

Weekly Market Summary

November 8th, 2019

A US-China Trade Deal? Or a Simple Trade Truce?

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The U.S.-China trade war is cooling off!

China and the US have agreed to remove some tariffs, according to Beijing, in a sign that the world's two biggest economic powers may be moving closer to reaching a trade war truce. A Chinese commerce ministry spokesperson on Thursday said negotiators for both sides had agreed to remove some tariffs "in phases", raising hopes President Donald Trump and President Xi Jinping would be able to sign an agreement this year. White House economic adviser Larry Kudlow confirmed the advance in negotiations. *"If there's a phase one trade deal, there are going to be tariff agreements and concessions,"* he told Bloomberg.

Beijing is seeking to roll back tariffs on as much as \$360bn (£280bn) of Chinese imports – including clothing, meat and electric appliances. Chinese negotiators want Trump to scrap tariffs on about \$110 bn of goods that were imposed in September and lower the 25% tariff rate on about \$250bn of products that began last year.

US stocks and government bond yields rose as investors' risk appetite grew. The S&P 500 was up 0.6 per cent at 3,094.79 in midday trade — about 5 points shy of a record intraday high reached in the morning. The yield on the benchmark 10-year US Treasury climbed 13 basis points to a three-month high of 1.9417 per cent. The gold price slipped by more than 1% to \$1,476 an ounce on Thursday.

Investors gave credence to the prospects for an agreement, despite many false dawns in the last six months, after Beijing's announcement was not denied by the White House. However, analysts remained wary of talk of the two sides making further progress in the coming months. Wielding the pressure of tariffs, the US is seeking to extract broader concessions that would force China to protect American companies from intellectual property theft and unfair competition.

But whilst the trade war is cooling down, the tech war is heating up!!

In its latest move, the Trump administration banned eight companies, including China's AI national champions Sense Time, Megvii and iFlyTek, and 20 police departments for their purported roles in the suppression of Uyghur minorities in Xinjiang. It was the first time that human rights were cited as a reason for inclusion on the US trade blacklist. The human rights accusation signals a willingness by the US to use non-traditional means to contain China's tech ambitions and taint its reputation as the country exports AI-powered surveillance to other countries.

It is important to note that the trade uncertainty have had a major impact on global growth. Trump tweets to date have been mightier than the tariffs, with a bigger negative impact from uncertainty than the protectionist measures themselves. Uncertainty created by the trade war could lower GDP levels in the U.S., China and the world by 0.6%, 1.0% and 0.6%, respectively, by 2021 relative to a no-trade war scenario.



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