# Trading View Update – assessment on recent events, China and Australian data

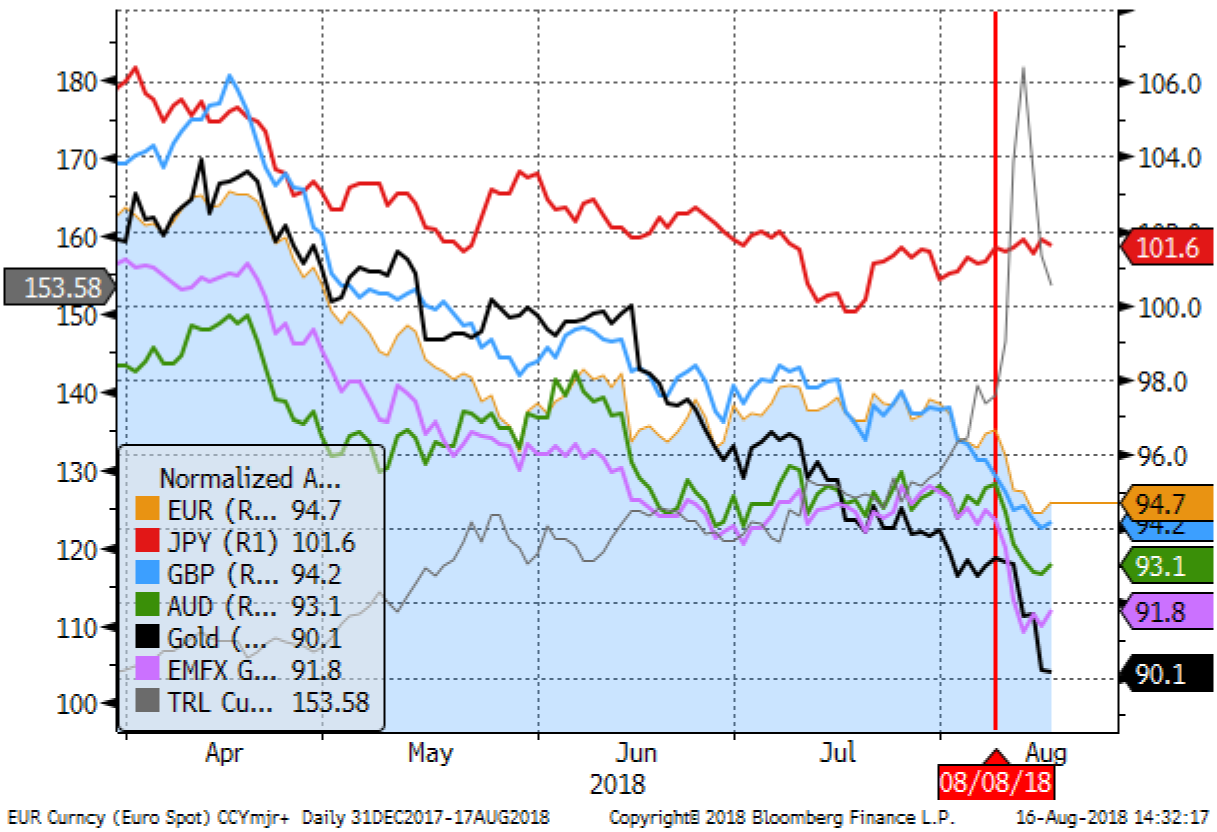
August 16th, 2018

Hi real-time subscribers.

There is a lot of event risk, and market positioning appears quite long USD against most currencies and commodities, creating the risk of a significant correction.

The collapse of the TRL over the last week has been a key driving force that has spread contagion to all EM markets, the EUR, commodities and commodity currencies.

**Breaks lower in EUR and AUD from ranges as TRL collapses since Friday 8-Aug**



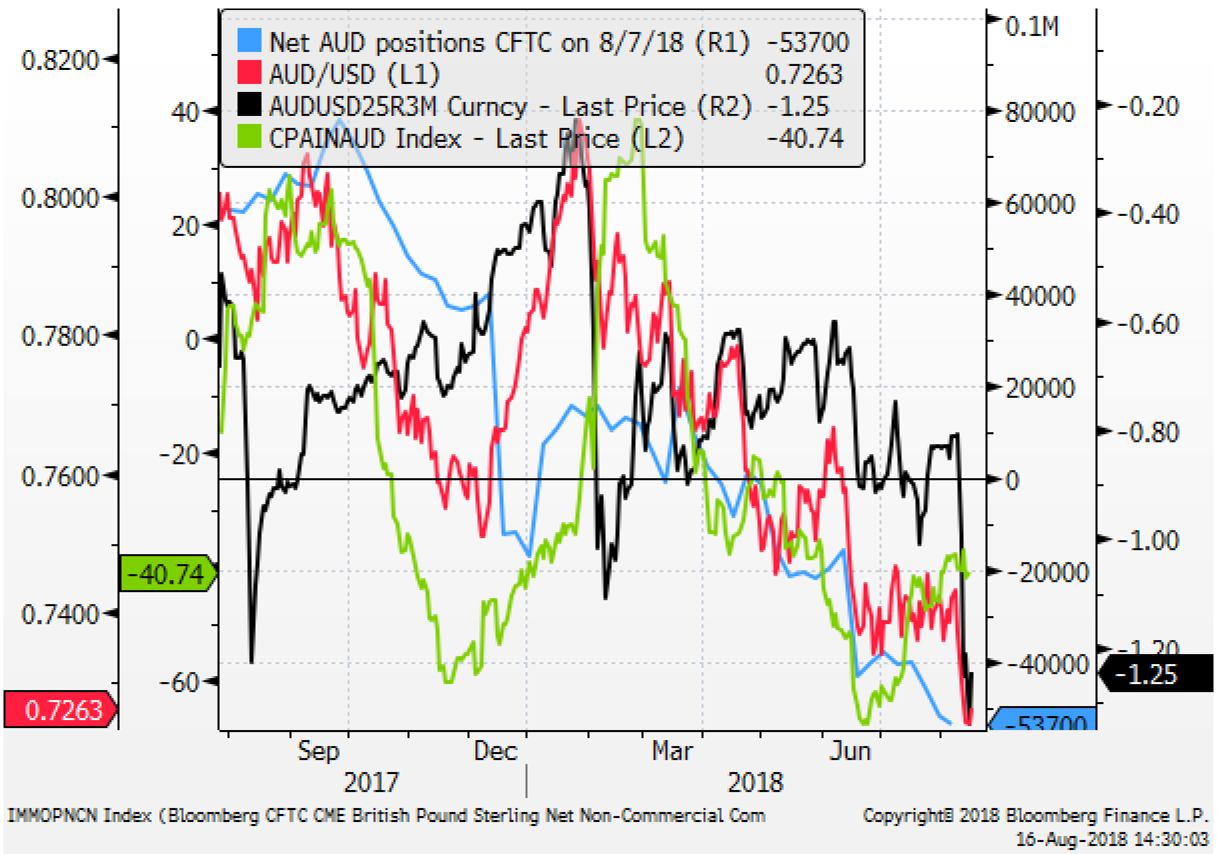

As the TRL slide accelerated on Friday last week, my thoughts were that contagion to Asia should be less than Europe, and contagion, in general, may not be all that large to global markets. Furthermore, I anticipated measures designed to stabilise the TRL and/or risk of conciliation between the US and Turkey.

As such, on Friday morning in the USA, I closed a short AUD/USD position. Shortly after I closed it, Trump tweeted a doubling of steel tariffs on Turkey. And certainly, there were no conciliatory noises between Turkey and the USA, contributing to further upheaval through Friday and early this week.

The degree of contagion to deficit currencies, ZAR, INR, IDR, etc. was significant, and equities in Asia and globally were hit very hard.

It does appear that the market got it right in this move. Positioning was significantly short AUD, NZD, and EUR ahead of the worst part of the TRL slide and break-down in these currencies.

**Market was short AUD ahead of recent turmoil**




The TRL has rebounded significantly from the lows in recent days, on measures designed to make it more costly to short, but the bounce has had a limited effect on stabilising the broader EM universe, and the USD still appears to be in a rising trend.

After the sharp moves early this week, it did not seem the right time to jump into fresh shorts in AUD or other currencies against the USD. We still questioned the importance of Turkey to global markets, feared excessive dollar longs, and event risk; including inevitable measures by Turkey to stabilise its currency.

Underlying the event risk in the market, news today that the US and China will renew trade talks has triggered a partial rebound in the AUD and broader reversal in USD gains. We doubt that these talks will yield detente, but they suggest we need to be patient and more conscious of trade location.

As such we remain square waiting for the right conditions to enter a trade

Another reason for exiting a short AUD position on Friday was that China appeared to be acting to stabilise its currency, at least on a TWI basis, and there was a lot of event risk associated with Australian and Chinese data.

That data is now out, but it still leaves a mixed view.

**China data mixed**

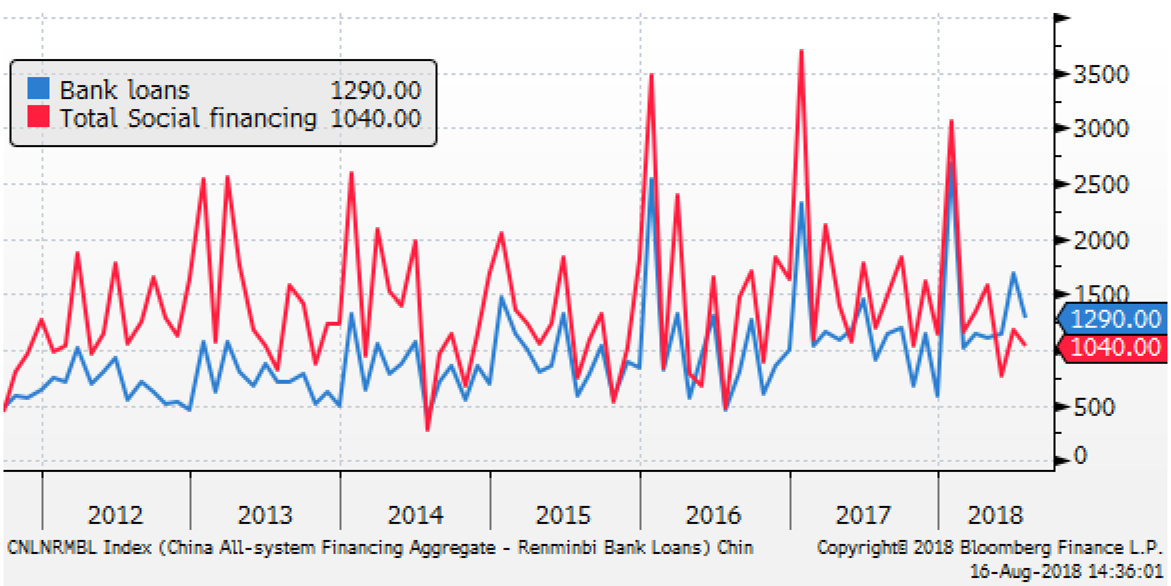
It's not clear yet that we should be trading for negative fallout from Chinese credit tightening. It certainly remains a significant risk factor for the AUD, and it probably is contributing to some weakness in the AUD, but there are also reasons to be cautious on this front.

China’s credit growth data do show negative risks with total social financing lower, despite bank loan growth rising more than expected. Shadow banking credit continues to fall quite sharply. Overall we may conclude that through July, credit conditions are tightening gradually.

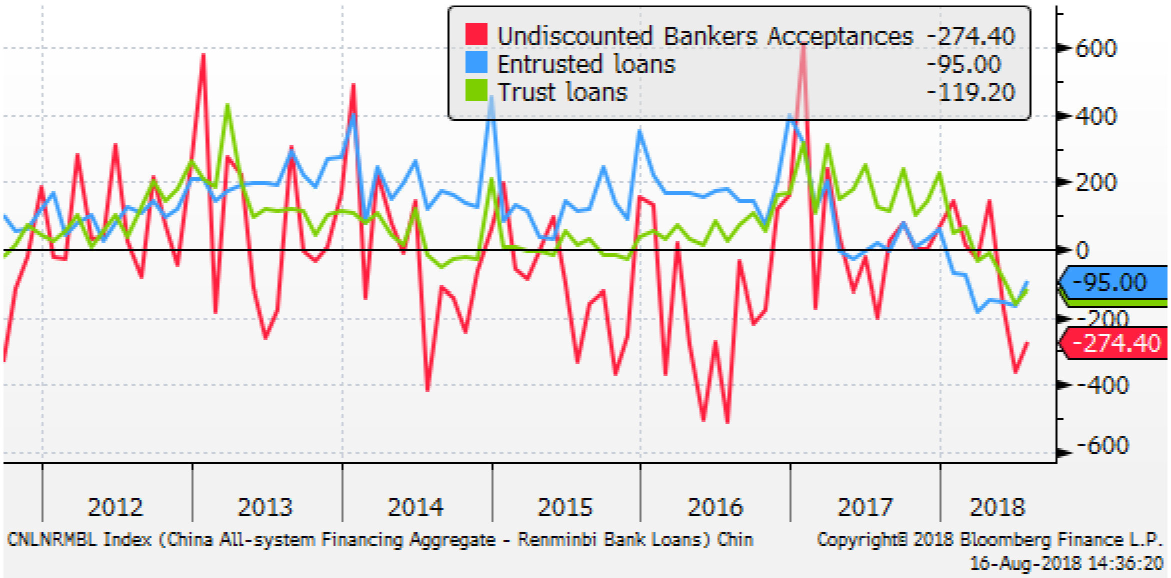
However, news reports suggest that China is acting to control credit tightening. It may further enhance efforts to prevent a significant tightening.

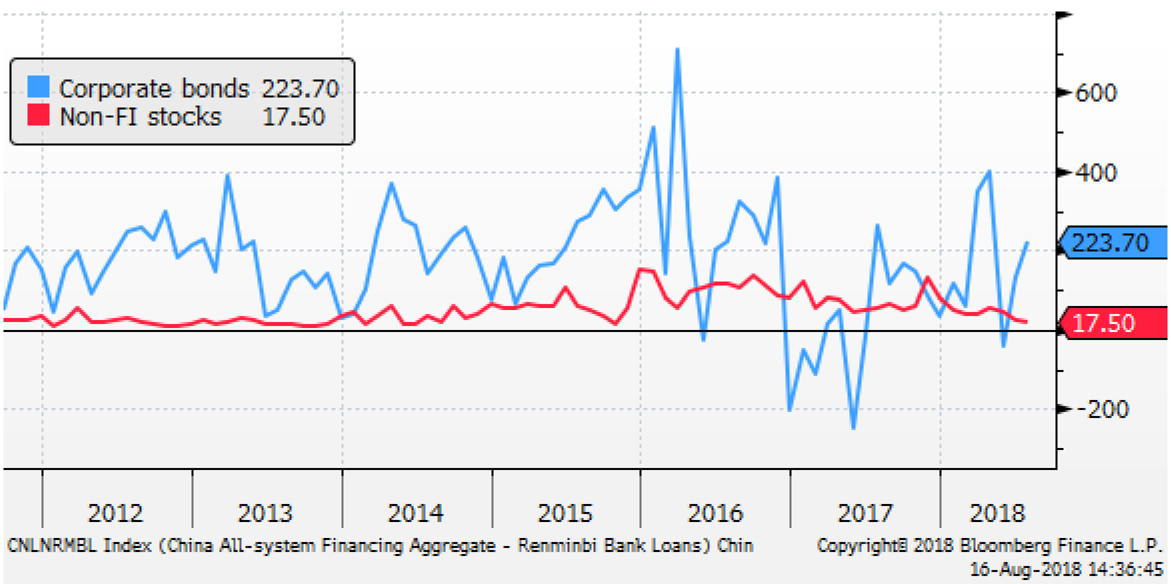
Reports include making it easier for local governments to issue bonds. The government said this week that it will still be able to achieve its growth targets. As such, we are wary of China policy efforts to boost growth and prevent a credit crunch.

**Total credit growth slowing, although bank loans growing faster**



**Shadow-financing falls**

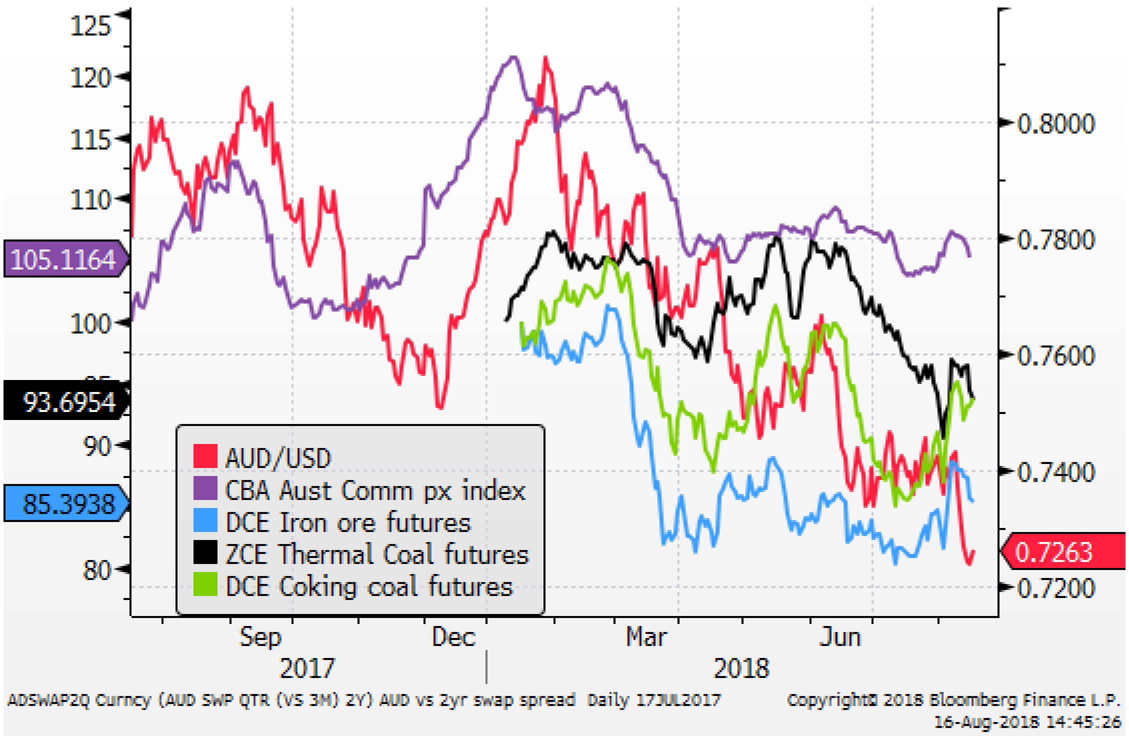


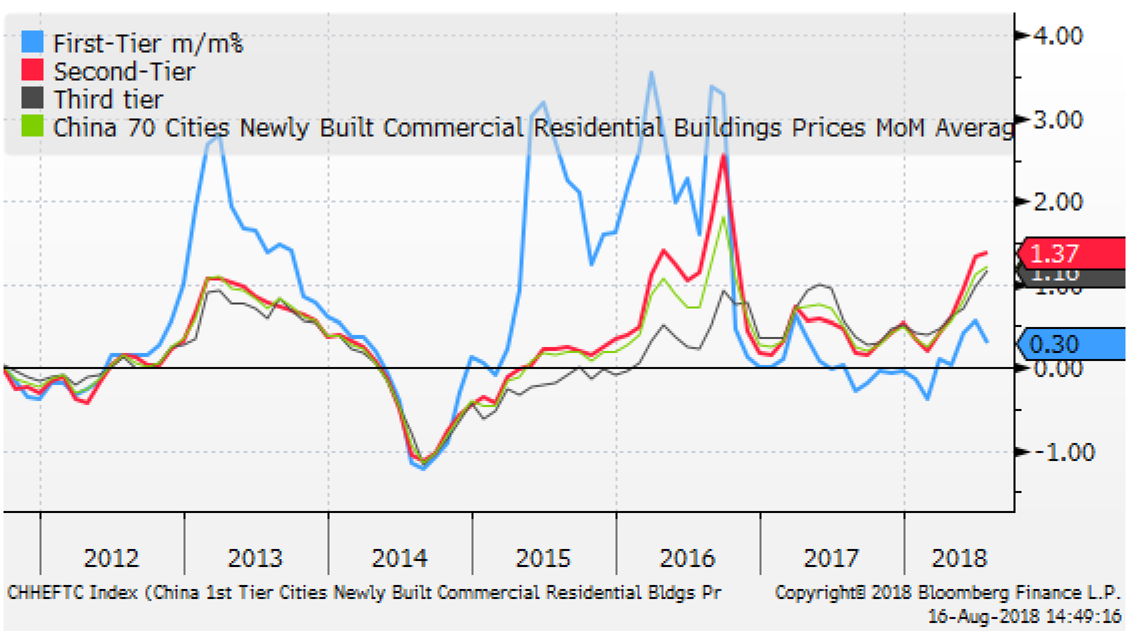

The property market data in China were strong and may be contributing to high steel prices and more stable iron ore and coal prices despite weaker copper and oil prices.

China housing activity appears to be rising. Prices, sales growth and new starts accelerated in July.

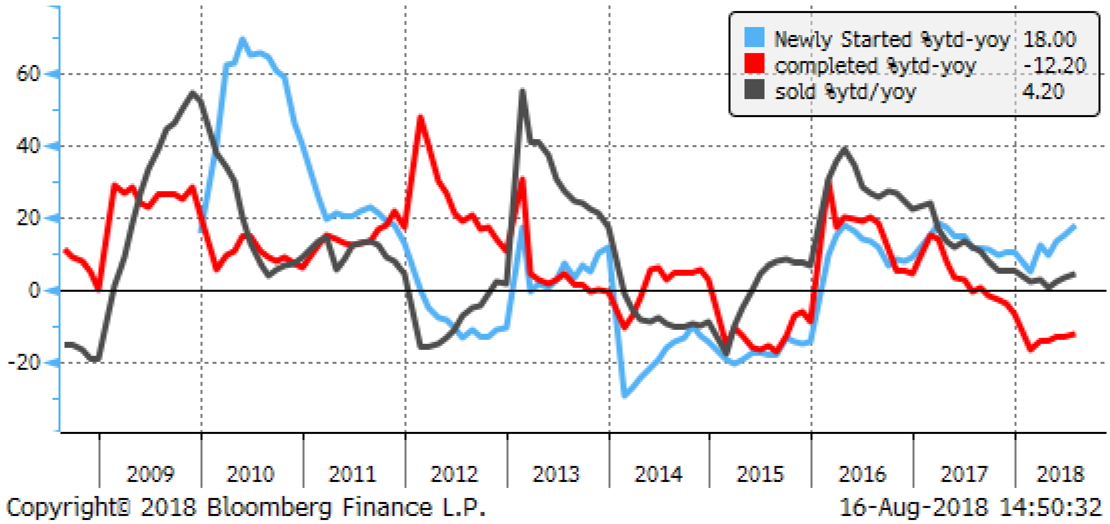
**Australian commodity prices still generally firm**




**China house prices accelerating**

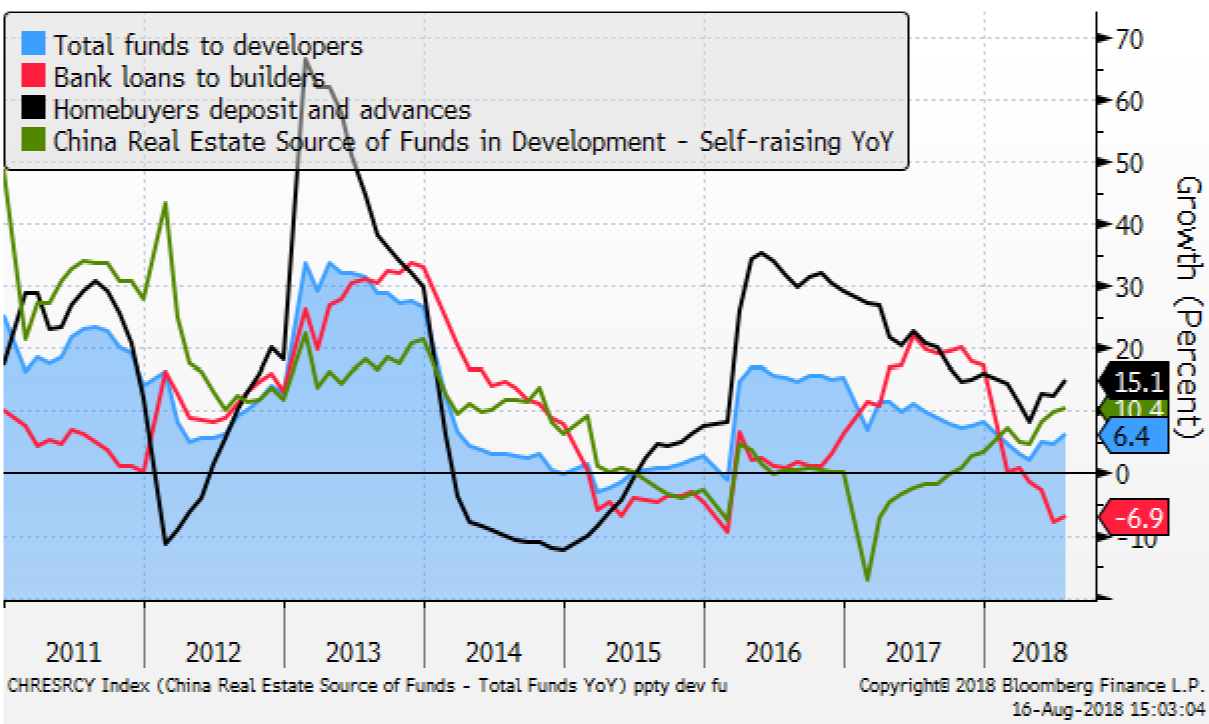


**China Housing activity – sales and new starts rising**



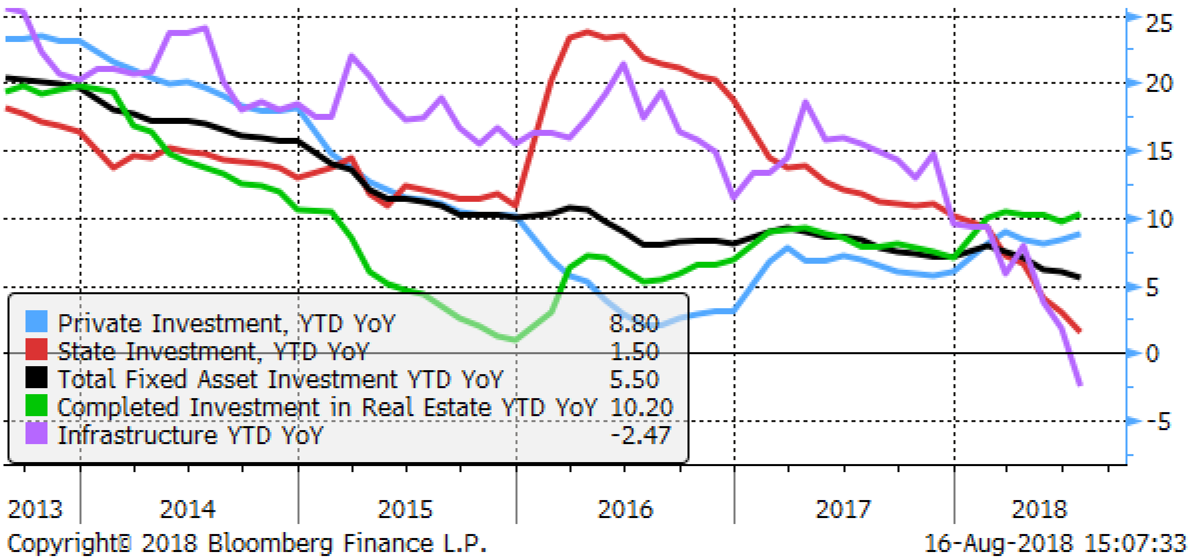

However, while the property market data seem quite strong, there are reports of tougher financing conditions for property developers weakening their demand for land, which may be a precursor for weaker construction ahead.

**Bank loans to builders are falling; they are relying more on deposits and advances from home buyers and self-funding raising**



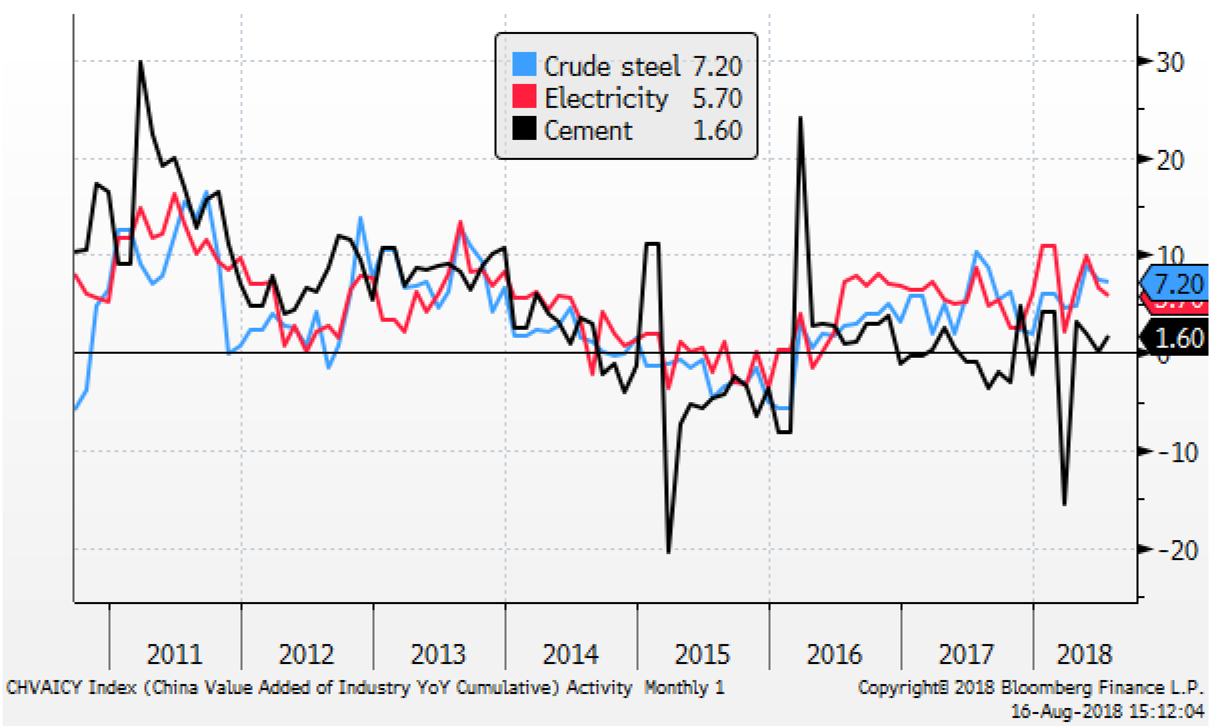
Fixed asset investment was much weaker than expected. This was driven by falling infrastructure spending. Private sector capex appears to be relatively strong led by real estate investment.

**Capex components**



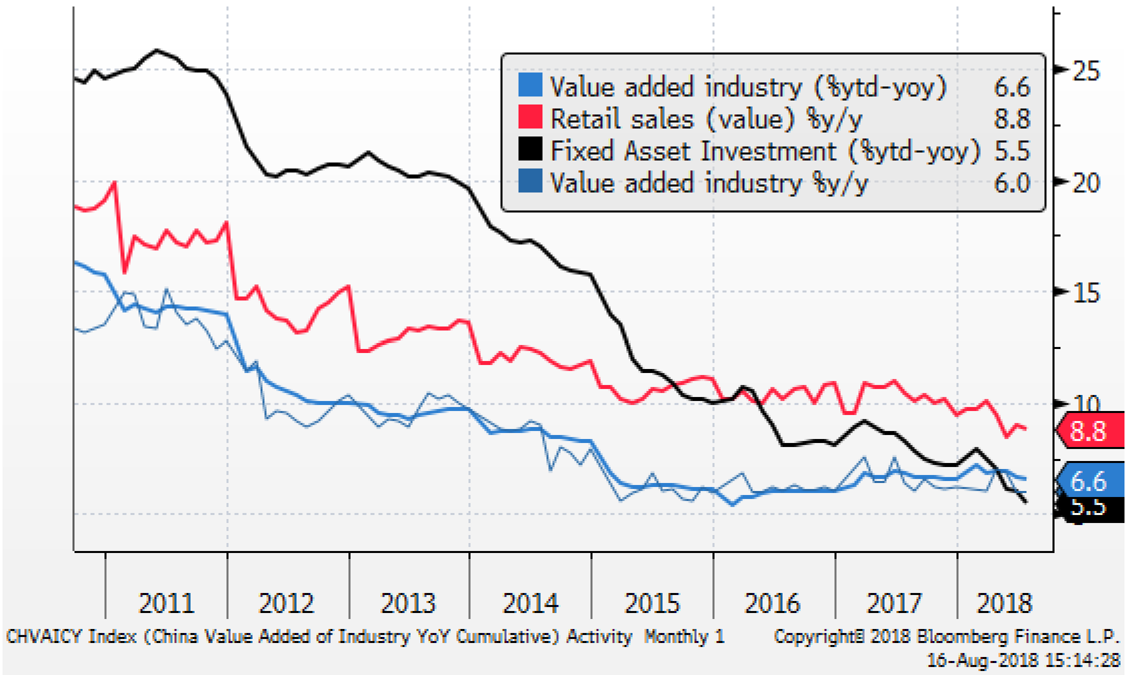

While the headline fixed asset investment may appear to be a negative for steel demand, the risk is that the government calls on local governments to step up investment in infrastructure and helps them fund it if necessary.

**Steel production remains relatively solid (+7.2%y/y)**



The general narrative around the Chinese data this week was that it is slowing, weighed down by credit tightening and US trade policy. The data were generally weaker than expected, but industrial production remains on a relatively stable growth rate of around 6%, and parts of the data show strength; including private sector investment, and steel production.

The property market appears to be strong. The risk is that Chinese policymakers continue to underpin growth. As such, it is not clear that China's demand for Australian commodities will become a negative for the AUD.

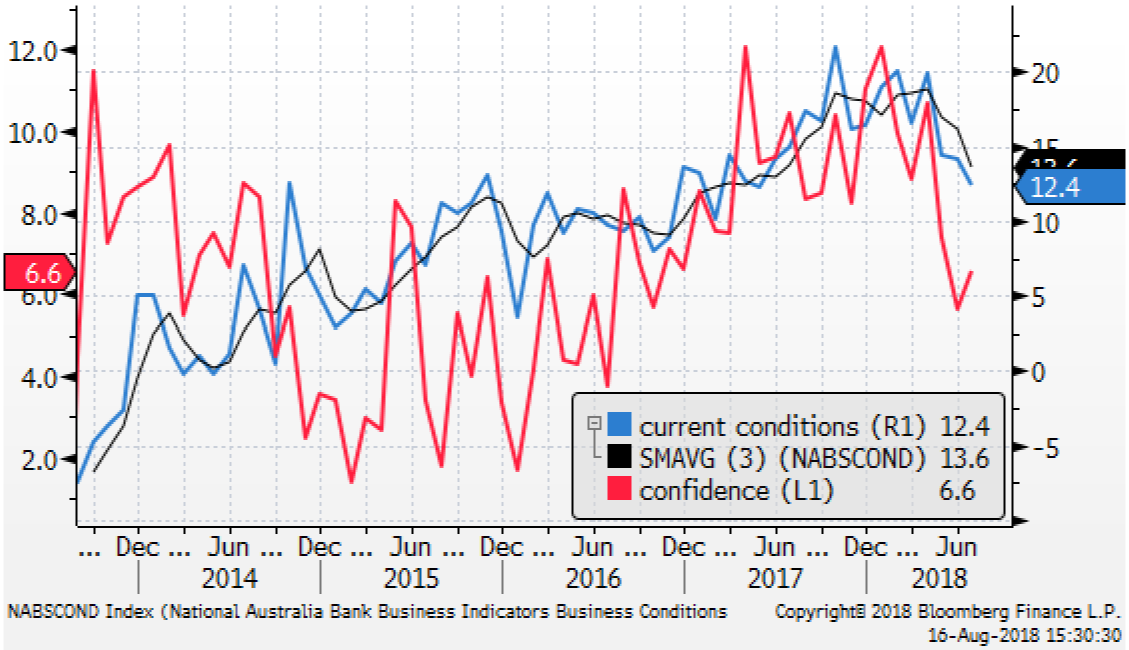



**Australian economic reports largely in line with modestly above-trend growth**

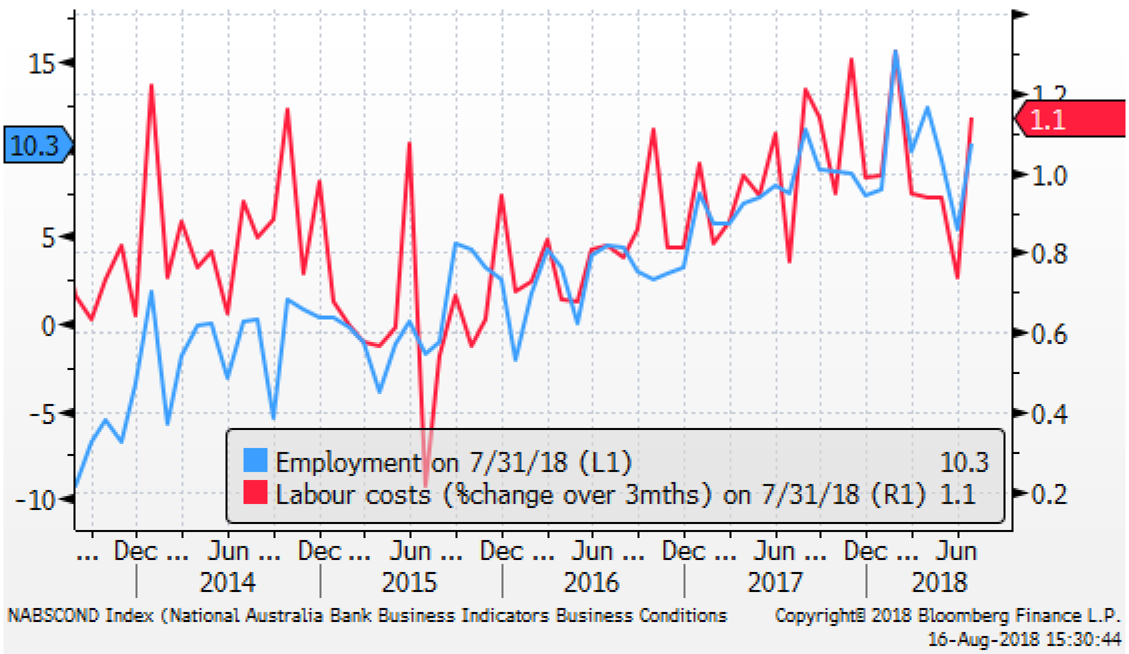
Australian economic data this week were a bit softer, but still consistent with above-trend growth. Considering the risks from housing and fears over China, the further dip in business conditions was modest. The employment components (including labour costs) were stronger. However capex was more significantly weaker.

Wages growth is showing signs of bottoming, and the labour data were mixed, but unemployment is more clearly trending down.

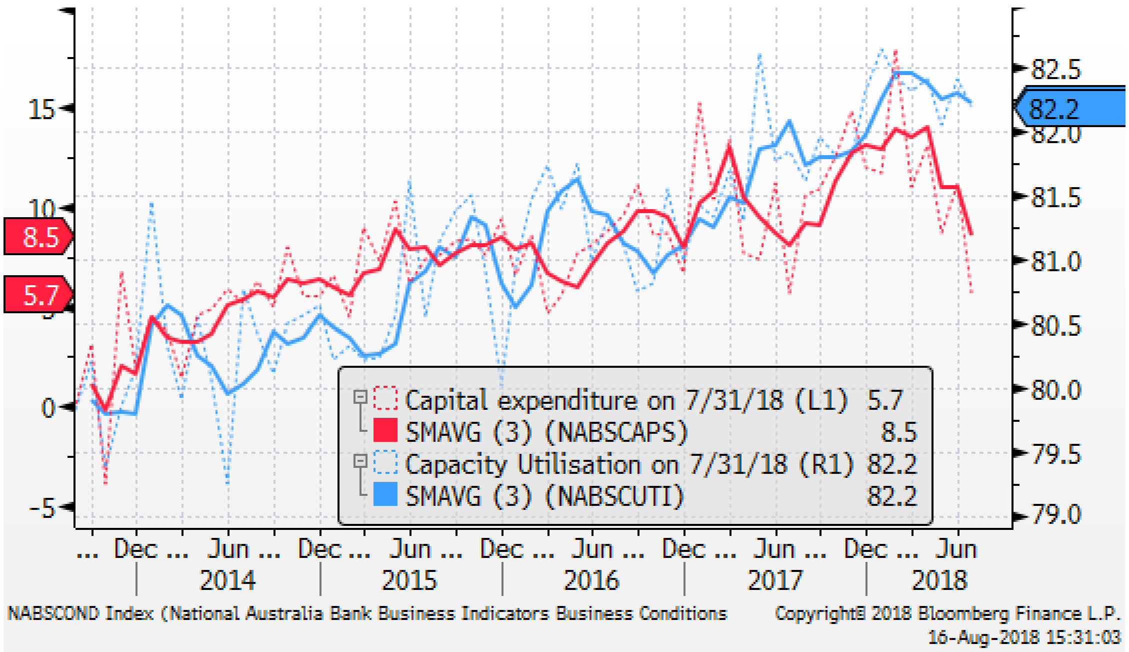
**NAB business confidence and conditions**



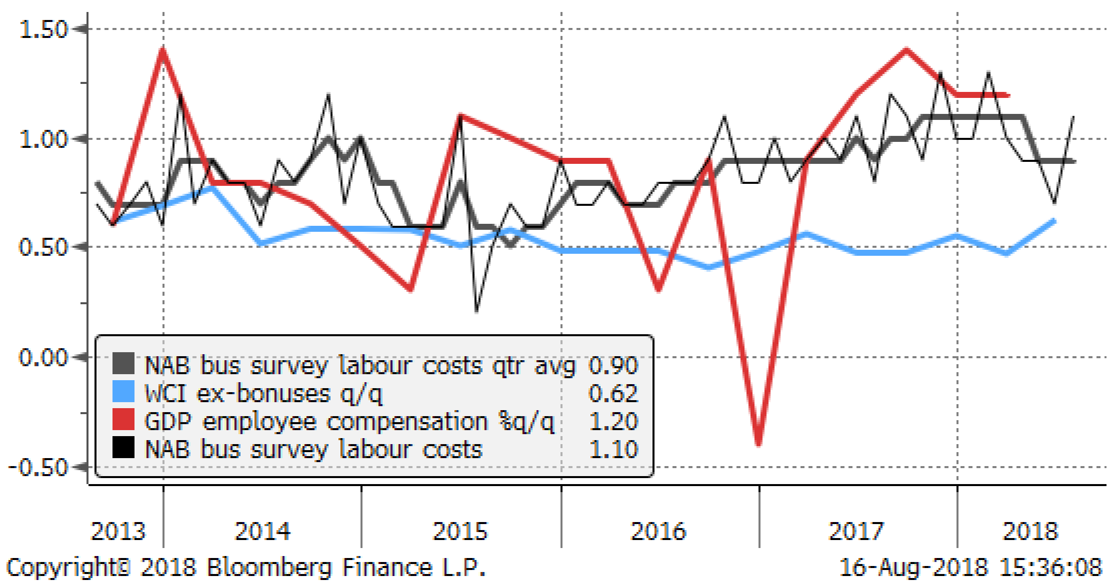

**The employment components were stronger in July**



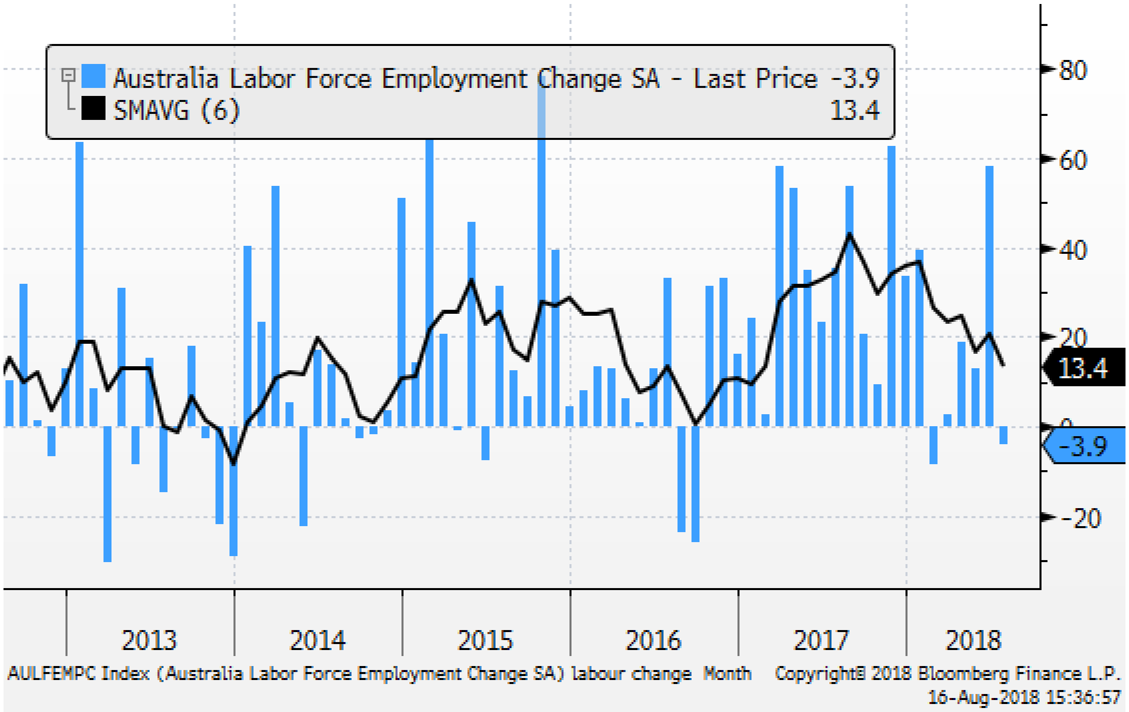
**Capex component was more significantly weaker**



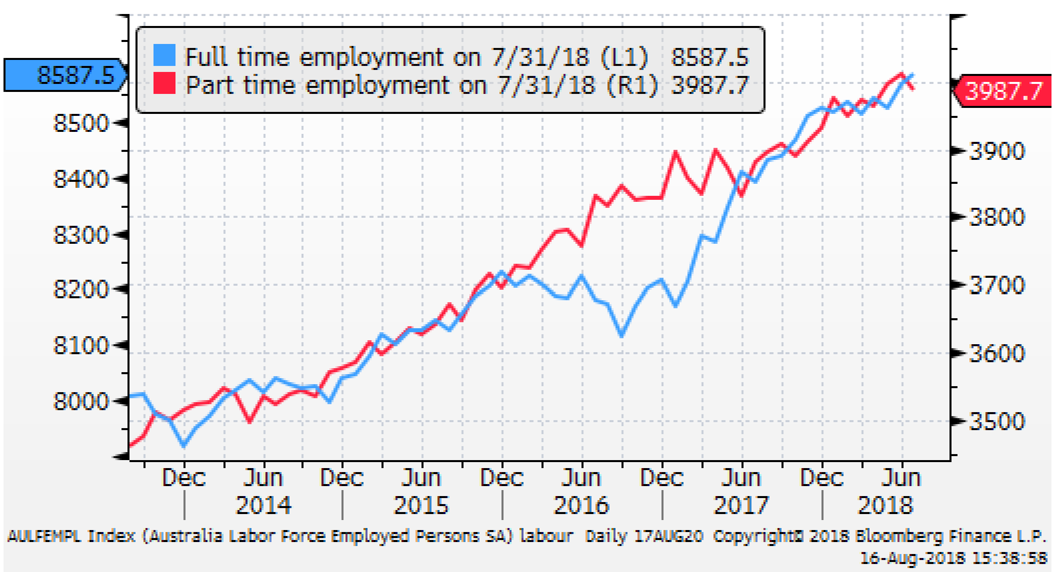

**Wages growth tentatively bottoming**



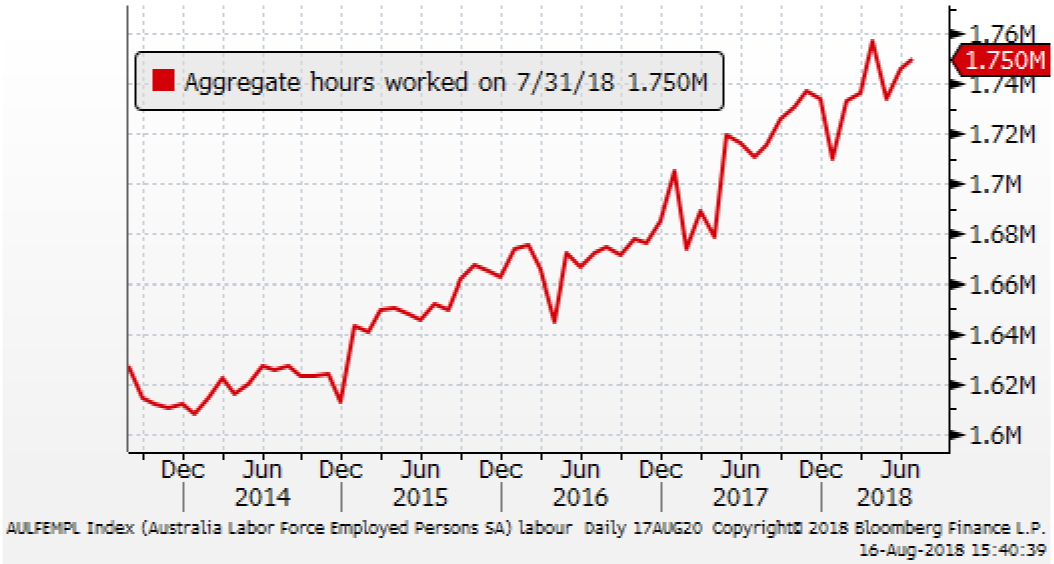
**Labour growth moderates from strong 2017**



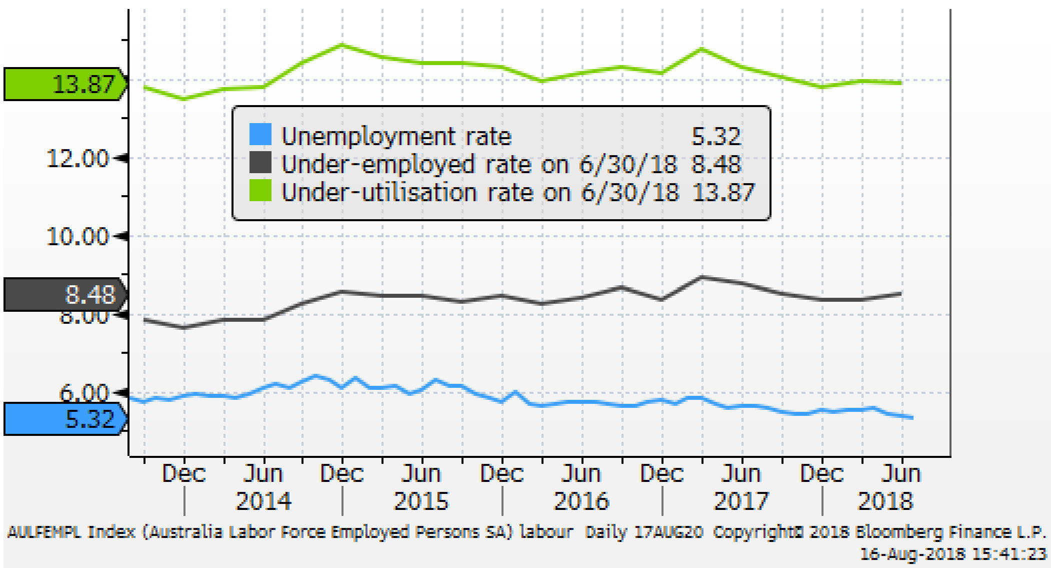

**Full-time time jobs leads in last two months**



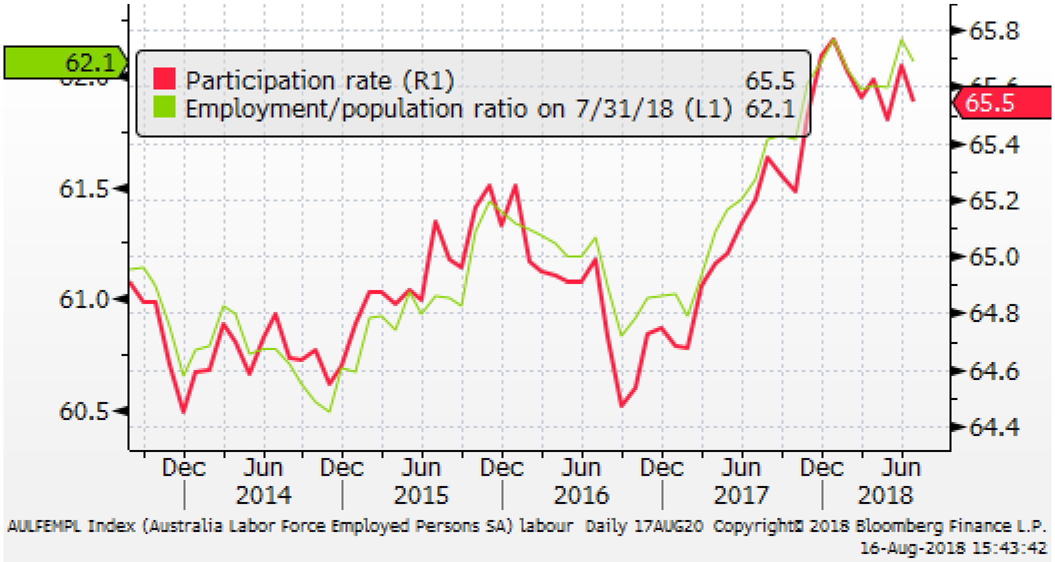
**Aggregate hours growth trend stable**




Unemployment rate is trending down. No under-employment data this month



**Participation rate slows from a high level. Working age population growth slowing**




Despite all the negative noise around the housing market and global risks, the Australian economy still appears to be relatively stable in above trend growth. The RBA has indicated that they are in no mood to cut rates to attempt to juice growth and inflation.

**Other markets**

The strength in the USD against EUR and GBP is justified by ongoing strength in the US economy, risks related to Turkey and Italy on Eurozone growth and financial conditions. GBP continues to be hampered by Brexit uncertainty.

However, the risk-reward from beginning to sell now, with the event risk associated with US trade policy, and market positioning, does not make it a compelling trade. US equities appear relatively expensive, and the market is perhaps too sanguine that the US economy will remain immune to risks abroad.

We closed our short NZD/CAD position on Monday fearing a rebound in Asia EM and the risk that Trump turns his twitter tirades against Canadian trade policy.

There has been little new news on Canada-US trade relations. We continue to see a stronger possibility of positive news on a NAFTA deal. However, the progress towards a trade deal is likely to include hostile threats by Trump. There still appears to be significant differences on dairy and other sectors.

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