Focus on G20 Summit

• Growing focus on meeting between President Xi and President Trump

• Both US and China focusing more on currency matters

• July and August could see a rise in realized volatility

With the market fairly evenly split between whether there will be two or three rate cuts by the end of the year, it’s currently difficult to imagine the Fed saying anything following its June 18-19 meeting that might prove particularly shocking to the market.

This suggests that the main focus for the markets over the next few weeks will instead prove to be the G20 summit in Japan on June 28-29 and what might result from any meeting between Presidents Trump and Xi.

The first question to be asked is if the meeting will take place at all. With President Trump clearly stating that a failure to meet with President Xi at the summit would lead to the imposition of further tariffs, it’s clear that the question is a reasonable one.

Indeed, it’s arguable that by publicly pressuring President Xi to take part in the meeting it has become more difficult to answer this question.

However, what seems a little easier to say is that even if it does take place it’s a little harder to imagine a similar

Newswatch

1. "We’re going to either do a great deal with China or we’re not doing a deal at all" - President Trump

2. UK - Telegraph poll finds as PM, Boris Johnson would win a handsome election majority
outcome to the December G20 meeting emerging.

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On the US side the threat remains that tariffs will be imposed on the last USD 300bn of Chinese imports to so far escape the trade dispute.

It’s also arguable that the President’s fresh comments about Fed policy hint that (at least indirectly) he would like to do something to weaken the USD.

However, unless the Fed actively starts considering QE or the US Treasury is instructed to take action directly (which seems highly unlikely) then it’s hard to see what can be done by the US right now to weaken its currency.

On China’s side there has been a great deal of discussion around exports of rare earth metals.

From the FX perspective, however, it’s hard to avoid The South China Morning Post article discussed yesterday that highlighted that while Beijing agreed to the principle that it should not use currency depreciation to gain trade advantages, it wanted more flexibility and control in how it managed the CNY.

It’s clear that FX is becoming a central issue for China

Governor Yi’s comments last Friday both extolling the virtues of greater flexibility in the management of the CNY and highlighting that “the trade war would have a temporary depreciation pressure on renminbi” picked up on exactly the same theme.

Taken together it’s clear that FX is becoming a central issue for China. That also suggests that while nothing is likely to be allowed to happen pre-Osaka (a point also made in an MNI report yesterday), the situation could change heading into July and August.
Indeed, it’s worth remembering that Beijing has something of a history of policy shifts in June, July and August.

The broader point is that the late summer months (August in particular) have a history of heightened volatility emerging in the FX markets.

With other factors (including the UK politics story) likely to be building at the same time, there would seem a reasonable risk that the current calm may ebb away before long.

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