War and Peace

National Economic Council Director Gary Cohn resigns over tariffs. North Korea's Kim Jong-un signals he is open to talks with the US

Trump still talking about trade wars - Cohn resigns

Markets have been shrugging off the threat of trade wars in the last few sessions. But despite trade-fatigue (and it has only been a few days) there has really been very little change in the comments from Donald Trump, despite other members of the administration (notably Gary Cohn and Steven Mnuchin) apparently trying pressure him to change his mind or at least scale back the tariff rates. This doesn't seem to have worked, and the breaking news this morning is that Gary Cohn, Director of the National Economic Council, is resigning over the issue.

Trump, for now, seems unbowed. A 25% tariff on EU cars is his response to potential retaliation to the aluminium and steel tariffs by the EU. It won't end there. It is hard not to characterise current market behaviour as complacent.

Stock futures are lower on this news, the US dollar looks weaker, but bond markets seem unclear whether to rally on the growth dampening impact of potential tariffs, or to sell off on their inflationary potential.

Peace to break out in Korea?

I've just returned from Korea, where I imagine the suggestion that North Korea is open to talks about its relationship with the South, and its nuclear future will be being viewed with extreme scepticism. Kim Jong-Un has seemingly indicated that he is willing to discuss a peace deal and de-nuclearisation with the US, subject to guarantees about his regime's future.

Whilst no-one likes the way North Korea is run, the bigger deal for the US is denuclearisation for North Korea. China will also view this as an acceptable balance, as it prefers to maintain the regime rather than see it collapse and spark a refugee crisis.

While a positive view on the offer of talks will add to the risk appetite of markets, and the Korean won has made gains against the US dollar in the last 24 hours, this offer may well come to nothing, and there are other issues that are pushing market sentiment in the other direction.

Day ahead - labour data from the US, EU Growth

There is really only one source of potential market interest on the G-7 economic calendar today, and even that may underwhelm. The US ADP survey of employment due just a few days before Friday's non-farm payrolls would be interesting if financial markets were concerned about US job creation. They aren't. They are, however, wondering if last month's modest hourly wages increase (2.9% YoY) will be maintained, exceeded, or revised away. There is, unfortunately, no likely indication of wages in these data, only employment.

- In China, eyes will remain on the National People's Congress (NPC), and press conference by Finance Minister, Xioa Jie. Further detail may emerge on the suggested merger of many government agencies. FX reserve data will likely be dominated by currency valuation fluctuations.
- We also get Taiwan trade data today. We are looking for a stronger trade balance figure than the $2.4bn consensus figure. Earlier, Korean trade figures were also a little stronger than expected.
- Bank Negara Malaysia (BNM) meets today to discuss rate policy, but it's unlikely to tighten rates ahead of the Parliamentary Elections to be held by August at the latest.
- Australia releases 4Q17 GDP data, which could come in a little softer than previous quarters (0.6% in 3Q17). RBA Governor Philip Lowe has been on the wires overnight, noting that the next movement by the RBA would be higher. But this won't be anytime soon, he says.

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