You win some, you lose some...

The US-North Korea summit disappointed markets - although expectations were probably unrealistic. Seen as a process, not as an event, some progress of sorts was still made. The bigger prize remains the US-China trade deal - much more positive noises are emanating from the US.

Korean market sell off in perspective

The early end to the Trump-Kim shutdown is a shame, not least for Vietnam, an economy I like, and which had an opportunity to showcase itself on an international stage.

The Kospi index fell by 1.8% on the day, a sizeable move, but not an unprecedented one. What did equity markets really believe was going to come out of this summit? I assumed we would get virtually nothing, and I'm not feeling too bad about it this morning. Currency markets responded far less. Yesterday's KRW decline was unexceptional by daily standards. The uptick of the 5Y sovereign CDS of 0.5% is equally unremarkable. In two months time when you look back at some of these charts, you will be hard-pressed to identify yesterday's price action.

And actually, in some ways, progress has been made. Both sides know more about each other than they did before they sat down. North Korea knows that the US knows about its other nuclear facilities, and won't be able to pass off token gestures as meaningful moves. And the US knows that the North Koreans are prepared to move, though perhaps not at the pace and to the extent currently desired. A deal is still possible. The relationship is still intact. Though it will probably require a lot more legwork.

Kudlow sounds positive about trade deal

According to Larry Kudlow, the US President's Economic Adviser, the US and China are close to a "remarkable historic deal" with progress apparently on state-owned enterprise subsidies and currency intervention. A final deal could be signed in weeks, according to the same article.

This is a far more important development than any disappointment felt over the Vietnam summit, and could provide a substantial boost to markets, not least those in Asia, which stand to benefit the most.

We'll believe it when we see it. We have had far too many conflicting reports over recent months to get too carried away with one soundbite, and despite a certain near term boost to market sentiment, the devil of any deal in the following months will be in the detail. Crucially, we don't know if this deal will deliver a removal of existing tariffs. That would be a massive boost. Or just a suspension of increased tariffs, which would be less helpful, but still deliver a relief rally.

India: 4QGDP growth of 6.6%

(from Prakash Sakpal)

India’s 4Q18 GDP growth of 6.6% YoY was spot on our forecast. The slowdown from 7.1% in the previous quarter isn’t out of sync with what’s observed elsewhere in Asia. The growth slowdown coupled with low inflation might vindicate the central bank’s (RBI) latest policy rate cut in February. But unlike some other Asian central banks, the RBI’s options of further easing are limited. We believe inflation has bottomed and the low base effect together with the impact of rising global oil prices and weak currency will begin to push inflation higher in the period ahead. Meanwhile, there is some relief on the horizon for the rupee with Pakistan moving to diffuse the border tension with India. We might see some consolidation from the recent sell-off, though we expect geopolitics will remain a key headwind for local markets until elections in May.

Asia Day ahead

The expansion of Chinese shares in the MSCI index provides some interest for equity investors. The Shanghai Composite index has been rising since the beginning of the year - a combination of liquidity injections and probably a bit of MSCI front running providing the impetus.

But is this a "sell on the fact" story? The index's recent price action has seen it stalling a little below 3000. But liquidity measures are likely to remain supportive in the medium term.

South Korea's exports fell by 11.1%YoY in February. This was worse than the consensus forecast, and our own forecast was well wide of the mark. Falling semiconductor prices are apparently doing most of the damage. Shipment volumes are holding up better. So this is less a trade war story and more of a global semiconductor slump story. That means it is cyclical, and will at some point end. Though I'm wondering if it might take the 5-G roll out to deliver a meaningful recovery.

Manufacturing PMI data forms the bulk of other releases. Following yesterday's disappointment from China, these will probably also decline. Figures due from Malaysia, Japan, Thailand, Philippines, Indonesia, Vietnam and the Caixin China PMIs, where the consensus is controversially for a slight bounce from last month.

Inflation forms the other core component of today's Asia releases, with data from Thailand and Indonesia. Thai inflation should increase to about 0.5-0.6%, though principally a base effect increase. We don't see Thai inflation entering the BoT's 1-4% inflation target at all this year. Scope for a rate cut later in the year? It's unlikely I think, despite relatively high real rates, a soft domestic economy, and a strong currency. That doesn't mean it wouldn't be helpful to the economy.

Indonesia's inflation still looks to be trending lower, and they are another central bank with high real rates, though their priority seems to be reducing the current account deficit, so rate cuts are probably off the table for them too.

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