



GIAM Macro & Market Research – Market Commentary

Trump delays tariff hike suggesting progress on US-China trade talks

- **On Sunday, US President Trump announced that he would delay to an unspecified date the tariff increase on imports from China which were scheduled to start on March 1.**
- **Trump acknowledged “productive” trade talks and also the Chinese press reported substantial progress. Trump and Xi are reportedly planning to meet for a summit later in March at Trump’s Mar-a-Lago resort.**
- **Details about the progress were not given. News from last week point to steps forward to narrow the bilateral trade deficit as well as on ensuring intellectual property rights and tackling alleged forced technology transfer.**
- **The postponement of the deadline increases the chances of a deal and reduces the risk of a further escalation of the trade conflict, an important source of current global uncertainty. However, given the complexity of the matter, a positive negotiation result is not a done deal yet and existing tariffs could well be maintained for some time.**
- **The Chinese stock market rallied on the news and the Chinese currency appreciated versus the US-dollar.**

Dear Colleagues,

Yesterday, an extended week of talks between the US and China on trade issues ended, that were commented by US President Trump as “productive” and also on the Chinese side, the press reported substantial progress. Based on that, Trump said he would delay the scheduled increase on March 1 in US tariffs on US\$ 200 bn of imports from 10% to 25%. While the notion of “delay” was used, no fixed date was announced. Moreover, both Presidents Trump and Xi are likely to meet later (towards the end) in March at Trump’s resort at Mar-a-Lago, probably to sign a deal or another form of agreement.

The announcement follows news from last week that both sides were working on six memorandums of understanding (MOUs) covering the important topics of intellectual property rights and forced technology transfer, but also cyber theft, services, currency, agriculture and non-tariff barriers. The first two topics were a field of especially deep rifts between the two countries, put forward prominently in the reports of US Trade Representative Lighthizer in connection with China’s industrial development plan China 2025. In addition, both sides were reportedly also discussing a list of ten items, where China could increase imports on a shorter-term basis and thereby reduce its trade surplus with the US. These topics likely include liquified gas and agricultural products (soybeans). US Treasury Secretary Mnuchin has reportedly also been pushing China to open up its financial services markets to US credit card firms.

Nevertheless, while reported progress is a good sign for the two countries to reduce their differences, details about the negotiations' progress were not given. Especially, it remains unclear whether existing tariffs on Chinese goods will also be lifted. The US side likely wants to monitor the progress of the negotiated agreements and therefore may want to keep the existing tariffs for a limited period of time. Lighthizer also recently emphasized some major hurdles, likely referring to parts of the negotiations implying demanded structural reforms in China itself. President Trump was also reported that he does not like "memorandums of understanding" and that he wanted a long-term deal. While MOUs are typically considered binding contracts, Lighthizer obviously agreed on abandoning the term altogether. These episodes shed light on the fact, that a durable agreement between both sides is not a done deal yet.

China's stock markets nevertheless responded positively. The Shanghai composite gained 5.6% on the day. The CNY also appreciated against the US-dollar. An agreement would reduce an important source of uncertainty to global trade. However, the macro response would still depend on the details of the upcoming agreement, especially on the question whether existing tariffs would be lifted. Such a result would likely elicit a positive impulse on trade growth. However, we are skeptical that such a step would be already included into the first measures to come into force.

Best wishes
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