

14 September 2018  
Opinion

## What could possibly go wrong?

With markets ending the week in an upbeat mood, is there anything on the horizon that could wreck this Friday feeling?

### Bring on the data

We've had a brief respite from emerging market anxiety, thanks to some helpful central bank action and a little softer US inflation data that *maybe* reduces fear that the US Fed will have to keep hiking and hiking rates into 2019. We have even witnessed a rare phenomenon - the US 2s10s curve steepening a little, as 2Y yields dipped on the inflation data whilst the 10Y yield nosed closer to 3.0% as equities rallied. The dollar was also a little softer as a result, helped along by the ECB statement and confirmation of the looming end of QE. The INR and IDR have staged a small, but welcome rally as a result.

So what could leave us with a nasty taste in our mouths as we head into the weekend?

Well, the China / US trade talks we talked about yesterday are by no means a strong contender for further good news. Though there are a few more positive stories floating around, some of which twist the hypothesis we highlighted yesterday that the US is using the momentum of tariff increases to pressure China towards a deal. The latest version morphs to one where domestic US political pressure is forcing the US negotiators' hand. I don't see it myself. Unless the public consultation on the section 301 tariffs was so damning that it would be impossible to even get it off the ground, I would say that the US still holds most of the cards in this negotiation. That aside, there is abundant downside risk to this story.

And then there is today's data...

### How's China coping? Watch and learn

Today will provide some further clues as to how China is coping in the midst of the trade war, with the release of the jobless rate, industrial production, fixed asset investment, and retail sales. And following the downgrade of our China Economist's [GDP forecasts yesterday](#), will indicate if we are on the right track, or if more needs to be done, either here, or to our USD/CNY forecasts.

India's trade data for August is also due. We share the consensus view of a slight narrowing of the trade surplus to \$17 billion from \$18 billion in July. The lower trade deficit figure will help to consolidate the rupee's latest gains, though we are sceptical that this will provide lasting relief. The authorities seem to be dragging their feet on measures to support the currency and we don't think the worst is over. The recent dip in Indian inflation is also likely to be reversed as the impact of weak currency filters in, while oil imports swell the trade and current account deficits. We are sticking to our view of the USD/INR rising to 73.50 by end-2018.

News from the G-7 is likely to continue in an upbeat tone, with US August retail sales and University of Michigan consumer sentiment indices both likely to be on the strong side, according to our US economists forecasts. That said, strong figures for these data could push up Fed rate hike fears again, so could be a bit of a double-edged sword.

Following these releases, all data may take a bit of a knock from, of all things, the weather. With Hurricanes about to strike the East Coast of the United States, and Super-Typhoons lashing much of Asia, we are likely to see data heavily distorted in the coming few months. Activity data will be

down. And prices will likely be up. This is going to make it hard to tell what is really going on. Fear tends to pick up when confusion reigns, so market volatility may be the main theme for the coming month.

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