

Weekly Update

CO | EXTERNAL PUBLICATION

Trade war – game on



Alan Mudie

(41) 22 819 0255
alan.mudie@socgen.com

Xavier Denis

Head of investment Strategy
(33)1 5637 9817
xavier.denis@socgen.com

Antonio Bertone

Global strategist
(33)1 42 13 24 06
antonio.bertone@socgen.com

Sophie Fournier

Global strategist
(33)1 42 14 59 36
sophie.fournier@socgen.com

Tanya Goigoux- Becker

Senior editor
(33) 1 56 37 95 81
tanya.goigoux-becker@lyxor.com

In accordance with the applicable regulation, we inform the reader that this material is qualified as a marketing document.

CA249/SEP/2018

All data taken from Bloomberg (21/09/2018).

The uncertainty was lifted this week. The US administration added 10% tariffs on around \$200bn of imports from China to the previous trade sanctions – 30% on solar panels and 20% on washing machines in February, 25% on steel and 10% on aluminium in March, 25% on \$50bn in imports in July and August. In response, China imposed tariffs of 5-10% on \$60bn of imports from the US, in addition to the previous 25% tariffs on \$50bn of American goods. What does this mean for the economies and for markets?

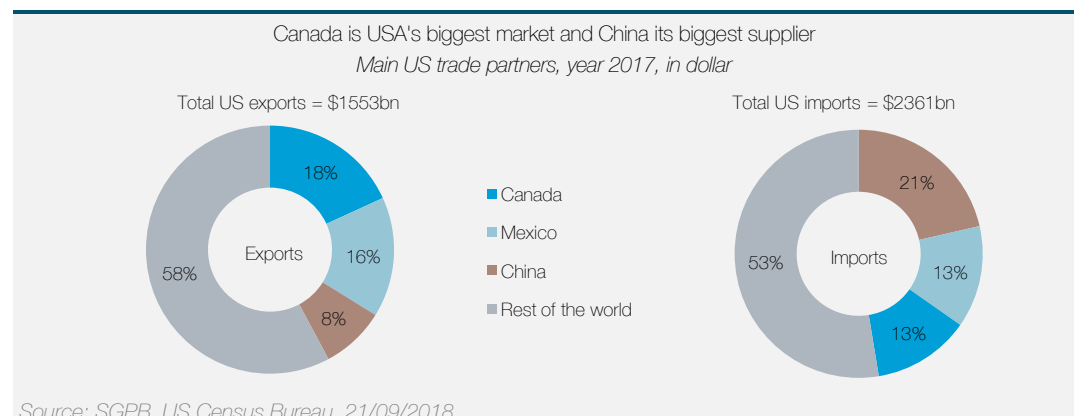
As highlighted in our Q3 House Views, President Trump holds a long-standing conviction that trade tariffs protect the US economy and its workers. And the recent all-time highs in US equities and his solid personal approval ratings – up to 40.5% according to fivethirtyeight.com, from 37% last December – are likely to reinforce his resolve. Although talks between the US and China are planned, the White House has already announced that this week's 10% tariffs will rise to 25% next year unless China concedes, and has also instructed the US trade representative to prepare plans for tariffs on all remaining imports from China (some \$260bn in total).

According to fivethirtyeight.com's poll of polls for the November 6 mid-term elections, the Republicans are likely to lose their majority in the House of Representatives (80.4% probability) but to retain control of the Senate (67.9%). Although this is a recipe for gridlock in Congress, the White House retains great autonomy in matters of trade policy. This means that the trade war is likely to continue well beyond the mid-terms.

The impact on the US and Chinese economies will, of course, depend on how the various parties react. Will Chinese exporters seek to pass on the tariffs to US consumers (as they did with washing machines, where prices are up 14% over the past year)? Will they absorb the impact by slashing margins to retain market share? Will companies shift production elsewhere in Asia-Pacific (as they did in 2012 during the Obama-era tariffs on solar panels)? Will the authorities sanction further currency weakness (the CNY is already down 4.9% against the dollar year-to-date)?

In the event, a combination of the above measures might prevail. China is unlikely to abandon its strategic goals in building world-leading positions in high technologies, but also has to sustain near-term growth prospects to continue its rapid transformation to a higher value-added economy. The first imperative suggests a hard-line approach, the second compromise solutions.

Putting it all together. In the short term, markets have chosen to take a sanguine view – the CSI 300 index of mainland Chinese equities bounced 5.2% over the week. In the medium term, tax-cut-fuelled growth in the US, and monetary and fiscal stimulus in China are likely to mitigate the economic fallout. In the long term however, trade tariffs will mean higher prices for consumers, lower profits for exporters and a more fragmented global economy. In this context, we still call for caution on emerging-world equities.



This week and next

EUROZONE

- Eurozone inflation eased down to 2% YoY in August, from 2.1% in July. Core inflation was confirmed at 1.0% in August.
- Consumer confidence fell by more than expected to -2.9 in September, from -1.9 in August.
- Eurozone manufacturing PMI confidence dropped to 53.3 in September, from 54.6 in August. A near stagnation of exports contributed to one of the worst months for almost two years.
- Construction output rose 0.3% MoM in July, slower than the 0.7% increase in June, reflecting contraction in civil engineering.

UNITED KINGDOM

- The UK inflation rate hit a six-month high of 2.7% YoY in August, up from 2.5% in July.
- Retail prices rose 3.5% YoY in August, above the consensus estimate of 3.2%. These have remained above 3.0% since January 2017.
- Retail sales volume growth slowed to 3.3% YoY in August, from 3.8% in July. Nonetheless, the pace of increase exceeded the expected 2.3%.



Next week's key events	Per.	Prev.	Cons.
27 Sep Economic Sentiment	Sep	111.6	111.5
28 Sep Headline inflation, YoY	Sep	2.0%	2.1%



Next week's key events	Per.	Prev.	Cons.
28 Sep Consumer Confidence	Sep	-7	-8
28 Sep GDP, YoY	Q2	1.3%	1.3%

UNITED STATES

- After a strong July, up 0.7%, retail sales rose just 0.1% in August, the smallest increase in six months. This partly reflects lower prices for items like apparel.
- University of Michigan Consumer sentiment index hit 100.8 in September, the second highest level of the year and the second strongest since 2004. This is partly due to more favourable job and income prospects.
- US Empire State Manufacturing index fell to 19.0 in September, from 25.6 in August, pointing to a slower pace of business expansion
- Although rising costs and a shortage of skilled workers has weighed on builder confidence, the NAHB housing market index was unchanged from the previous month at 67.

ASIA & EMERGING COUNTRIES

- Japan's trade deficit almost doubled in August at ¥444.6bn, amid escalating global trade tensions. Imports of crude oil and US liquefied natural gas partly explain the surge.
- The Bank of Japan kept its monetary policy steady with its short-term interest rate target at -0.1% and a pledge to keep 10-year government bond yields around 0%.
- Japan manufacturing PMI showed a preliminary reading of 52.9 in September, up from 52.5 in August, indicating expansion in the sector.
- Indonesia trade deficit reached a five-year record of \$1.02bn in August, from \$2.03bn one month earlier.



Next week's key events	Per.	Prev.	Cons.
26 Sep Fed Funds Target Rate	Sep	1.75-2%	2-2.25%
27 Sep GDP, annualized rate	2Q	2.2%	4.2%



Next week's key events	Per.	Prev.	Cons.
28 Sep Japan: Unemployment rate	Aug	2.5%	2.5%
28 Sep China: Manufacturing PMI	Sep	50.6	50.4

Sources: Datastream, Bloomberg, 21 September 2018, Note: YoY = year-on-year; QoQ = quarter-on-quarter; MoM = month-on-month, P = preliminary figure, A = advanced figure, F = final figure, seasonally adjusted, ECB = European Central Bank; PMI = Purchasing Managers Index

Our 6-month targets for currencies and commodities

	Thursday close	6mth target
EUR/USD	1.18	1.20
GBP/USD	1.33	1.32
EUR/CHF	1.13	1.16
USD/JPY	112	110
Brent	\$78.7	\$75
Gold	\$1204	\$1225

No changes to our six-month targets this week.

Question time

Past performance should not be seen as a guarantee of future returns.

No Q&A this week.

Market performance

Past performance should not be seen as a guarantee of future returns.

Interest rates

	Last	1wk	3mth	YTD	12mth
EONIA (EUR)	-37 bp	0 bp →	0 bp	-2 bp	-1 bp
3mth Euribor (EUR)	-32 bp	0 bp →	0 bp	1 bp	1 bp
3mth Libor (USD)	237 bp	3 bp ↑	3 bp	67 bp	104 bp
3mth Libor (GBP)	80 bp	0 bp →	18 bp	28 bp	48 bp
10-year US Treasury bond	308 bp	11 bp ↑	15 bp	67 bp	80 bp
10-year German bond	48 bp	6 bp ↑	11 bp	6 bp	4 bp
10-year French bond	79 bp	6 bp ↑	8 bp	1 bp	7 bp
10-year UK bond	159 bp	8 bp ↑	29 bp	40 bp	24 bp

Credit

	1wk	3mth	YTD	12mth
BAML EURO Corp. IG	0.0% →	-0.2%	-0.5%	0.0%
BAML EURO Corp HY	0.5% ↑	0.9%	0.3%	1.1%
BAML GBP Corp IG	-0.6% ↓	-0.9%	-2.1%	-0.1%
BAML US IG	-0.4% ↓	0.9%	-2.5%	-1.3%
BAML US HY	0.1% →	1.6%	2.3%	3.0%
JPM Global EM Sov. Plus	0.8% ↑	1.7%	-4.9%	-4.1%

Exchange rates

	Last	1wk	3mth	YTD	12mth
EUR/USD	1.18	0.7% ↑	1.8%	-1.9%	-1.0%
EUR/CHF	1.13	0.1% →	-2.0%	-3.5%	-2.1%
GBP/USD	1.33	1.2% ↑	0.7%	-1.8%	-1.7%
USD/JPY	112	0.5% ↑	1.9%	-0.1%	0.2%
USD/BRL	4.08	-3.1% ↓	8.1%	23.1%	30.2%
USD/CNY	6.85	0.0% →	5.8%	5.2%	4.1%
USD/RUB	66.3	-2.8% ↓	4.3%	15.0%	13.8%

Government bonds*

	1wk	3mth	YTD	12mth
United States (3-7yr)	-0.4% ↓	0.0%	-1.4%	-2.0%
United Kingdom (3-7yr)	-0.3% ↓	-0.5%	-0.8%	-0.5%
Germany (3-7yr)	-0.2% ↓	-0.5%	0.1%	-0.3%
Japan (3-7yr)	0.0% →	-0.2%	-0.2%	-0.3%

Equities*

	Last	1wk	3mth	YTD	12mth
MSCI AC World	526	1.6% ↑	3.2%	4.5%	10.5%
Eurostoxx 50	3,403	2.1% ↑	-0.9%	0.2%	-0.1%
DAX	12,326	2.3% ↑	-2.9%	-4.6%	-1.9%
CAC 40	5,452	2.3% ↑	1.6%	5.5%	7.4%
S&P 500	2,931	0.9% ↑	6.4%	11.2%	19.1%
FTSE 100	7,367	1.2% ↑	-2.3%	-0.9%	5.5%
SMI	9,001	0.6% ↑	5.3%	-0.7%	2.4%
Topix	1,788	4.5% ↑	2.2%	-0.5%	9.5%
IBOV Brazil	78,116	4.6% ↑	8.3%	2.2%	2.8%
MICEX Russia *	2,401	1.9% ↑	6.4%	13.8%	16.7%
MSCI EM	1,037	1.9% ↑	-3.9%	-8.4%	-4.2%
SENSEX 30 India	37,121	-1.6% ↓	4.9%	10.9%	15.9%
Hang Seng (H-K)	27,478	1.8% ↑	-5.9%	-5.2%	1.1%
Shanghai Composite	2,729	1.6% ↑	-6.4%	-17.5%	-18.9%

Commodities

	Last	1wk	3mth	YTD	12mth
Brent	\$79	0.6% ↑	4.5%	18.2%	39.8%
Gold	\$1,204	0.1% →	-5.5%	-7.6%	-8.3%
Silver	\$14.2	0.0% →	-12.9%	-16.3%	-17.7%

Source: DataStream, on 14/09/2018. 1wk = 1-week change, 3mth = 3-month change, 12mth = 12-month change, YTD = year-to-date change, YoY = year-on-year change, BAML = Bank of America Merrill Lynch, JPM = JP Morgan, IG = Investment Grade, EM = emerging markets. * Price return for MICEX equity index. Equities; total return in local currency. Government bonds = 3-7 year returns. Figures are rounded.

Important information

Kleinwort Hambros is the brand name of SG Kleinwort Hambros Bank Limited, which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. The firm reference number is 119250. The company is incorporated in England and Wales under number 964058 and its registered address is 5th Floor, 8 St James's Square, London SW1Y 4JU. Societe Generale Private Banking is a division of the Societe Generale Group operating through its head office within Societe Generale S.A. and its network (subsidiaries, branches or departments of Societe Generale S.A.) located in the countries mentioned hereafter which use the "Societe Generale Private Banking" and "Kleinwort Hambros" brands, and which distribute this document.

Important Information

This document is provided for information purposes only. It does not constitute and under no circumstances should it be considered in whole or in part as an offer, a solicitation, advice, a recommendation or a contract. It is intended to be used by the recipient only and may not be passed on or disclosed to any other persons and/or in any jurisdiction that would render the distribution illegal.

It is the responsibility of any person in possession of this document to inform himself or herself of and to observe all applicable laws and regulations of the relevant jurisdictions. This document is in no way intended to be distributed in or into the United States of America nor directly or indirectly to any U.S. person.

Financial Promotion

This document is a financial promotion.

Advice

We offer restricted advice, which will be based on a limited analysis of different types of products which include (but are not limited to) financial instruments or products linked to entities in the Societe Generale Group. We will advise and make a recommendation for you after we have assessed your needs. Please speak to your Private Banker for details of the range of products on which we provide advice.

Legal, Tax and Accounting

The information in this document does not constitute legal, tax or accounting advice. A potential investor should seek independent tax advice (where appropriate).

Subject of the document

This document has been prepared by experts of the Group Societe Generale, and more particularly of Societe Generale Private Banking division, to provide you with information relating to certain financial and economic data. In order to read and understand the financial and economic information included in this document, you will need to have knowledge and experience of financial markets. If this is not the case, please contact your advisor so that you no longer receive the document. Unless you do this, we shall consider that you have the necessary skills to understand this document.

Please note that this document only aims to provide simple information to help you in your investment or disinvestment decisions, and that it does not constitute a personalised recommendation. Should you wish to make an investment, as the case may be and according to the applicable laws, your advisor within the Societe Generale Private Banking entity of which you are a client will check your eligibility for an investment and whether it corresponds to your investment profile.

Should you not wish to receive this document, please inform your private banker in writing, and he/she will take the appropriate measures.

General Warning

The present information may change with market fluctuations, and the information and views reflected in this document may change. The Societe Generale Private Banking entities disclaim any responsibility for the updating or revising of this document. The document's only aim is to offer information to investors, who will take their investment decisions without relying solely on this document. The Societe Generale Private Banking entities disclaim all responsibility for direct or indirect losses related to any use of this document or its content. The Societe Generale Private Banking entities do not offer no implicit or explicit guarantees as to the accuracy or exhaustiveness of the information or as to the profitability or performance of the asset classes, countries and markets concerned.

The historical data, information and opinions provided herein have been obtained from, or are based upon, external sources that the Societe Generale Private Banking entities believe to be reliable, but which have not been independently verified. The Societe Generale Private Banking entities shall not be liable for the accuracy, relevance or exhaustiveness of this information. Information about past performance is not a guide to future performance and may not be repeated. Investment value is not guaranteed and the value of investments may fluctuate. Estimates of future performance are based on assumptions that may not be realised.

This document is confidential. It is intended exclusively for the person to whom it is given, and may not be communicated or notified to any third party (with the exception of external advisors, on the condition they themselves respect this confidentiality undertaking). It may not be copied in whole or in part without the prior written consent of the relevant Societe Generale Private Banking entity.

Specific warnings per jurisdiction

France: Unless otherwise expressly indicated, this document has been issued and distributed by Societe Generale, a French bank authorised and supervised by the Autorité de Contrôle Prudential et de Résolution, located at 61, rue Taitbout, 75436 Paris CEDEX 09 under the prudential supervision of the European Central Bank ("ECB"), and under the control of the Autorité des Marchés Financiers ("AMF"). Societe Generale is also registered at ORIAS as an insurance intermediary under the number 07 022 493 orias.fr. Societe Générale is a French Société Anonyme with its registered address at 29 boulevard Haussmann, 75009 Paris, with a capital of EUR 1,009,897,173.75 on 11 December 2017 and unique identification number 552 120 222 R.C.S. Paris. Further details are available on request or can be found at www.privatebanking.societegenerale.fr/.

Belgium: This document has been distributed in Belgium by Société Générale Private Banking SA/NV, a Belgian credit institution according to Belgian law and authorized and supervised by the National Bank of Belgium ("NBB") and the Financial Services and Markets Authority ("FSMA"), and under the prudential supervision of the European Central Bank- ECB. Société Générale Private Banking SA/NV is registered as an insurance broker at the FSMA under the number 61033A. Société Générale Private Banking SA/NV has its registered address at 9000 Ghent, Kortrijksesteenweg 302, registered at the RPM Ghent, under the number VAT BE 0415.835.337. Further details are available on request or can be found at www.privatebanking.societegenerale.be.

Luxembourg: This document has been distributed in Luxembourg by Societe Generale Bank and Trust ("SGBT"), a credit institution which is authorised and regulated by the Commission de Surveillance du Secteur Financier ("CSSF") under the prudential supervision of the European Central Bank ("ECB"), and whose head office is located at 11 avenue Emile Reuter – L 2420 Luxembourg. Further details are available on request or can be found at www.sgbt.lu. No investment decision whatsoever may result from solely reading this document. SGBT accepts no responsibility for the accuracy or otherwise of information contained in this document. SGBT accepts no liability or otherwise in respect of actions taken by recipients on the basis of this document only and SGBT does not hold itself out as providing any advice, particularly in relation to investment services. The opinions, views and forecasts expressed in this document (including any attachments thereto) reflect the personal views of the author(s) and do not reflect the views of any other person or SGBT unless otherwise mentioned. SGBT has neither verified nor independently analysed the information contained in this document. The CSSF has neither verified nor analysed the information contained in this document.

Monaco: The present document has been distributed in Monaco by Société Générale Private Banking (Monaco) S.A.M., located 13-15 bld des Moulins, 98000 Monaco, Principality of Monaco, governed by the Autorité de Contrôle Prudentiel et de Résolution and the Commission de Contrôle des Activités Financières. The Financial products marketed in Monaco can be reserved for qualified investors in accordance with Law No. 1339 of 07/09/2007 and Sovereign Ordinance No 1.285 of 10/09/2007. Further details are available upon request or on www.privatebanking.societegenerale.mc.

Switzerland: This document has been communicated in Switzerland by Société Générale Private Banking (Suisse) SA (« SGPBS »), whose head office is located at rue du Rhône 8, CP 5022, CH-1211 Geneva 11. SGPBS is a bank authorized by the Swiss Financial Market Supervisory Authority ("FINMA"). Further details are available on request or can be found at www.privatebanking.societegenerale.ch. This document (i) does not provide any opinion or recommendation about a company or a security, or (ii) has been prepared outside of Switzerland for the « Private banking ». Therefore, the Directives of the Swiss Bankers Association (SBA) on the Independence of Financial Research do not apply to this document. This document has not been prepared by SGPBS. SGPBS has neither verified nor independently analyzed the information contained in this document. SGPBS accepts no responsibility for the accuracy or otherwise of information contained in this document. The opinions, views and forecasts expressed in this document reflect the personal views of the relevant author(s) and shall not engage SGPBS's liability. This document is not a prospectus within the meaning of articles 652a and 1156 of the Swiss Code of Obligations. This document is issued by the following companies in the Kleinwort Hambros Group under the brand name Kleinwort Hambros:

United Kingdom: SG Kleinwort Hambros Bank Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. The firm reference number is 119250. The company is incorporated in England and Wales under number 964058 and its registered address is 5th Floor, 8 St James's Square, London SW1Y 4JU.

Jersey: SG Kleinwort Hambros Bank (CI) Limited is regulated by the Jersey Financial Services Commission ("JFSC") for banking, investment, funds services and money services business. The company is also authorised and regulated by the UK Financial Conduct Authority ("FCA") in respect of UK regulated mortgage business. The firm reference number is 310344. The company is incorporated in Jersey under number 2693 and its registered address is PO Box 78, SG Hambros House, 18 Esplanade, St Helier, Jersey JE4 8PR. This document has not been authorised or reviewed by the JFSC or FCA.

Guernsey: SG Kleinwort Hambros Bank (CI) Limited – Guernsey Branch is regulated by the Guernsey Financial Services Commission ("GFSC") for banking, investment and money services business and by the Jersey Financial Services Commission ("JFSC") for banking, investment, fund services and money services business. Its address is PO Box 6, Hambro House, St Julian's Avenue, St Peter Port, Guernsey, GY1 3AE. SG Kleinwort Hambros Bank (CI) Limited (including the branch) is also authorised and regulated by the UK Financial Conduct Authority ("FCA") in respect of UK regulated mortgage business. The firm reference number is 310344. The company is incorporated in Jersey under number 2693 and its registered address is PO Box 78, SG Hambros House, 18 Esplanade, St Helier, Jersey JE4 8PR. This document has not been authorised or reviewed by the JFSC, GFSC or FCA.

Gibraltar: SG Kleinwort Hambros Bank (Gibraltar) Limited is authorised and regulated by the Gibraltar Financial Services Commission for the conduct of banking, investment and insurance mediation business. The company is incorporated in Gibraltar under number 01294 and its registered address is 32 Line Wall Road, Gibraltar. Kleinwort Hambros is part of Societe Generale Private Banking, which is part of the wealth management arm of the Societe Generale Group. Societe Generale is a French Bank authorised in France by the Autorité de Contrôle Prudentiel et de Résolution, located at 61, rue Taitbout, 75436 Paris CEDEX 09 and under the prudential supervision of the European Central Bank. It is also authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

Further information on the Kleinwort Hambros Group including additional legal and regulatory details can be found at: www.kleinworthambros.com.

<http://www.privatebanking.societegenerale.com>

© Copyright the Societe Generale Group 2018. All rights reserved. Any unauthorised use, duplication, redistribution or disclosure in whole or in part is prohibited without the prior consent of Societe Generale. The key symbols, Societe Generale, Societe Generale Private Banking and Kleinwort Hambros are registered trademarks of Societe Generale. All rights reserved.