

CLIFF TAN

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East Asian Head of Global Markets
Research
Global Markets Division for the East
Asian Region
T: +852 2862 7005
E: cliff_tan@hk.mufg.jp

JACKIT WONG

Vice President
Global Markets Research
Global Markets Division for the East
Asian Region
T: +852 2249 3084
E: jackit_ws_wong@hk.mufg.jp

Highlights

- War drums sound a little louder for upcoming US-China trade tensions, within weeks
- And guess what? The US trade deficit is now wider than it was when Trump took office
- At least another US government shutdown does not appear on the cards
- Which of its crown jewels will HNA sell?
- France enacts new anti-fake news laws, comrades

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INDICATIVE RATES 07 Feb 2018 Data snapped ~11:43 HK TIME

Foreign Exchange			Equity Indices			Interest Rates					
	Asia	% Chng	New York	London	Close	% Chg	3M FIXING	% bp Chng			
USD/JPY	109.29	-0.24	109.56	108.79	DJIA	24912.77	2.33	USD LIBOR	1.79070	-0.28	
EUR/JPY	135.39	-0.14	135.60	127.82	N225	22270.56	3.06	JPY TIBOR	0.06625	0.00	
EUR/USD	1.2387	0.09	1.2378	1.1749	DAX	12392.66	-2.32	EURIBOR	-0.32900	0.00	
GBP/USD	1.3962	0.11	1.3951	1.2857	FTSE	7141.40	-2.64	GBP LIBOR	0.52409	0.11	
USD/SGD	1.3174	-0.10			STI	3406.38	-2.20	SGD SIBOR	1.12692	0.03	
USD/THB	31.460	-0.16			SET	1796.49	0.45	THB BIBOR	1.57575	-0.01	
USD/MYR	3.9050	-0.22	Commodities			KLCI	1836.96	1.35	MYR KLIBOR	3.69000	0.00
USD/IDR	13538	-0.09	CRB	194.75	JCI	6555.35	1.19	IDR JIBOR	5.29815	-0.83	
USD/PHP	51.220	-0.34	Brent Crude*	67.34	PSEI	8644.34	1.10	PHP REF	3.34000	-6.30	
USD/INR	64.080	-0.22	Gold (USD/oz)	1324.93	SENSEX	34195.94	-1.61	INR MIBOR	7.18000	0.00	
USD/KRW	1083.40	0.40			KOSPI	2440.96	-0.50				
USD/TWD	29.200	-0.01	Market Gauges			TAIEX	10595.44	1.84			
AUD/USD	0.7880	-0.32	VIX	29.98	ASX	5889.10	0.96				
USD/HKD	7.8186	0.00	Dollar Index	89.586	HANG SENG	30944.85	1.14	If prior trading day is a holiday,			
USD/CNY	6.2530	-0.48	UST 2Y	2.093	SHCOMP	3339.48	-0.92	comparison with preceding day.			
USD/VND	22699	0.00	UST 10Y	2.766	VNI	1047.15	3.51	* ICE Brent Crude (USD/bbl)			

Source: BTMU & Reuters. FX daily % changes from 2100 GMT prior Reuters closes; London and New York show BTMU closes.

USD/CNY/Trade/Trump. Former Acting Deputy US Trade Representative Wendy Cutler continues warnings she has been sounding in recent weeks:

US Trade Representative Robert Lighthizer "has [US President Donald Trump's] ear on China, and ... [w]e're going to see more trade actions taken against certain trading partners in the coming weeks. The announcement that was made just two weeks ago on import protection for washing machines and solar panels [[Asia Cross Current: CNY/KRW – Trump Continues His Opening Trade Fusillade](#), 23 January 2018] is **just the beginning** of a series of announcements that will be coming."

<http://www.scmp.com/news/china/policies-politics/article/2132330/punitive-us-trade-action-against-china-come-imminently>

What's "weeks"? For argument's sake **let's guess two months; ie, by early April.**

"There is a real convergence of different views on how to handle these issues going forward," Cutler said during a panel discussion at the New York-based Asia Society.

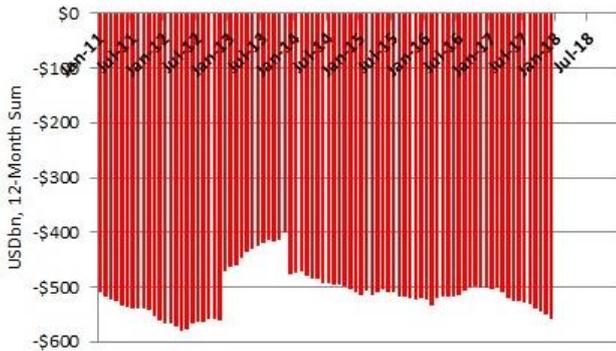
The US Chamber of Commerce, which counts IBM, Ford Motor Co and other multinationals operating in China among its members, hailed the prospect of imminent action by Trump ... The industry group's president and CEO, Thomas Donohue, called for an international "response to China's state capitalism". "The White House is right to focus on China's industrial policies

and their challenge to the global economy,” Donohue said in an exchange with the South China Morning Post. “This includes Chinese market access restrictions, subsidies, data and cyber policies, forced tech transfer, and IP theft. The status quo is not sustainable, but we need a smart approach,” he said. “We need to work with allies in Europe, Japan and elsewhere to forge a common response to China’s state capitalism.”

It's quite unusual historically for the US Chamber to line up on the side of trade retaliation. [\[Back to Highlights\]](#)

USD/Trump. So far, US President Trump has **failed** to reverse the widening trend of the US goods & services trade deficit, which is now at wides last seen in 2012.

US GOODS & SERVICES TRADE BALANCE



Source: CEIC, MUFG Bank

There is further discussion here: [\[Back to Highlights\]](#)

<https://www.ft.com/content/0ecd54fa-0b4e-11e8-8eb7-42f857ea9f09>

USD/Shutdown. The US House of Representatives earlier today (Hong Kong time) passed a spending bill ahead of another government shutdown deadline later this week.

https://www.washingtonpost.com/powerpost/spending-plan-remains-unsettled-as-clock-ticks-toward-shutdown-deadline/2018/02/06/1639ab26-0b53-11e8-8b0d-891602206fb7_story.html?hpid=hp_hp-top-table-main_pp-shutdown-730pm%3Ahomepage%2Fstory&utm_term=.dcf0c5983ca4

Lisa Desjardins, a political reporter on the PBS NewsHour television program, had this to say in a weekly email:

- **House Republicans will pass a spending plan they know Democrats can't support ...** It would include a \$35 billion boost in defense spending through the end of September, and fund the rest of government until March 23. Normally such bills are one to three pages long. **The House GOP offer is unusually long at 515 pages. Why? It is filled with other wish-list items, many of them bipartisan and intended to jam or pressure the Senate.**
- **The House bill will be dead on arrival in the Senate, likely tomorrow [7 February US time].** Why? Senate Democrats want to protect nondefense spending, as well as defense spending. **But Senators may reach a much larger deal of their own ...** They may offer a long-term spending deal to increase both defense and nondefense spending.
- House conservatives especially would then face a tough choice. Do they accept the Democratic deal, even though it would increase the deficit more than they can stomach? [Sorry, we have to interject: **We have never in our lives seen Congressman agonizing over whether to spend more money.**]
- What happens next is unclear. But the funding deadline is at 12:01 a.m. **Friday [12:01 p.m. in HKG].** So the government would shut down then if Congress can't reach a deal.

But Congressional leaders expressed optimism last night:

... the top Senate leaders of both parties told reporters earlier in the day that a breakthrough was at hand on a longer-term budget deal. Spending has vexed the Republican-controlled Congress for months, forcing lawmakers to rely on multiple short-term patches. “We’re on the way to getting an agreement and on the way to getting an agreement very soon,” said Senate Majority Leader Mitch McConnell (R-Ky.). **Minority Leader Charles E. Schumer (D-N.Y.) echoed him, “I am very hopeful that we can come to an agreement, an agreement very soon.”**

Under tentative numbers discussed by congressional aides who were not authorized to speak publicly about the negotiations, defense spending would get an \$80 billion boost above the existing \$549 billion in spending for 2018. Nondefense spending would rise by \$63 billion from its current \$516 billion. The 2019 budget would include similar increases.

White House press secretary Sarah Huckabee Sanders said Tuesday afternoon that **Trump was not pushing for the inclusion of immigration policies in the budget accord**, something that would upend the sensitive talks. “I don’t think that we

expect the budget deal to include specifics on the immigration reform," she said. "But we want to get a deal on that."

This long-term deal on the Senate side appears **the final end of the involuntary sequester**, which was the US Congress's last serious attempt to control spending. Remember that when Republicans try to find room to cut spending in the future.

House Democrats have nixed their annual policy retreat because negotiations on a budget framework and immigration proposals have hit a critical juncture and party officials wanted to avoid the appearance of leaving town for a resort on Maryland's Eastern Shore while those key issues entered the final phase of talks.

https://www.washingtonpost.com/news/powerpost/wp/2018/02/06/house-democrats-nix-eastern-shore-retreat-as-budget-immigration-talks-heat-up/?utm_term=.87631cad9494

Which tends to support the more optimistic take above. [\[Back to Highlights\]](#)

CNY/Debt/ODI. With local press reports saying that HNA Group is targeting **US\$16 billion** worth of asset sales in the first half of 2018, analysts are assessing what could be sold quickly to raise cash.

Potentially on the block is HNA's 25% stake in **Hilton Worldwide Holdings**, which it acquired for US\$6.5 billion in October 2016. The group also has substantial real estate holdings, including **245 Park Avenue** in New York, which it acquired for US\$2.2 billion in March 2017. In Germany, much of the focus is on a 9.9% stake in **Deutsche Bank**, which was built up in 2016 and 2017. Deutsche Bank has been struggling to reduce its balance sheet and employee headcount, and has recorded losses for three consecutive years. Management are now talking up 2018 as the turnaround year, but concerns about a large stake coming onto the market are helping keep the share price depressed.

During 2017, **Avolon** was exceptionally active in the financial markets, with a series of refinancings via bond offerings and new bank debt facilities. Nonetheless, much of its aircraft portfolio is funded by bank debt using aircraft as collateral, so many assets are not available for sale. [\[Back to Highlights\]](#)

<https://theasset.com/capital-markets/34080/cccc?id=34080&subm=capital-markets>

EUR/FRF/DEM/RUB/Media. The French Minister of Culture Françoise Nyssen said that a judicial procedure would be established to stop the dissemination of fake news, as she introduced the anti-fake news law. "The measures that we will be working on from now until March are to create a law about 'confidence in information' that will permit us to act very quickly when a fake news story goes viral, particularly during an election period," said Nyssen in an interview with *Journal du Dimanche* on February 4. "This new law will establish new responsibilities for the different media platforms, which will have to cooperate with the state and be transparent about their sponsored content. A judicial procedure will be put in place to allow rapid blocking of the dissemination of fake news once it has become manifest."

<http://www.france24.com/en/20180204-rapid-response-central-french-anti-fake-news-law>

French President Emmanuel Macron first proposed a law to counter fake news in his 2018 New Year's speech to the press. This was seen as a veiled reference to Moscow-backed RT and Sputnik. RT and Sputnik both have French-language websites and, during a joint press conference with his Russian counterpart Vladimir Putin in May, Macron accused them of publishing "defamatory untruths" and "deceitful propaganda". Since then, RT - formerly known as Russia Today - has launched a French-language TV channel, putting regulators on their guard. [\[Back to Highlights\]](#)

TWO DAYS HENCE

Fedspeak: San Francisco Fed **Williams** (voter); Philadelphia Fed **Harker** (non-voter); Dallas Fed **Kaplan** (non-voter); and Minneapolis Fed **Kashkari** (non-voter). **China January merchandise trade:** Exports (USD) consensus 10.8%YoY ~ last 10.9% but imports (USD) 10.8% >> last 4.5% and a steady trade balance consensus USD54.65bn ~ last USD54.69bn. Trade figures for January and February should be distorted by Chinese New Year timing effects. A stronger CNY will continue to see headline CNY rex/rim growth rates trail their USD counterparts. **BOE monetary policy decision:** Consensus everything hold. GMR London expects a May rate hike which WIRP shows with a probability of 47.4%. **ECBspeak:** Governing Council members **Weidmann** and **de Galhau**; Executive Board members **Praet** and **Mersch**.

RBA speak: Governor **Lowe**. **RBNZ:** Consensus hold at 1.75%. **BSP:** Consensus hold. GMR Singapore expects odds of BPS tightening to rise by year-end with quickening inflation. [\[Back to Highlights\]](#)

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