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Economic Acumen

Commentary by CEBI Research Team

In Brief

- After launching tariffs on steel and aluminum, U.S. President Donald Trump has unveiled a plan to impose tariffs on USD \$60 billion Chinese exports to the U.S. The new tariffs are intended to penalize China for the unfair trade practices with the U.S that causes a huge U.S. trade deficit.
- The U.S government also points to regulations that force many U.S. businesses to hand over their technology to Chinese companies as a condition for being able to do business in China with which technology transfer has damaged the interests of the U.S. enterprises.
- The U.S. Treasury has been given 60 days to come up with new restrictions on investment by Chinese firms in the U.S.
- The move may trigger a costly trade war with the world's second-largest economy with which China, the U.S. and all trading partners will suffer from potential contraction of world trade growth.
- Implementation of the tariffs sets the stage for some potential business conflicts among countries in the future.

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Escalating fears of global trade war

After launching tariffs on steel and aluminum, U.S. President Donald Trump has unveiled a plan to impose tariffs on USD \$60 billion Chinese exports to the U.S. The new tariffs are intended to penalize China for the unfair trade practices with the U.S that causes a huge U.S trade deficit. The U.S. government also points to regulations that force many U.S. businesses to hand over their technology to Chinese companies as a condition for being able to do business in China with which technology transfer has damaged the interests of the U.S. enterprises. The U.S. Treasury has been given 60 days to come up with new restrictions on investment by Chinese firms in the U.S. In sum, the move may trigger a costly trade war with the world's second-largest economy with which China, the U.S. and all trading partners will suffer from potential contraction of world trade growth. The U.S. trade actions severely affect the multilateral trading system and disturb the international trading order. Implementation of the tariffs sets the stage for some potential business conflicts among countries in the future.

Effects of the U.S. tariffs on Chinese exports. China's exports to the U.S. have maintained strong growth momentum since 2017. 2017 and 2M2018 exports to the U.S. rose 14.5% YoY and 20% YoY, respectively, outperforming total exports growth of 10.8% and 18%. With the export share to the U.S. around 19% of total China exports, the newly announced tariffs will definitely have negative impacts on exports growth in 2018. The contraction of China exports may put pressures on economic growth. However, China is becoming increasingly capable in economic management, with increasingly experienced and tactful in economic policies. In sum, a stable and neutral monetary policy and expansionary fiscal policy, which are able to be fine-tuned in line with economic conditions, along with its economic structural reforms, will help handle trade tariffs wisely by boosting domestic demand to maintain steady economic recovery.

Effects of the U.S. tariffs on the U.S. economy. The principal U.S. imports from China are computers and electronic products, electrical equipment, appliances and components, and other miscellaneous manufactured goods. Amid significant tariffs imposed on China products, the U.S. is likely to experience a large drop in imports from

China as it will switch to import goods from other countries or use domestic products. Higher-cost imports from other trading partners and domestic manufactured products will cause inflation to rise that may accelerate the rate hike path of the Federal Reserve. In addition, China may retaliate by imposing tariffs on goods from the U.S. It will cause U.S. exports to China to fall, undermining growth momentum of the U.S. economy. In general, the tariffs will harm rather than benefit the economic recovery of the U.S.

Trade talks to open to avoid the global trade war. The U.S. trade tariffs actions on China demonstrates increasing the likelihood of breaking out a global trade war, damaging cross-border transactions and relationships among nations. A trade war will lead to a loss on both China and the U.S., and have negative impacts on the global trade system. In sum, the U.S tariff import list will be drawn up within 15 days and will be subject to a 30-day “notice and comment” period, during which domestic industries will have the opportunity to express their positions on the tariffs. During this time it’s possible that China and the U.S. will re-negotiate bilateral trade relationship.

China Economic Indicators

	2015	2016	1Q2017	2Q2017	3Q2017	4Q2017	2017
Real GDP	6.9	6.7	6.9	6.9	6.8	6.8	6.9
PMI							
Manufacturing (%)	49.7	51.4	51.8	51.7	52.4	51.6	51.6
Non-Manufacturing (%)	54.4	54.5	55.1	54.9	55.4	55.5	55.5
Exports (RMB YoY %)	(1.8)	(2.1)	10.5	12.5	7.7	7.1	10.8
Imports (RMB YoY %)	(13.2)	0.4	30.3	20.8	16.4	9.7	18.7
Trade Balance (RMB/bn)	3686.5	3347.3	458.5	838.2	800.7	881.4	2871.6
Exports (USD YoY %)	(2.9)	(7.7)	7.6	8.7	6.6	10.1	7.9
Imports (USD YoY %)	(14.1)	(5.5)	24.2	14.2	14.4	12.6	15.9
Trade Balance (USD/bn)	593.9	509.7	62.3	119.7	115.8	133.0	422.5
CPI (YoY %)	1.4	2.0	1.4	1.4	1.6	1.8	1.6
PPI (YoY %)	(5.2)	(1.4)	7.4	5.8	6.2	5.9	6.3
FAI (YTD/ YOY %)	10.0	8.1	9.2	8.6	7.5	7.2	7.2
Real Estate Investment (YTD YoY %)	1.0	6.9	9.1	8.5	8.1	7.0	7.0
Industrial Production (YoY %)	6.1	6.0	6.8	6.9	6.3	6.2	6.6
Retail Sales (YoY%)	10.7	10.4	10.0	10.8	10.3	9.9	10.2
New Lending (RMB/bn)	11719.9	12645.9	4220.0	3750.0	3785.5	2367.6	13523.1
M2 (YoY %)	13.3	11.3	10.6	9.4	9.2	8.2	8.2
Aggregate Financing (RMB bn)	15408.6	17802.2	6906.4	4222.9	4518.6	3795.1	19443.0

	Feb 17	Mar 17	Apr 17	May 17	Jun 17	Jul 17	Aug 17	Sep 17	Oct 17	Nov 17	Dec 17	Jan 18	Feb 18
Real GDP	-	6.9	-	-	6.9	-	-	6.8	-	-	6.8	-	-
PMI – Manufacturing %	51.6	51.8	51.2	51.2	51.7	51.4	51.7	52.4	51.6	51.8	51.6	51.3	50.3
PMI- Non-manufacturing%	54.2	55.1	54.0	54.5	54.9	54.5	53.4	55.4	54.3	54.8	55.5	55.3	54.4
Exports (RMB YoY %)	3.3	21.6	13.3	14.7	16.9	10.6	6.6	9.1	6.0	10.3	7.4	6.0	36.2
Imports (RMB YoY %)	45.1	26.1	18.2	21.2	23.0	14.6	14.4	19.4	15.9	15.6	0.9	30.2	(0.2)
Trade Balance (RMB/bn)	(60.4)	164.3	262.3	281.6	294.3	321.2	286.5	193.0	254.5	263.6	362.0	135.8	224.9
Export (USD YoY %)	(2.1)	15.7	7.0	8.0	10.9	6.6	5.2	8.1	6.8	12.3	10.9	11.1	44.5
Import (USD YoY %)	38.4	20.1	11.5	14.0	17.0	11.0	13.3	18.7	17.2	17.7	4.5	36.9	6.3
Trade Balance (USD/bn)	(10.4)	23.1	36.9	40.5	42.2	45.7	41.4	28.7	38.1	40.2	54.7	20.3	33.7
CPI (YoY %)	0.8	0.9	1.2	1.5	1.5	1.4	1.8	1.6	1.9	1.7	1.8	1.5	2.9
PPI (YoY %)	7.8	7.6	6.4	5.5	5.5	5.5	6.3	6.9	6.9	5.8	4.9	4.3	3.7
FAI (YTD/ YOY %)	8.9	9.2	8.9	8.6	8.6	8.3	7.8	7.5	7.3	7.2	7.2	-	7.9
Real Estate Investment (YTD/ YoY %)	8.9	9.1	9.3	8.8	8.5	7.9	7.9	8.1	7.8	7.5	7.0	-	9.9
Industrial Production (YoY %)	6.3	7.6	6.5	6.5	7.6	6.4	6.0	6.6	6.2	6.1	6.2	-	7.2
Retail Sales (YoY%)	9.5	10.9	10.7	10.7	11.0	10.4	10.1	10.3	10.0	10.2	9.4	-	9.7
New Lending (RMB/bn)	1170.0	1020.0	1100.0	1110.0	1540.0	825.5	1090.0	1270.0	663.2	1120.0	584.4	2900.0	839.3
M2 (YoY %)	11.1	10.6	10.5	9.6	9.4	9.2	8.9	9.2	8.8	9.1	8.2	8.6	8.8
Aggregate Financing (RMB bn)	1090.8	2118.6	1388.0	1063.1	1771.8	1195.6	1489.5	1833.5	1035.7	1619.6	1139.8	3060.0	1170.0

World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
U.S.			
DJIA	23,533.20	19.01	-5.67
S&P 500	2,588.26	20.88	-5.95
NASDAQ	6,992.67	31.01	-6.54
EUR			
FTSE 100	6,921.94	12.83	-3.38
DAX	11,886.31	13.60	-4.06
CAC40S	5,095.22	15.84	-3.55
STOXX EUR 600	365.82	15.41	-3.15
Asia			
HSI	30,548.77	12.79	-3.06
HSCEI	12,197.70	9.73	-3.66
CSI300	3,879.89	15.67	-4.77
SSE Composite	3,133.72	15.95	-4.44
SZSE Composite	1,790.36	29.48	-4.16
NIKKEI 225	20,766.10	15.13	-4.20
KOSPI	2,437.08	11.87	-1.53
TWSE	10,840.05	15.67	-1.87
S&P/ASX 200	5,790.47	17.09	-2.84
MSCI Index			
MSCI WORLD	2,036.55	18.75	-4.57
MSCI DEVELOPED	499.36	18.27	-4.42
MSCI EMERGING	1,172.10	15.46	-3.38
MSCI US	2,468.89	21.34	-5.90
MSCI UK	2,003.64	12.89	-3.34
MSCI France	147.32	15.81	-3.39
MSCI Germany	147.74	14.11	-3.75
MSCI China	92.03	16.89	-6.14
MSCI Hong Kong	15,793.48	11.52	-3.08
MSCI Japan	986.65	12.94	-4.45

* As of 26/3/2018 closing for Asian markets, previous closing for others

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	65.40	5.46
ICE Brent Oil	USD/bbl	70.08	6.10
NYMEX NatGas	USD/MMBtu	2.57	-2.98
Basic Metals			
LME Alum.Cash	USD/MT	2,026.75	-1.80
CMX Cop.Active	USD/lb.	294.95	-4.30
LME Steel Rebar	USD/MT	587.00	-1.18
LME Lead Cash	USD/MT	2,339.50	-1.86
Precious Metals			
CMX Gold	USD/KRW	1,346.46	2.67
Gold Futures	USD/KRW	1,351.70	2.14
CMX Silverbn	USD/KRW	16.58	1.84
NYMEX Platinum	USD/T. oz	950.66	0.46
Agri, Products			
CBOT Corn	USD/bu	379.00	1.07
CBOT Wheat	USD/bu	459.50	1.94
NYB-ICE Sugar	USD/lb.	12.55	-2.64
CBOT Soybeans	USD/bu.	1,034.25	1.15

Money market		
	Yield (%)	One Week chg(%)
US Fed Fund Rate	1.75	0.25
US Prime Rate	4.75	0.25
US Discount Window	2.25	0.25
ECB Rate (Refinancing)	0.00	0.00
BOJ Policy Rate	-0.10	0.00
US Treasury (1 Mth)	1.67	-0.02
US Treasury (1 Yr)	2.02	-0.04
US Treasury (5 Yr)	2.63	-0.02
US Treasury (10 Yr)	2.85	-0.01
US Treasury (30 Yr)	3.10	0.01
1-Month LIBOR	1.88	0.05
3 Month LIBOR	2.29	0.09
Japan 1-Yr Gov. Bond	-0.16	-0.01
Japan 10-Yr Gov. Bond	0.02	-0.02
German 1-Yr Gov. Bond	-0.65	0.00
German 10-Yr Gov. Bond	0.54	-0.03
China Benchmark Interest	4.35	0.00
China 1-Yr Gov. Bond	3.28	-0.03
China 5-Yr Gov. Bond	3.61	-0.09
China 10-Yr Gov. Bond	3.75	-0.09
O/N SHIBOR	2.54	-0.02
1-mth SHIBOR	4.41	-0.10
HK Base rate	0.20	0.14
O/N HIBOR	0.20	0.14
1-mth HIBOR	0.88	0.09
O/N CNH HIBOR	2.90	-0.55
1-mth CNH HIBOR	4.18	-0.30
Corporate Bonds (Moody's)		
Aaa	3.86	0.00
Baa	4.67	0.04

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	89.36	-0.48
Euro/USD	1.2390	0.79
GBP/USD	1.4188	1.17
AUD/USD	0.7736	0.43
USD/CAD	1.2853	-1.78
USD/JPY	105.04	-1.04
USD/CHF	0.9463	-0.70
USD/CNY Midpoint	6.3193	-0.20
USD/CNY	6.2808	-0.81
USD/CNY NDF		
12-mth Spot pr.	6.3884	-1.09
USD/CNH	6.2705	-0.95
USD/HKD	7.8477	0.05
CNY/HKD	1.2495	0.89
CNH/HKD	1.2515	1.01
USD/KRW	1,081.20	0.90
USD/TWD	29.146	-0.14
USD/SGD	1.3108	-0.52
USD/INR	64.856	-0.49

All data sources: Bloomberg, CEBI, NBS

Disclosures

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