



– **DAILY COMMENTARY** BY THE CURVE TEAM –

TRADE WAR FALLOUT CONTINUES

12th of July, 2018

The escalation of the US Administrations trade war with China continued to reverberate around markets overnight as concerns about the real economy effect grow. While the survey took place, the latest report on consumer sentiment suggests that consumers are more upbeat about the domestic outlook.

Fallout from the escalation of the US-China trade war reverberated throughout markets overnight. [Equity](#) markets in Asia, Europe and the US were all hit while the USD was stronger across the board. Interestingly the [bond](#) markets were a little quiet.

The US [bond](#) markets are worth keeping an eye on as they set the tone for [bond](#) markets globally. At the moment, speculative short interest in US treasury futures, meaning people are betting on higher rates, is at its highest since the early 2000's. That means if markets get themselves in a bit of a funk as the trade war rolls on, we could get one hell of a short squeeze which could see long [bond](#) rates fall sharply.

While the survey period was before the latest rise in market volatility, consumers in Australia are more upbeat according the latest consumer sentiment survey. Despite weakness in housing market, which was evident in the survey, and recent increases in mortgage rates, consumers are more upbeat about the outlook.

The prospect of tax cuts and a stronger government budget position helped lift consumers expectations of their own finances and the economy over the short and medium [term](#). The recent bounce in the [equity](#) market wouldn't have hurt consumers perceptions either.

Whether the improvement in sentiment can be sustained if [equity](#) markets get the wobbles, the majors eventually hike mortgage rates and house prices keep falling, remains to be seen. For now though it is good news and hopefully it feeds in to a sustained improvement in consumer activity.



David Flanagan

Director - Interest Rate Markets

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