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Opinion

Unhappy Monday

A further end-of-week drop in US stocks sets a poor tone to the start of the week in Asia. German politics adds to concern over the direction of Europe's leading economy, but signs of a mechanism to get Iranian oil back on the market could help keep local interest rates down.

Circumventing the dollar

A story that has got very little press, probably because it is happening behind closed doors, has received another breath of publicity today. Bloomberg reports that the EU is close to finalizing a deal that will allow Iranian exporters to sell their oil abroad, and buyers to bypass US sanctions. Exactly how this will work, we can't say. Conjecture is of a special purpose vehicle acting as a go-between and potentially using a system akin to barter to avoid settlement in US dollars. But more this we can't say.

What is worth pointing out is that before it began to top out, the primary driver for oil's recent rise was the loss of Iranian crude in the market ([see also this from Warren Patterson](#)), coupled with logistical bottlenecks for US shale. Adding back in the 400,000 barrels a day of Iranian crude that has been lost since June this year could see the Brent crude benchmark stabilize at or below \$75/bbl. and in line with ING forecasts.

Whilst that is at the higher end of what I think consumers would like, in my view, it takes oil back into the global "sweet spot" where both consumers and producers are doing OK (\$65-\$75/bbl) - though in reality, both moaning equally (that's just human nature). In particular, this should help those Asian economies with a combination of energy price related current account difficulties, and inflation issues. Amongst others, IDR, INR and PHP stand to benefit.

As an aside, could this be an important crack developing in the USD's reserve currency status? That's a thorny issue and liable to get the sort of angry reaction that stems from writing about BitCoin, or gold prices. So I will just leave that thought dangling...anyone?

EUR/USD lacking direction

News over the weekend does not seem to have left any clear direction for EUR/USD and consequently, leaves Asian FX somewhat directionless at the beginning of the week (with the exception of the CNY and Asian basket peggers, the equity backdrop seems to be having little effect on Asian FX).

Germany's political fragmentation continued over the weekend in the state of Hesse. And while we may have wondered about the long-term future of the USD as a reserve currency, I'm having difficulty imagining a Europe without the firm leadership of Angela Merkel at its centre. This has ramifications on subjects as diverse as the form of Brexit eventually that emerges, to the possibility of future European reform.

On the plus side, there does seem to be some slight movement on the Italian budget, though probably too little for the EU Commission. But every journey starts with a single step. The net result is EUR/USD still hovering just below 1.14.

G-20 - will they won't they

As of today, President Xi and President Trump are scheduled to meet at the G-20 to discuss trade, this according to Larry Kudlow. This has been on and off for weeks now. But Kudlow also added that he didn't expect anything meaningful to come of the talks. I don't either. I'm also not sure that it is meaningful that they are even talking. From the US perspective, until China is prepared to talk about intellectual property transfers from joint ventures, there is little to discuss. And from China's perspective, until they have a firmer idea of what the US actually wants. there is not much point in starting talks.

Asia week ahead

There will be a lot of focus on China data this week. September Industrial profits numbers released over the weekend were poor - showing a rise of only 4.1%YoY, and down from 9.2% in August. This week, we have official PMIs together with the Caixin PMI. The consensus is guessing no further move taking the index through the boom/bust 50 level it reached last month. On the back of the profits figures, this seems optimistic, and our Greater China Economist, Iris Pang, expects the level to be broken, with the Caixin PMI falling to 49.5.

Data out of the US this week in advance of Friday's jobs report will have to do the talking as the US Federal Reserve is in the blackout period ahead of the 9 November rate meeting. Markets are beginning to doubt the 2019 hiking story again given the equity backdrop. But I don't think the Fed is ready to change course yet,

And from Prakash Sakpal: The Pakatan Harapan coalition government is due to unveil the 2019 Federal Budget this week (2 November). Significant policy changes such as the elimination of Goods and Services Tax have derailed a decade-long fiscal consolidation. We expect this to push the fiscal deficit above 3% of GDP in 2018 and keep it there in the coming years. Yet, with the expectation of continued monetary policy accommodation for a prolonged period, the macro policy mix still remains healthy.

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