

Countdown to kick-off

No, not the World Cup, the implementation of tariffs by the US and China on July 6th



Source: Shutterstock

The phoney war is over - now let's see what the real trade war brings

We have had a lot of chat prior to this trade war, but tomorrow marks the kick-off of actual tariffs between China and the US, with China saying it will not impose tariffs before the US does - it will not fire the first shot.

Markets have been roiled in the run-up to this point, but it is worth asking if the actual war will deliver more turmoil? In financial markets, the commencement of an actual event is often less of a big deal than the anticipation of the event itself. So will this be the case this time? There are good reasons to believe that this trade mess will continue to deliver further damage to market long after tariffs are first imposed.

Why? Well, the tariffs themselves are not so much the problem, it is what they will do to global growth and global corporate profitability that are the issues. And in my view, these effects will not only be slow-burners, but we could well see the imposition of tariffs ratcheting up over time so that whatever is priced in now, does not cover the totality of tariffs over the medium to longer term.

Connected with this, we note with interest the Australian pensions behemoth, Australiansuper announcing a trim to its equity portfolio today - we think that for long-term investors like this, this is a highly significant development.

And its payrolls on Friday too!

Oh, yawn. Another payroll Friday nears. OK, we will give the wages figures their usual scrutiny. And our US economists are keen to point out that all the indicators for wages are looking very hot right now. That's true, it has also been true for some time. The environment is certainly conducive to wages growth picking up to 3% or higher in the coming months, with the 2017 wage growth figures racking up only 0.2% MoM over June to August, meaning that every 0.3%MoM monthly increase we get over the same period this year, will add 0.1% to the annual growth rate.

That's all very well and good, but I would make the point that if the usual relationships were holding, wages growth would be 4%YoY or higher already. And I don't think a modest increase in wages over the coming months actually changes all that much - wages growth will still be barely keeping pace with inflation. With the unemployment rate as low as it is, that is quite poor and doesn't require a lot of offsetting Fed tightening. Bullard, and increasingly Kashkari seem to be talking a more sensible story on Fed rates than some of the other FOMC members Time will tell whether Powell really is a hawk, or whether his true colours are more dove-grey.

What's going on at the ECB?

Un-named confidential ECB sources are whispering in the shadows that markets are not pricing in an early enough deposit rate hikes. Why? I really have no idea, but maybe they simply want markets to avoid any surprises down the track. Its a heck of a long way off though. And really anything can happen between now and then. So I'm at a total loss to explain why this needs signalling now.

The EUR did spike on the news, but not all that much. This is not a story I would chase hard if at all. If we are in the depths still of a nasty trade induced recession, even December 2019 will seem too early for an ECB deposit rate hike.

Asia today

We've already had some strong looking current account data for Korea this morning, with the current account surplus shooting up to \$8.6bn in May from \$1.8bn in April. The surplus on goods was only a little higher though, at \$11.4bn from \$10.4bn, and this puts it into the mid-range of the prevailing trend from about 2015. What caused the big surge in the current account total was a huge reversal in dividend incomes paid on equities. This is purely seasonal and follows the usual April dividend payment spike.

We also yesterday saw the Indian government hiking minimum support prices for agricultural goods, aimed at supporting farm incomes. This is going to keep inflation higher than otherwise and could spur the RBI to hike again, as soon as this quarter and probably next as well.

Otherwise, today we have May Trade figures for Malaysia. We see some downside risk to the consensus MYR10.5bn view, as election disruptions and unfavourable base effects weigh on this sector.

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

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 <http://www.ing.com>.