Weekly Market Summary

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What Trade Wars?? More Like Spheres of Influence & Containment Strategies!!

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In last week's market update, we noted to our valuable readers that heading into year-end the focal point - for financial markets and investors - revolved around the outcome of two crucial meetings expected to take place at the weekend's summit of G-20 world leaders in Buenos Aires, Argentina. Those gatherings – a business dinner between the US & Chinese leaders and formal talks between the Russian president and Saudi's crown prince – were expected to define the future course of the US-China trade war as well as shape the outlook for global oil glut and prices, and provide better visibility for financial assets' valuations in months to come.

That assessment possibly held true for a day or two, until Mrs Wanzhou Meng made her debut on the world scene late Wednesday evening!

Starting with coverage of last weekend's decisive meetings:

Trump – Xi Dinner: After almost three hours of what the White House called "*highly successful*" discussions, the U.S. agreed to refrain for 90 days from implementing additional tariffs on $200 billion of imports from China. In return, China promised to use the time to make progress in three areas of concern to the U.S. and other countries: 1- Relaxing an array of nontariff barriers, including joint-venture requirements, that result in forced transfers of technology, operational models and other proprietary information and business practices; 2- Combatting intellectual property theft and other cyber interferences; and 3- Reducing the bilateral trade surplus by importing "*very substantial*" quantities of certain goods from the U.S.

With China avoiding additional tariffs that would further undermine its growth prospects and place even greater pressure on its financial markets and the U.S. defining a time-specific way forward to counter practices that place it at a competitive disadvantage in its bilateral economic relationship with China, the initial market view was that the outcome of those weekend talks would be a short-term win for both sides, as well as the global economy – since any partial delay or full elimination of the stag flationary trade war between the two superpowers remains a welcomed development! ***(Risk-on trading - characterized by higher equity prices and G-7 government yields, as well as a lower Japanese yen – was firmly in place when markets opened on Monday morning).***

Putin – MBS* Gathering**: Russia's Vladimir Putin and Saudi Arabia's crown prince Mohammed bin Salman met last Saturday on the side-lines of the Group of 20 to discuss oil supplies ahead of a broader meeting of top petroleum exporters on December 6th (that followed a 30% plunge in Brent oil prices in past two months!). Speaking to reporters after the meeting, Putin announced that Russia and Saudi Arabia had agreed to extend into 2019 their deal to manage the oil market, known as OPEC+. The comments were seen as opening the door for a deal at the OPEC meeting this week in Vienna (held yesterday), with OPEC delegates confirming that both leaders had given their political blessing for an agreement, though plenty of work would still be left, including on the size of any potential output cut. "*There is no final decision on volumes, but together with Saudi Arabia we will do it*," Putin said. "*And whatever number there will be based on this joint decision, we agreed that we will monitor the market situation and react to it quickly*." On Sunday, OPEC's president, U.A.E. Energy Minister Suhail Al Mazrouei, said he was optimistic OPEC+ will reach an agreement over a cut in production for 2019 when they meet in Vienna this week; "*Technical teams are working on the level of the cuts necessary and the reference baseline for the reduction*", he added. Earlier, an advisory group to OPEC had told ministers the market is oversupplied, with a need to cut about 1.3 million barrels a day from October levels. The advisory group's proposals are not binding, and OPEC ministers often choose a different path. ***(Brent oil and WTI prices traded $3.5 higher on Monday morning compared to Friday's closing prices, though this rally has fizzled over the past 24 hours following a failure by OPEC delegates – meeting in Vienna yesterday – to reach a deal,

as Russia resisted the big output cut that Saudi Arabia is demanding and Saudi energy minister Khalid Al-Falih suggested he was not confident of an agreement when OPEC meets its allies on Friday. Brent oil last at $59.60, with clouds of uncertainty still hanging on a proposal for a combined OPEC+ cut of 1 million barrels a day to be announced later this evening).

As to Mrs Wanzhou Meng, this mid-40s top executive is the chief financial officer of Chinese tech giant Huawei Technologies Co. (China's biggest maker of smartphones and telecommunications equipment), and the eldest daughter of the company's founder Ren Zhengfei (possibly heir to his corporation one day). Her arrest in Canada this week provoked an immediate protest from the Chinese embassy in Canada, which demanded the U.S. and its neighbour free her. It also raised the stakes in an already complicated standoff between the U.S. and China. Hong Kong (and global) shares fell sharply on Thursday morning as the incident reignited concerns about U.S.-China tensions, whilst Huawei's dollar bonds tanked to record lows.

China's state media called the arrest of Meng a "*despicable rogue's approach*," painting the move as a politically motivated effort to contain China's rise. "*Obviously Washington is resorting to a despicable rogue's approach as it cannot stop Huawei's 5G advance in the market*," the nationalist Global Times said Thursday in an editorial. "*Despite incomplete information about the incident, the U.S. move obviously goes against the consensus reached between the heads of state of China and the U.S. in Argentina*." "*One thing that is undoubtedly true and proven is the U.S. is trying to do whatever it can to contain Huawei's expansion in the world simply because the company is the point man for China's competitive technology companies*," the China Daily editorial noted. However, the U.S. alleges that Huawei, a major player in the coming global roll-out of 5G wireless networking equipment, has violated U.S. sanctions by selling technology to Iran. It is the second big Chinese tech company to be accused of breaching those sanctions, the first being ZTE Corp. In 2017, the U.S. punished ZTE by forbidding it from buying American components - most importantly, telecom chips made by U.S.-based Qualcomm Inc. Those purchasing restrictions were eventually lifted after ZTE agreed to pay a fine, and it seemed certain that Huawei will too eventually escape severe punishment.

However, one can be forgiven for thinking that the U.S.-China trade war is mainly about tariffs. After all, the president and trade-warrior-in-chief has called himself "*Tariff Man.*" And the tentative trade discussions and deal between U.S. President Donald Trump and Chinese President Xi Jinping were mainly about tariffs, especially on items like automobiles. Though people should soon wake up to the fact that there is a second U.S.-China trade war going on - a much more stealthy conflict, fought with weapons much subtler and more devastating than tariffs. And the prize for that other struggle is much bigger, namely the domination of the information-technology industry. The impetus for the high-tech trade war goes far beyond what Trump, with his focus on tariffs and old-line manufacturing industries, would think of; it surely appears that U.S. tech giants, as well as the US military intelligence communities, are influencing policy here as well! Losing the lead in the global technology race means lower profits and a disappearing military advantage. But it also implies losing the powerful knowledge-industry clustering effects that have been an engine of U.S. economic growth in the post-manufacturing age. Bluntly put, the U.S. can afford to lose its lead in furniture manufacturing; it surely cannot afford to lose its dominance in the tech sector!

Export restrictions, and threats of restrictions, are therefore probably not just about sanctions and collecting hefty fines! They are also about making life harder for the main competitors of U.S. tech companies. Huawei just passed Apple Inc. to become the world's second-largest smartphone maker by market share (Samsung Electronics Co. is first). This marks a change for China, whose companies have long been stuck doing low-value assembly while companies in rich countries do the high-value design, marketing and component manufacturing. U.S. moves against Huawei and ZTE may be intended to force China to remain a cheap supplier instead of a threatening competitor!

The U.S. is seeking Meng's extradition to stand trial, a process that could take years. A hearing later today in Vancouver will determine if she is a flight risk and the judge could order her to remain detained. If not, and bail is set, she probably would be forced to surrender her passport. After that, there would be a separate extradition hearing.

One can strongly hope this incident won't be remembered in the future at the "straw that broke the camel's back"!

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