, according to Bloomberg Daybreak, is charging Huawei with bank fraud (amongst other things) and it feels like the US is treading a dangerous path in seeking difficult concessions on one hand, whilst vigorously pursuing Huawei on the other. I'm not questioning the legal processes underway, but the timing could be better, just as the US and Chinese negotiators settle down to pivotal talks with just one month until the end of the trade truce. From March 1 onwards, assuming that China does get granted an extension to the truce (I don't expect it to be more than that), the scope for some pushback and worsening of the

trade backdrop will rise. Markets may simply digest any March announcement and decide that it lacked substance on reflection. With it, the dollar's fortunes may also get revised.

## Too much data

It will be hard to cope with the slew of US data scheduled for release today and over the coming weeks. Durable goods, trade balance, home sales, home prices, inventories, retail sales, building permits. It will be harder still to disentangle the signal from the noise of the government shutdown. Is weakness really weakness? The estimates of the hit to GDP (the data release of which may well be delayed because of the shutdown) abound. These are also weighing on Fed views, which are already primed for inactivity.

Adding to the sense of lassitude on rate policy, Arch-dove, Narayana Kocherlakota (and former Minneapolis Fed President) is arguing for rate cuts, not hikes, and for renewed net asset purchases by the Fed. We doubt Fed Chair Jerome Powell will feel the need to go this far after his FOMC press conference on Thursday, but he will most likely feel obliged to reiterate the message of caution expressed late last year, and which has provided the market with a much more benign Fed outlook than the one suggested by the dot-plot. All this is currently in the price.

But in case you were getting taken in by talk of recession and Fed easing, and assuming that this is a one-way bet for Asian FX this year, don't forget, parts of the US economy are still red hot - the labour market in particular. We may not see that in this Friday's labour report, as the shutdown will likely have taken its toll. But in a month from now, this may, along with a revised view of trade, provide Fed expectations and the dollar with a further upwards boost before more data and sentiment take over.

## Asia - quiet

Asia is pretty quiet in contrast to the US and will provide little cause to review currency or rate forecasts one way or the other today. New Zealand trade, already released, has remained fairly resilient in the face of global trade concerns, with December exports only fractionally undershooting expectations and imports only straying a bit below the consensus too. This leaves the December trade balance a small NZD264m surplus. This isn't enough to excite the FX markets, and both NZDUSD and AUDNZD are ignoring this data.

NAB business conditions and confidence due out shortly, have been trending down in recent months. A further decline may tilt down the balance of expectations for the Australian economy which is perched precariously between a strong labour market and rising wages, and a weakening housing market and deteriorating business outlook. One way to rationalise the dichotomy is that the labour market, and wages in particular, are the more lagging parts of the economy. These indicators may still be on an upward trend as the economy turns over. We'll let you know where our view lies just once we prise ourselves uncomfortably off the fence. For now, flat seems the safest call for the economy and the Reserve Bank of Australia.

And this from Prakash Sakpal on the Thai production data due out later this morning: The only other Asian economic data due today is Thailand's manufacturing data for December. This will help us to fine-tune our GDP growth estimate for 4Q 2018. Coming on the heels of a steeper export contraction last month, this data is poised to provide a negative surprise to the consensus view centered on 0.6% YoY growth (prior 1%). The ING forecast is -1.0%. However, the low base effect is likely to have aided a slight pick-up in GDP growth to 3.5% in 4Q18 from 3.3% in the previous

quarter. We are wondering why the Bank of Thailand even bothered to tighten the policy in December. We aren't expecting any move this year.

## Author

### Robert Carnell

Regional Head of Research, Asia-Pacific

[robert.carnell@asia.ing.com](mailto:robert.carnell@asia.ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).