

## USD still looking soft

Despite the rising tension over a possible auto-related US-EU trade spat, the USD is still looking a little soft - this may not be turning out quite as expected. It certainly didn't enable me to run with the title "Car-nage" this morning. That opportunity may still come...



### Rule of thumb

The rule of thumb regarding trade and currencies that has served us well in the last twelve months runs something like this: If there is a trade dispute involving the imposition of tariffs by one nation against another, the "aggressor" nation (usually the US in the context of recent history) will see their currency strengthen against the "recipient" nation (for which read, China, Mexico, Canada, etc).

The reason for this is that financial markets like *balance*, so if one country gains an advantage through some means such as tariffs, then the currency automatically changes its external value to lean against this. If it went the other way, then tariffs would not only buy you a competitive advantage, but your currency would swing in behind with a double whammy, and everyone would end up tariffing everyone else to enormous benefit, and that simply doesn't make sense. Sometimes (not often) economics actually works.

So it is a bit odd this morning to see how little the latest trade concern over autos and the EU is

impacting the EURUSD rate. Since we wrote yesterday, EURUSD (then trading at just under 1.13, is now at 1.1311, having been as high as 1.1334. Of course, there is plenty of other stuff going on. But as a relatively "new" (old really, but having a bit of a renaissance) story, I would have expected this to have gone the other way.

The story was a bit under the radar yesterday, so it may get more prominence today. If not, scrub that. Move on. Look for the next idea.

## SGD steady after budget

Yesterday's Singaporean budget delivered a fiscal boost of 1.1% of GDP for 2019, assuming that all of the change from the 0.4% surplus for 2018 to the 0.7% deficit projected for 2019 is policy, not cyclically driven. Even allowing for some small tailing off in government revenues due to the economic slowdown, the budget provides a decent offset to an external environment that is clearly providing headwinds for this very open economy.

The SGD didn't do a lot on the day. Some intraday strength gave way later on, and today the rate of 1.3565 is virtually the same as this time yesterday.

We won't be amending our 2.5% GDP forecast for 2019 just yet. This always felt like a somewhat generous forecast to us, so there is some slack already built into it for things such as this. Indeed, we may yet have to trim the figures.

## Asia today

The newsflow has already got off to a weak start with Korean export prices (mainly semiconductor prices) continuing to fall. Import prices have risen, which suggests that a terms-of-trade shock is underway which could benefit from some KRW weakness. There isn't much evidence of that today either, so economics seems to be failing us again...

The other events to watch today are down-under, where the Reserve Bank of Australia's minutes for the Feb policy meeting (rates unchanged, but bias shifted) will be released. That could put meat on the bones of Governor Lowe's more dovish comments and the accompanying statement. The AUD has been doing better in recent days on an improved global trade outlook. But recent comments from Assistant Governor, Christopher Kent, suggest that the RBA would be extremely relaxed to see the AUD weaken further.

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