USD200bn trade deal on the table

Buried in the newswires behind Trump's skepticism for a deal, is a story of a $200bn trade deal offered by China

Is this for real?

According to newswires, China has offered the US a trade deal worth the demanded $200bn on greater purchases of US goods (the bilateral deficit of China with the US is about $350bn). The source quoted is an unnamed Trump Administration official.

This revelation comes in a week where China's Vice Premier, Liu He is in Washington for trade talks.

We aren't popping any champagne corks yet. This story has yet to be confirmed by other sources. The US has not yet said it accepts. We do not know the details. But it is a huge deal if so.

Moreover, it counters the downplaying of expectations for the talks by the US President himself, who said that that he didn't see much hope for the ongoing US-China trade talks ("Will that be successful? I tend to doubt it" - Trump). Larry Kudlow, Trump's Economic Adviser, has already described the talks as "difficult". And there were ongoing problems surrounding the participation of trade-hawk, Peter Navarro too.

So if talks succeed, what next. Well, I suppose that tariffs will not be imposed - at least on this front, there are many other trade spats going on, some of them including the EU. Trump described both China and the EU as "spoiled". The EU for its part is looking to impose retaliatory tariffs if the US imposes steel and Aluminium tariffs, saying that it refuses to negotiate "with a knife at its throat".

If a deal is done, then it is obviously good news for:

1) World trade, obviously and;

2) by extension, world GDP growth (the two are intricately related);

3) Global price inflation should remain contained - tariff measures will not have to be absorbed in margins, and;

4) to the extent that this could have happened, the counterfactual is stronger corporate profits so that;

5) World stock valuations will be supported;

6) Where bond yields go is indeterminate in this thought process, but first higher on rising optimism and growth expectations seems a reasonable guess;

7) Which currency will respond best? This is a much tougher call which needs more thinking about. I'm sure our FX colleagues will have written about this, I will ask them and get back to you - hopefully with a snappy infographic that explains it all. But a better trade balance for the US is presumably good news for the USD, and by implication, that may add further problems to Asian FX, including safe-haven currencies such as the JPY. More on this soon...

G-7 overnight macro news and day ahead

The overnight macro news from the US contains little of huge interest. A substantial overshoot of expectations by the Philly Fed signals strong manufacturing data in the months ahead, but these regional surveys are not hugely reliable as national indicators. Indeed, even the national indicators are not hugely reliable month-on-month guides to the national picture.

Japanese CPI just released was disappointing, though expectations for an inflation pick up are vanishingly small, so the impact on the JPY should be short and muted.

The rest of the day is pretty quiet - some Canadian inflation and sales figures won't buck the market much and EUrozone trade figures aren't usually a big market mover.

Day ahead - Asia Pacific

This could be a good day to catch up on your filing, or doing those important personal chores you never seem to find time to do. Thai FX Reserves and Indonesian auto sales should pass us by with no incident. Only the overall Philippine Balance of Payments data will be worth a very quick look, though this "bottom line" number won't add greatly to our understanding.

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