China and G20

- China has stepped up its policy support in 2019
- Xi-Trump to give clues about what comes next?
- Fresh stimulus could underpin select APAC currencies

Pending the outcome of the Trump-Xi tête-à-tête, Beijing may look to step up support for domestic growth – a prospect that is not without implications for APAC currencies.

China’s efforts to support growth this year have been substantial and broad-based.

Among a host of measures, local governments have been mandated to issue CNY 2.1trn of bonds to fund infrastructure projects, while the PBOC has also bolstered liquidity support to small banks.

A trade truce may be in place, but what happens next may depend on the lay of the land at the start of next week. A notional agreement to strike a deal this weekend would almost certainly constitute a tonic for a weakening Chinese economy.

Conversely, in the event that US-Sino relations are seen to deteriorate (and/or the specter of fresh tariffs remains intact) then this would be an undeniable negative for China, regional markets and investor confidence in general.
But what happens next may depend on the lay of the land at the start of next week

However, unless talk of the CNY’s breach of 7 USD returns to the fold, there could still be positive implications for markets if no agreement, or an agreement to continue talking, were to trigger another, and possibly more substantial round of stimulus from Beijing.

Why could this happen?

Well, the Chinese government will be only too aware that in failing to deliver on trade, the last G20 in Buenos Aires in November/December exacerbated a slump in confidence which aggravated the country’s economic slowdown - a fact encapsulated by the subsequent 8.5% plunge in the Shanghai Composite (through to early January).

And in 2019, notwithstanding the support measures already in place, it seems quite clear that the official 6-6.5% GDP growth target for 2019 could be in some jeopardy, even if a deal is secured.

China’s large traded sector remains under serious pressure: that export growth interrupted a downtrend in May aroused suspicions of a tariff-beating strategy, but there can be no disguising the weakest industrial production growth since 2002 (5.0% y/y).

Meanwhile the official PMI dropped to 49.4 in May directly as a result of falling export orders in a harbinger of weak growth ahead.

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May’s tumbling imports also spoke of a broad weakening in the domestic backdrop, which has taken in falling home sales growth and weakening construction starts.
Consumer spending has been more positive, but then, here, the downside risks posed by a housing market shorn of stimulus are all too clear.

So if this weekend’s tête-à-tête were to prompt a fresh round of stimulus, which currencies might benefit?

Recent years offer up few periods free from Fed and trade-related influences, but as the CSI 300 rallied 34% over the first four months of 2015 (when, at one point, a fresh measure was unveiled every two days), a handful of APAC currencies took note and defied broad USD strength, including the TWD (4.3%), KRW (2.9%), the PHP and SGD (both 0.9%).

The likely scale of any stimulus and the Fed’s current intent on policy constitute uncertainties, of course, but the needs of a slowing Chinese economy should not be overlooked in any assessment of the weekend’s events come Monday morning.

Please direct questions or comments to:

AerialView@BNYMellon.com
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