# Countdown to kick-off

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

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## 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.

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