

MAKING SENSE OF *THIS* WORLD

03 December 2018



R&R Weekly Column
By Brunello Rosa




The US and China Reach a Truce on Trade, But the G20 Fails to Condemn Protectionism


As we predicted in [our column last week](#), the meeting between US and China that occurred on the sidelines of the G20 summit in Buenos Aires resulted in [an agreement that will allow the countries to continue negotiating with one another on trade during the next few months](#). The US has agreed to postpone by three months its planned increase in tariffs, from 10% to 25%, on \$200bn worth of Chinese goods exported to the US; tariffs which would have otherwise gone into effect on January 1st, 2019. As we expected, this meeting was not the place at which a full-fledged agreement could take place, given the unresolved issues that exist between the two countries (especially in terms of the protection of intellectual property and the imbalance resulting from the closed nature of the Chinese economy relative to the American economy) and the deeper technological competition that is underlying their [“trade skirmishes”](#) with one another. All the same, this Christmas truce is a welcome development, as it removes one element of uncertainty for market participants on the verge of closing their books for 2018.

In contrast, [the communique](#) released at the end of the G20 summit is not likely to be a step in the right direction. Apart from being vague in general, there are three clear commitments the G20 fails to make in it. First, the communique does not explicitly condemn “protectionism” as it used to, but instead only says that world leaders “note current trade issues...recognize the contribution that the multilateral trading system has made”, and that the “system is currently *falling short of its objectives* and there is room for improvement.” Second, the G20 failed to endorse the UN’s [Global Compact For Migration](#) after a number of countries, including the [US](#), [Hungary](#), [Switzerland](#), and [Italy](#), explicitly pulled out or showed reservations. The communique simply says that “large movements of refugees are a global concern with humanitarian, political, social and economic consequences. [G20 leaders] emphasize the importance of shared actions to address the root causes of displacement and to respond to growing humanitarian needs.” Finally, the G20 communique confirms that Europe remains united in its support for the Paris agreement on climate change, whereas the US has confirmed its withdrawal from the agreement (only one day before [the COP24 climate summit in Poland is set to begin](#)), failing to put the weight of the entire G20 behind global environmental commitments.

Somebody willing to see the glass half full could say that at least this G20 meeting ended with less acrimony than did the G7 meeting in Canada in June 2018, where [even the pictures taken showed tensions among various world leaders](#). For those inclined to be optimistic at the beginning of this festive season, one can perhaps focus on a few factors that are now lifting investor sentiment. In addition to this new truce in the US-China “trade war”, there is also [the more cooperative approach that has recently taken by the Italian government regarding its budget](#) (an attempt to prevent the opening of a excessive deficit procedure by the European Commission early next year), as well as the less hawkish tone taken by US Federal Reserve chairman Jay Powell in [his recent speech on financial stability](#). All of these factors, though somewhat clouded by the possibility of there being a negative reaction should the [UK parliament reject the deal](#) between the UK and the EU on the British withdrawal agreement on December 11th, might provide positive support to risky assets as 2018 comes to an end. Still, given the number of risks that remain, investors are likely to [stay cautious during the final part of 2018 and into 2019](#).

Our Recent Publications

 [ECB PREVIEW: We Do Not Expect A Radical Shift In Policy in December](#), by Brunello Rosa and Nouriel Roubini,
30 November 2018

 [MARKET VIEWS: Oil Outlook 2019-20: Oil Prices’ Gradual Decline To Support Global Growth](#), Alessandro Magnoli Bocchi and Francisco Quintana, 26 November 2018



The Week Ahead

In the US, labour market indicators is expected to remain stable. Wage growth is likely to remain unchanged (average hourly earnings November, c: 3.1% y-o-y; p: 3.1%), the number of new jobs will mildly decline (non-farm payrolls November, c: +205k m-o-m; p: 250k) and the unemployment rate will remain at a 49-year low (November, c: 3.7%; p: 3.7%).

No policy rates changes are expected in Canada and Australia. CBs are expected to keep policy rates on hold in Canada (BoC, c: 1.75%; p: 1.75%) and Australia (RBA, c: 1.5%; p: 1.5%).

The Quarter Ahead

Leading indicators show that the US economy will remain strong. Q3-2018 GDP growth remained stable (a: 3.5% q-o-q ann.; c: 3.5%; p: 3.5%) as did headline inflation in November (PCE October, a: 2.0% y-o-y; c: 2.0%; p: 2.0%). Next week, the ISM Manufacturing PMI is expected to rise (November, c: 58.0; p: 57.7). Markets have priced in a hike in December (82.7% likelihood, pw: 74.1) although Fed's Chairman Powell comments reduced the expectations of three hikes in 2019 to 9.2% (from 21.4% a month earlier).

The EZ economy will continue to show signs of deceleration... Last week, inflation fell below expectations (CPI October, c: 2.0%; c: 2.1% y-o-y; p: 2.2%), driven by core prices (Core CPI August, a: 1.0%; c: 1.1% y-o-y; p: 1.1%). Falling inflation increased demand for bonds (Germany 10y yield, -3bps to 0.31%), particularly in Italy (10y yield, -20bps to 0.34%)

... while political risks pile up: a) In Italy, banks' exposure to government debt has increased: in October: banks bought a net EUR 6.9bn of Italian government bonds, increasing their sovereign holdings by EUR 54bn since May, in sharp contrast to the sustained wave of selling (EUR -68bn) by foreign investors in the same period; b) In the UK, the vote to approve the Brexit deal negotiated with—and already approved by—the EU has been set for December 11. Its approval by the British parliament is not granted, as PM May is still seeking support among Conservative MPs.

US-China trade concerns are likely to linger on. The US and China agreed on postponing the imposition of tariffs—scheduled for January—for three months in order to work on a deal. China—under growing pressure given that its manufacturing sector is approaching contraction levels (NBS PMI November, a: 50.0; c: 50.2; p: 50.2)—committed to increase imports from the US. In parallel, a new NAFTA agreement between the US, Canada and Mexico was signed.

Geopolitical risks are rising... Last week, Russia and Ukraine had clashes off the coast of Crimea, with the latter requesting NATO support. Russia's bonds and the RUB fell to a 2.5-year low

... but EMs will continue to enjoy demand from fixed income investors. Despite the deteriorating geopolitical environment, Russia announced the upcoming sale of EUR 1bn of 7-year Eurobonds. Strong preliminary demand reduced yield guidance from 3% to ~2.875%. Russia's last international issuance (USD4bn in March) included provisions allowing payments in other currencies if the government was denied access to USD.

Oil prices could decline in the short term. Brent prices stabilized w-o-w (-0.2% to 58.7 USD/b) as markets expect Opec to deliver a moderate output cut in its meeting next Thursday. However, the cut might not materialize, given that: a) KSA is under pressure by the US to maintain output; b) Opec allies seem comfortable with current prices; and c) KSA has stated that the country will not undertake cuts on its own. In the near term, if the decline does not materialize, prices could fall further.

Last Week's Review

Gains across asset classes, lifted by expectations of a shorter-than-expected tightening cycle. Fed's Chairman Jerome Powell declared that interest rates were "just below their neutral level", signalling that the tightening cycle might be weaker than expected in 2019. The comment lifted global markets: w-o-w, prices rose across asset classes and geographies; stocks benefitted the most, particularly in the US (MSCI ACWI, 3.3%; S&P 500, 4.8%; Eurostoxx 50, 1.1%; MSCI EMs, 2.6%) and volatility fell below its long-term average (VIX, -3.4 to 18.1; 52w avg.: 15.2; 10y avg.: 18.6). Bond prices also rose, led by US (US Reuters index, 0.4%) and EMs (BAML EMs index, 0.4%). Yields fell across DMs (US 10y yield, -3bps to 3.01%) and the USD strengthened against a basket of currencies (DXY, +0.4%) and all DM currencies (EUR/USD, -0.2% to 1.132).

Francisco Quintana contributed to this Viewsletter.

The picture in the front page comes from [this website](#)



@RosaRoubini



Rosa & Roubini



Rosa&Roubini Associates

For more information, please call us on +44 (0)207 1010 718 or send us an email to info@rosa-roubini-associates.com

www.rosa-roubini-associates.com

118 Pall Mall, London SW1Y 5ED



Abbreviations, Acronyms and Definitions

a	Actual	LN	Northern League, Italy
AKP	Justice and Development Party, Turkey	MSS	Five Star Movement, Italy
ann.	annualized	m-o-m	Month-on-month
ARS	Argentinian Peso	mb	Million barrels
avg.	Average	mb/d	Million barrels per day
bn	Billion	MENA	Middle East and North Africa
BoC	Bank of Canada	MHP	Nationalist Movement Party, Turkey
BoE	Bank of England	mn	Million
BoJ	Bank of Japan	NAFTA	North-American Free Trade Agr.
bpd	Barrels per day	NATO	North Atlantic Treaty Organizat.
bps	Basis points	OECD	Organization for Economic Cooperation and Development
BS	Balance sheet	Opec	Organization of Petroleum Exporting Countries
c	Consensus	p	Previous
C/A	Current account	P2P	Peer-to-peer
CB	Central bank	PBoC	People's Bank of China
CBB	Central Bank of Bahrain	PCE	Personal Consumption Expenditures
CBK	Central Bank of Kuwait	PE	Price to earnings ratio
CBT	Central Bank of Turkey	PM	Prime minister
CDU	Christian Democratic Union, Germany	PMI	Purchasing managers' index
CNY	Chinese Yuan	pps	Percentage points
CPI	Consumer Price Index	pw	Previous week
DJIA	Dow Jones Industrial Average Index	QCB	Qatar Central Bank
DJEM	Dow Jones Emerging Markets Index	QAR	Qatari Riyal
d-o-d	Day-on-day	QE	Quantitative easing
DXY	US Dollar Index	q-o-q	Quarter-on-quarter
EC	European Commission	RE	Real estate
ECB	European Central Bank	RBA	Reserve Bank of Australia
ECJ	European Court of Justice	RRR	Reserve Requirement Ratio
EIA	US Energy Information Agency	RUB	Russian Rouble
EM	Emerging Markets	SWF	Sovereign Wealth Fund
EP	European Parliament	tn	Trillion
EPS	Earnings per share	TRY	Turkish Lira
EU	European Union	UAE	United Arab Emirates
EUR	Euro	UK	United Kingdom
EZ	Eurozone	US	United States
Fed	US Federal Reserve	USD	United States Dollar
FOMC	US Federal Open Market Committee	USD/b	USD per barrel
FRB	US Federal Reserve Board	UST	US Treasury bills/bonds
FX	Foreign exchange	VAT	Value added tax
FY	Fiscal Year	VIX	Chicago Board Options Exchange Volatility Index
GCC	Gulf Cooperation Council	WTI	West Texas Intermediate
GBP	British pound	WTO	World Trade Organisation
GDP	Gross domestic product	w	Week
IMF	International Monetary Fund	w-o-w	Week-on-week
INR	Indian Rupee	y	Year
IPO	Initial public offering	y-o-y	Year-on-year
IRR	Iranian Rial	y-t-d	Year-to-date
JPY	Japanese yen	ZAR	South African Rand
k	thousand	2y; 10y	2-year; 10-year
KSA	Kingdom of Saudi Arabia		



Rosa & Roubini Associates Ltd is a private limited company registered in England and Wales (Registration number: 10975116) with registered office at 118 Pall Mall, St. James's, London SW1Y 5ED, United Kingdom. VAT registration number GB 278 7297 39. **Analyst Certification:** We, Brunello Rosa and Nouriel Roubini, hereby certify that all the views expressed in this report reflect our personal opinion, which has not been influenced by considerations of Rosa & Roubini Associates's business, nor by personal or client relationships. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the views expressed in this report. **Disclaimer:** All material presented in this report is provided by Rosa & Roubini Associates-Limited for informational purposes only and is not to be used or considered as an offer or a solicitation to sell or to buy, or subscribe for securities, investment products or other financial instruments. Rosa & Roubini Associates Limited does not conduct "investment research" as defined in the FCA Conduct of Business Sourcebook (COBS) section 12 nor does it provide "advice about securities" as defined in the Regulation of Investment Advisors by the U.S. SEC. Rosa & Roubini Associates Limited is not regulated by the FCA, SEC or by any other regulatory body. Nothing in this report shall be deemed to constitute financial or other professional advice in any way, and under no circumstances shall we be liable for any direct or indirect losses, costs or expenses nor for any loss of profit that results from the content of this report or any material in it or website links or references embedded within it. The price and value of financial instruments, securities and investment products referred to in this research and the income from them may fluctuate. Past performance and forecasts should not be treated as a reliable guide of future performance or results; future returns are not guaranteed; and a loss of original capital may occur. This research is based on current public information that Rosa & Roubini Associates considers reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. Rosa & Roubini Associates, its contributors, partners and employees make no representation about the completeness or accuracy of the data, calculations, information or opinions contained in this report. Rosa & Roubini Associates has an internal policy designed to minimize the risk of receiving or misusing confidential or potentially material non-public information. We seek to update our research as appropriate, but the large majority of reports are published at irregular intervals as appropriate in the author's judgment. The information, opinions, estimates and forecasts contained herein are as of the date hereof and may be changed without prior notification. This research is for our clients only and is disseminated and available to all clients simultaneously through electronic publication. Rosa & Roubini Associates is not responsible for the redistribution of our research by third party aggregators. This report is not directed to you if Rosa & Roubini Associates is barred from doing so in your jurisdiction. This report and its content cannot be copied, redistributed or reproduced in part or whole without Rosa & Roubini Associates' written permission.

