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Macro Market Insights

May 24th, 2019

Robert Levy
MA (Economics)
Director
rlevy@bordergold.com
(604) 535-3287
www.bordergold.com

Trade Talks, Part…

There has been no shortage of headlines over the past several weeks that have continued to unsettle financial markets and maintain focus on the trading relationship between the world's two biggest economies. Last week ended with China's crown jewel, Huawei, being added to the US Commerce Departments entity list, restricting US businesses relationships with the Chinese firm. Immediately, the impact was seen in US chip suppliers that provide parts to the hardware giant, and questions arose around Huawei's phone sales outside of China as their devices would no longer be supported by proprietary apps from Google.

Beyond the company specific impacts, the sentiment in the market has been that the United States and China continued to be further apart than initially assumed, and as confirmed by the US President, Huawei will be used as a prop to reach a trade deal.

The central predicament that will shape investment themes into the summer and through the rest of this year is determining just how likely a trade deal may be. Akin to the very end of December when US equity markets had found a bottom, it was around the timing of a delay in the imposition of tariffs on China that supported stock markets moving higher this spring. And as progress between the two nations was assumed, investors' appetite for risk continued to grow.

To circle back to this week's topic, however, there remains no shortage of headlines that have thus created a more than a little concern. Nouriel Roubini wrote earlier in the week of potential consequences and fallout from a US-China Cold War. He details a scenario that sees an ultimate disruption to global trade, and other nations around the world required to pick a side with regards to whom they maintain a trading relationship. Reading the Roubini column on the West coast of Canada certainly creates a lot of shock-value given British Columbia's export reliance to Asian economies and the investment currently going into LNG.

There are also arguments being made over how much short-term pain a centrally planned Chinese economy would endure to win a long-game negotiation with the United States. Where China lays out multiyear plans for the state's role in the county's industrial development and growth, the United States is subject to polarizing political rhetoric doomed and vulnerable to the next election cycle. One story in Bloomberg this week detailed a Chinese government expert opinion that talks could go on for the next 15 years.

Finally, and touched on Thursday evening in an announcement from President Trump, was the idea to impose tariffs on imports from nations that intentionally devalue their currency, which could include China. Beyond understanding how this is implemented and enforced, it circles back to an earlier theme of the last decade that's been absent from headlines recently, but it is the notion of currency wars.

It centers around the idea of governments and central bankers opting for policy that directly or indirectly competitively devalues their domestic currency against their trading partners to boost their export sector. It has been argued that this could be an added tool in China's arsenal to prolong the impact of US tariffs by finally letting the Chinese yuan depreciate over seven-per-US-dollar, a situation we haven't seen since 2008.

If there's a lesson here, it may be the idea of short-termism versus playing the long game. There's a lot of noise in the markets day-to-day, but investment themes like passive versus active investing, or having exposure to safe-havens like precious metals come to mind.