WEEKLY UPDATE

Spotlight back on trade

In recent months, we have observed growing investor confidence that a trade deal would be struck quickly between the US and Chinese presidents. One measure of this conviction has been the marked outperformance of those US stocks which are most heavily dependent on trade with China. It is therefore hardly surprising that last week-end’s announcement by Donald Trump that higher tariffs would be charged from now on generated such a spike in risk aversion. Is the trade deal dead ?

At the time of writing (May 9, p.m.), the likelihood remains high that the US president will push ahead with his threat to hike the current 10% tariffs to 25% on around USD 200bn of imports from China. Bilateral negotiations will continue but there is little time for meaningful progress on the major stumbling points. Unless there is another U-turn, the additional tariffs will apply from 12:00 p.m. Washington time on May 10. In addition, President Trump has threatened to impose 25% tariffs on all remaining imports from China (some USD 325bn in total), although no deadline has been set as yet.

The radical shift in US attitudes appears to have been sparked by the conviction that Chinese negotiators had begun to backtrack on previous commitments, on areas such as the protection of intellectual property rights. The White House administration’s decision to increase pressure on China seems designed to underline the importance of concluding a « good deal » on trade, i.e. one which would be seen to protect the interests of US workers. In order to maximise negotiating leverage, both parties need to be seen to be able to walk away from talks if necessary.

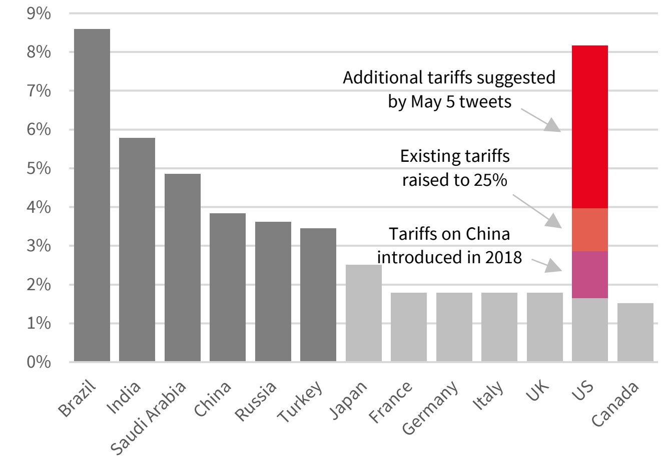
The outlook for the US and Chinese economies remains robust. Chinese stimulus appears to be underpinning activity. Business confidence surveys have improved, taxes have been cut and demand has picked up, as illustrated by the unexpected bounce in imports last month. In the US, Q1 corporate reports show robust topline growth, while last Friday’s payroll report saw better-than-expected job creation.

However, both sides need a deal. China is in the midst of dealing with over-extended borrowing by large state-owned enterprises (SOEs). Punitive tariffs on exports to the US would hit many privately-owned businesses on which China is counting to take up the slack as SOEs deleverage. And for the US president, retaliatory measures by China are denting export demand in areas such as agricultural products. The slump in soybean sales to China affects many rural states which voted Trump in 2016 – an unwelcome factor in the run-up to the 2020 campaign.

Bottom line. The events of the last week have seen equity markets sell off and risk aversion spike – the VIX, known as the « fear index », has risen 68% since last Friday. However, this comes after very substantial year-to-date performance, especially in the US and China. We remain convinced that both sides have a common interest in striking a deal, but successful conclusion of negotiations may take more time than investors expected.

US tariff levels would surpass many EM

Weighted mean of tariff rate applied on all products



Sources: SGPB, Datastream, World Bank, data as of 08/05/2019

US stocks exposed to China have recovered

Baskets of large caps with high share of revenues from abroad

Baskets of 50-100 large caps with high overseas exposition
Net return rebased 100 from 2018 peak

Drawdown	**US** stocks exposed to China	**China** stocks exposed to US	**EU** stocks exposed to China
Trade war climax	-14%	-13%	-15%
Current (08/05/2019)	-4%	-7%	-10%

Sources: SGPB, Macrobond, data as of 08/05/2019

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

All data taken from Bloomberg, Macrobond (09/05/2019).

OUR MACRO-COMMENTS

This week and next

EUROZONE

- April final Services PMI data were revised up to 52.8 from 52.5, still lower than 53.3 hit in March. Italy and Spain saw a deterioration while France and Germany print improved. The Composite PMI thus edged higher from 51.3 to 51.5 – albeit slightly lower than March's 51.6.
- Investor sentiment beat expectations in May, rising for the third straight month to a six-month high of 5.3.
- March retail sales grew 1.9% YoY but were unchanged from February.
- German orders (+0.6% MoM, from -4.0%) and output (+0.5% MoM, from 0.4%) recovered somewhat in March but less than expected.

	Next week's key events	Per.	Prev.	Cons.
14 May	Industrial production MoM	Mar	-0.2%	--
15 May	Germany: GDP QoQ	Q1 (F)	0.0%	--
17 May	Headline inflation YoY	Apr (F)	1.4%	--

UNITED KINGDOM

- According to the British Retail Consortium, like-for-like retail sales rose from -1.1% YoY to 3.7% – its fastest pace in 2 years mostly attributable to Easter's timing.
- House prices annual growth rate reached a 2-year high, rising from 2.6% to 5.0% in the 3 months to April, according to Halifax data.

	Next week's key events	Per.	Prev.	Cons.
14 May	Unemployment rate	Mar	3.9%	--
14 May	3M average weekly earnings YoY	Mar	3.5%	--
17 May	Car registrations YoY	Apr	-3.4%	--

UNITED STATES

- Labour market remains buoyant as jobs openings rose to 7.49 (above expectations) from 7.14m in March, with +363,000 jobs in the private sector.
- Non-manufacturing ISM eased a bit in April at 55.5 down from 56.1 while remaining comfortably high.
- Consumer sentiment improved for the third consecutive month according to the Reuters/Ipsos index, rising to 62.6 in May from 60.7.
- After declining for several consecutive weeks, mortgage applications reversed course for the week ending May 3, rising from -4.3% to 2.7% – its highest print in 5 weeks.

	Next week's key events	Per.	Prev.	Cons.
15 May	Retail sales MoM	Apr	1.6%	0.2%
15 May	Industrial production MoM	Apr	-0.1%	0.2%
15 May	New York Fed manufacturing	May	10.1	10.5

ASIA & EMERGING COUNTRIES

- Chinese exports declined 2.7% YoY (from 14.2%) while imports rose 4.0% (from -7.6%) in April, sending the trade balance surplus down from $32.7bn to 13.8bn. In accordance with market expectations, headline inflation rose from 2.3% YoY to 2.5% in April, while producer prices edged up from 0.4% YoY to 0.9%. Meanwhile, M2-money supply slightly lost speed to 8.5% YoY in April from 8.6% and total social financing slowed more than expected from CNY2.9trn to 1.4trn.
- In Japan, April final manufacturing PMI has been revised up from 49.5 to 50.2 and swung above the 50-threshold for the first time since January. In the meantime, Services PMI saw a second straight month of deterioration, down from 52.0 to 51.8 – still in expansion territory. Consumer confidence index remained flat in April after a 1-year ongoing decline.

	Next week's key events	Per.	Prev.	Cons.
15 May	China: Retail sales YoY	Apr	8.7%	8.6%
15 May	China: Industrial output YoY	Apr	8.5%	6.5%
17 May	Russia: GDP YoY	Q1 (P)	2.7%	--

Sources: DataStream, Bloomberg, 9 May 2019. Note: YoY = year-on-year; QoQ = quarter-on-quarter; MoM = month-on-month, P = preliminary figure, A = advanced figure, F = final figure, seasonally adjusted, PMI = Purchasing Manager's Index.

Our 3-month targets for currencies and commodities

	Thursday close	3mth target
EUR/USD	1.12	1.11
GBP/USD	1.30	1.31
EUR/CHF	1.14	1.11
USD/JPY	110.1	110
Brent	$70.7	$68
Gold (oz.)	$1283	$1250

No changes made to our 3-month targets this week.

Forecast figures are not a reliable indicator of future performance.

MARKET PERFORMANCE

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

Interest rates

Interest rates	Last	1wk		3mth	YTD	12mth
EONIA (EUR)	-37 bp	-1 bp	→	0 bp	-1 bp	0 bp
3mth Euribor (EUR)	-31 bp	0 bp	→	0 bp	0 bp	2 bp
3mth Libor (USD)	255 bp	-3 bp	↓	-15 bp	-26 bp	19 bp
3mth Libor (GBP)	81 bp	-1 bp	→	-7 bp	-10 bp	14 bp
10-year US Treasury bond	248 bp	-3 bp	↓	-15 bp	-21 bp	-49 bp
10-year German bond	-4 bp	-6 bp	↓	-13 bp	-29 bp	-60 bp
10-year French bond	33 bp	-4 bp	↓	-21 bp	-38 bp	-48 bp
10-year UK bond	114 bp	-1 bp	↓	-1 bp	-13 bp	-31 bp

Credit

Credit	1wk		3mth	YTD	12mth
BAML EURO Corp. IG	0,0%	→	2,2 %	3,9 %	3,1 %
BAML EURO Corp HY	-0,7%	↓	3,5 %	6,0 %	2,1 %
BAML GBP Corp IG	-0,1%	↓	2,4 %	5,1 %	4,5 %
BAML US IG	0,0%	→	3,0 %	5,6 %	6,9 %
BAML US HY	-0,3%	↓	3,6 %	8,6 %	6,4 %
BAML Global EM Sov. External Plus	-0,1%	↓	1,8 %	5,7 %	5,3 %

Exchange rates

Exchange rates	Last	1wk		3mth	YTD	12mth
EUR/USD	1,12	0,0 %	→	-1,2 %	-2,4 %	-5,7%
EUR/CHF	1,14	0,2 %	↑	0,8 %	1,4 %	-3,9%
GBP/USD	1,30	-0,3 %	↓	0,5 %	2,0 %	-4,0%
USD/JPY	110,1	-1,1 %	↓	0,3 %	0,5 %	0,9%
USD/BRL	3,93	0,2 %	↑	5,3 %	1,2 %	10,2%
USD/CNY	6,78	0,7 %	↑	0,6 %	-1,4 %	6,5%
USD/RUB	65,0	0,2 %	↑	-0,7 %	-6,8 %	2,8%

Government bonds*

Government bonds*	1wk		3mth	YTD	12mth
United States (3-7yr)	0,1 %	↑	1,4 %	1,9 %	5,2 %
United Kingdom (3-7yr)	0,0 %	→	0,1 %	0,7 %	2,4 %
Germany (3-7yr)	0,2 %	↑	0,3 %	0,8 %	2,0 %
Japan (3-7yr)	0,0 %	→	-0,1 %	0,0 %	0,2 %

Equities*

Equities*	Last	1wk		3mth	YTD	12mth
MSCI AC World	513	-1,8 %	↓	5,9 %	13,7 %	3,2 %
Eurostoxx 50	3 417	-2,4 %	↓	10,4 %	15,6 %	-0,5 %
DAX	12 180	-1,3 %	↓	11,7 %	15,4 %	-5,7 %
CAC 40	5 418	-2,6 %	↓	10,4 %	15,9 %	1,5 %
S&P 500	2 879	-1,5 %	↓	6,8 %	15,6 %	9,9 %
FTSE 100	7 271	-1,5 %	↓	4,5 %	9,9 %	0,4 %
SMI	9 622	-0,9 %	↓	10,2 %	17,7 %	11,2 %
Topix	1 572	-2,8 %	↓	3,3 %	6,4 %	-9,5 %
IBOV Brazil	95 597	-0,8 %	↓	0,3 %	8,8 %	15,2 %
MICEX Russia *	2 544	-0,6 %	↓	1,7 %	7,9 %	10,5 %
MSCI EM	1 051	-2,7 %	↓	1,9 %	9,4 %	-5,4 %
SENSEX 30 India	37 789	-3,2 %	↓	3,6 %	5,0 %	8,7 %
Hang Seng (H-K)	29 003	-2,3 %	↓	4,2 %	12,7 %	-1,3 %
Shanghaï Composite	2 894	-6,0 %	↓	10,5 %	16,0 %	-8,5 %

Commodities

Commodities	Last	1wk		3mth	YTD	12mth
Brent	$70,7	-1,5 %	↓	14,3 %	33,1 %	-4,5 %
Gold	$1 283	0,1 %	→	-2,4 %	0,1 %	-1,9 %
Copper	$6 130	-1,5 %	↓	-1,0 %	3,0 %	-8,6 %

Source: DataStream, on 8 May 2019.

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.

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