

EMERGING MARKETS

# Some unintended effects of US-China trade tensions

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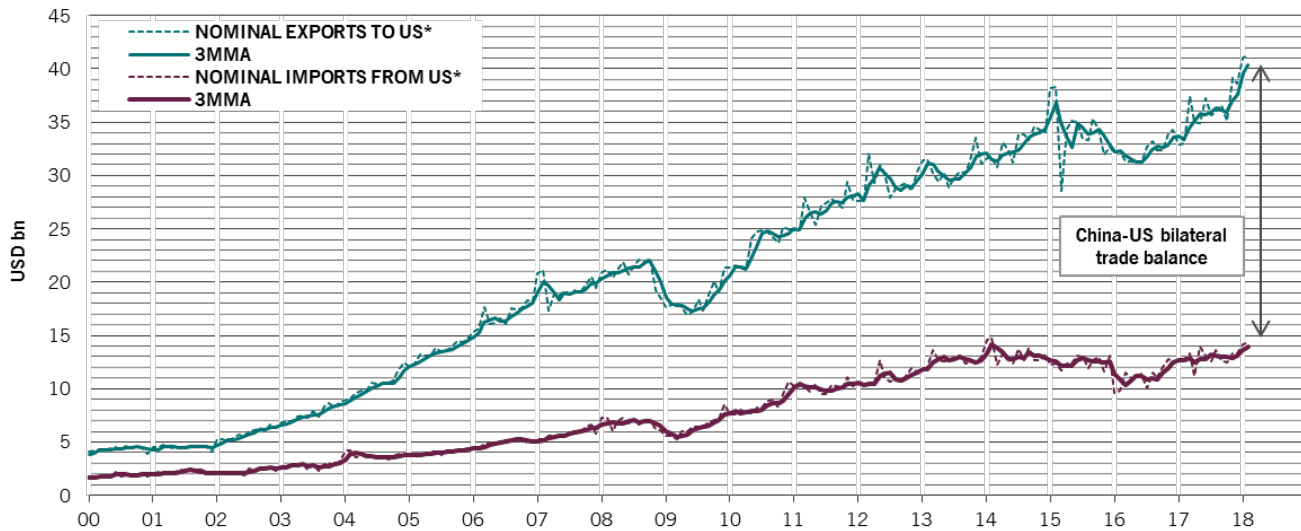
As tensions between the US and China over trade tariffs escalate, a potentially brighter picture of trade dynamics is emerging.

## Trump-Xi trade discussions: a blessing in disguise?

The gap between China's nominal exports and imports to the US is the largest ever, as Fig.1. below shows. This is the argument used by President Donald Trump for raising import tariffs on Chinese goods.

While the move has sparked tensions between the two countries, we believe a positive side-effect is that it could well accelerate the opening of China's services sector to overseas participation. China has promised to open its economy further – in particular promising to speed up the pace of **ownership reforms for the country's financial sector** with a timeline for implementation of just a few months, which could help avert a trade war.

FIG1. CHINA BILATERAL TRADE WITH THE US (IN USD)



Source: Pictet Asset Management, CEIC, Datastream, 28.02.2018. \*Combined Jan. & Feb. data to adjust for Lunar New Year holiday.

Overall however, Trump’s plan for a drastic rise in tariffs is unlikely to reduce the US trade deficit with China. The US simply cannot produce the goods currently imported from China at competitive rates, at least not in the short term. For now, it will have to continue importing these goods and higher import tariffs will make them more expensive, pushing up inflation in the US.

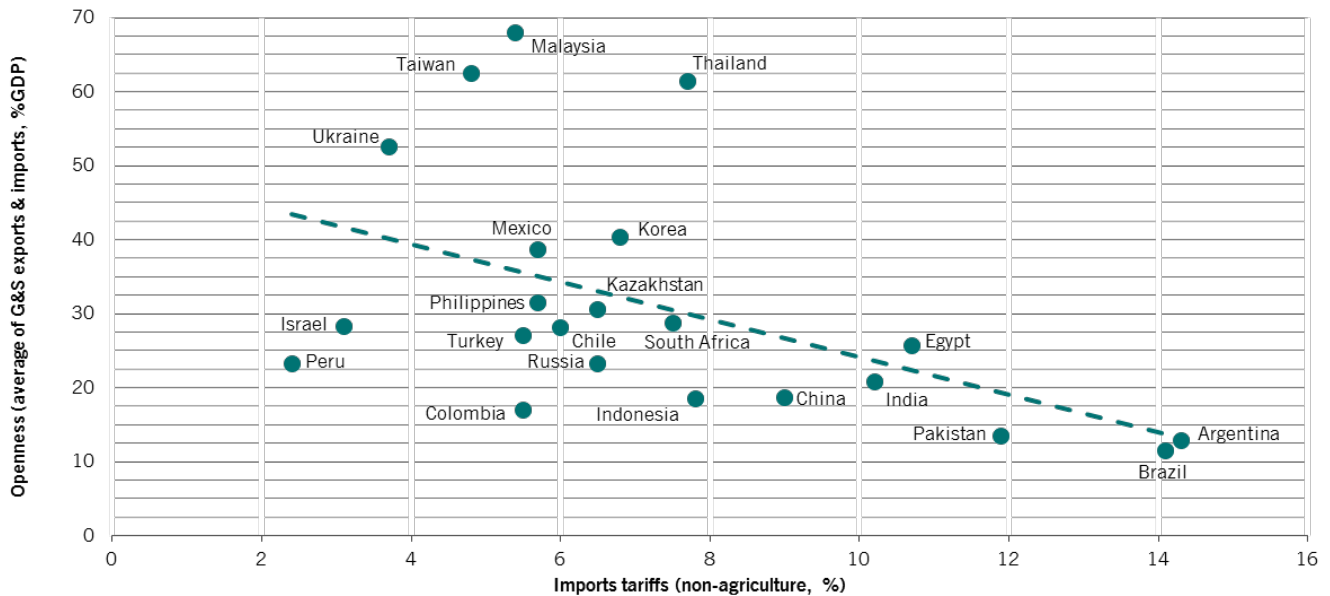
### How can Trump’s trade agenda impact other emerging regions? The case of Argentina and Brazil

Economist Anjeza Kadilli is just back from Argentina and Brazil where she met with policy makers.

She believes Brazil and Argentina could be the big beneficiaries of the trade tension between the US and China. Both Brazil and Argentina already account for a large part of soybean exports to China. Their share will be even bigger if China decides to stop imports from the US. This new pattern would open opportunities for investors not only in agriculture, but also in related sectors such as manufacturing, infrastructure and machinery.

One obstacle is that Brazil and Argentina currently have the highest import tariffs (14.1% and 14.3% respectively, excluding agricultural products) and are also fairly closed economies (see Fig.2).

FIG.2. EMERGING MARKETS' IMPORT TARIFFS AND TRADE OPENNESS



Source: Pictet Asset Management, CEIC, Datastream, 31.03.2018

However, from what she heard during her trip, Anjeza feels there is a strong will, from Brazil in particular, to reduce tariffs even if this means doing it unilaterally. Policymakers would focus domestic production on segments where they have real added value (e.g. agriculture), and reduce tariffs in areas where they cannot reasonably compete with overseas competition (e.g. industrial sectors). This would be a positive development for the efficiency of these markets.

### CHART OF THE MONTH FROM OUR EMERGING MARKET EQUITY TEAM

By Avo Ora, Head of Asia (ex-Japan) Equities

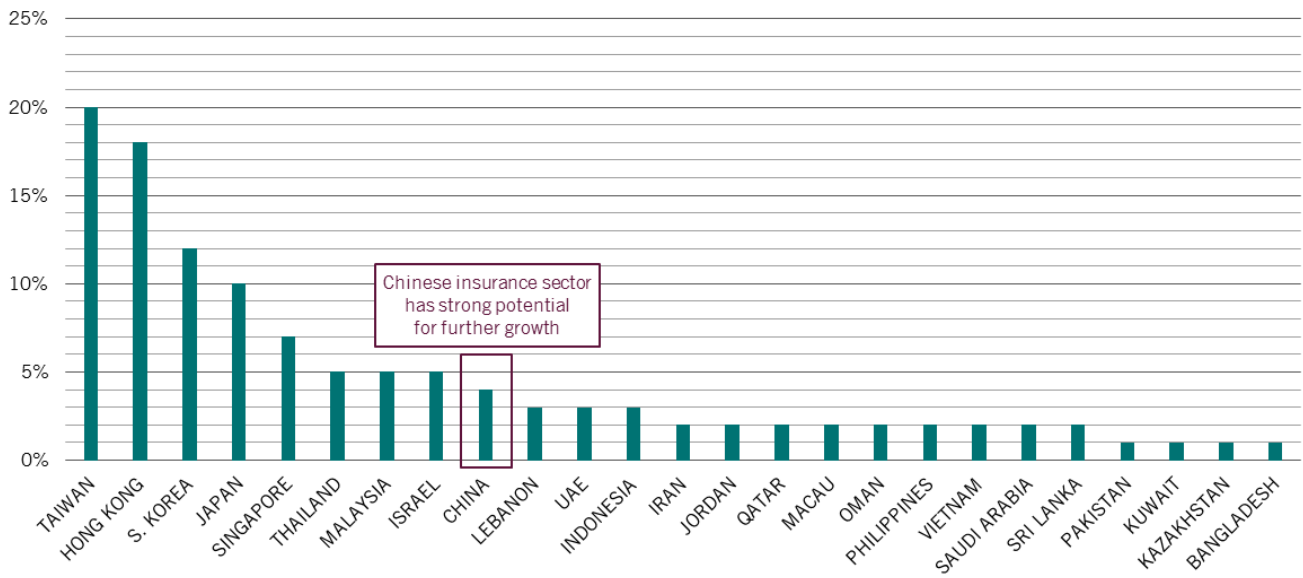


Busy Street scene with neon signs in Hong Kong

### Asia's growing intra-market trade offers new opportunities

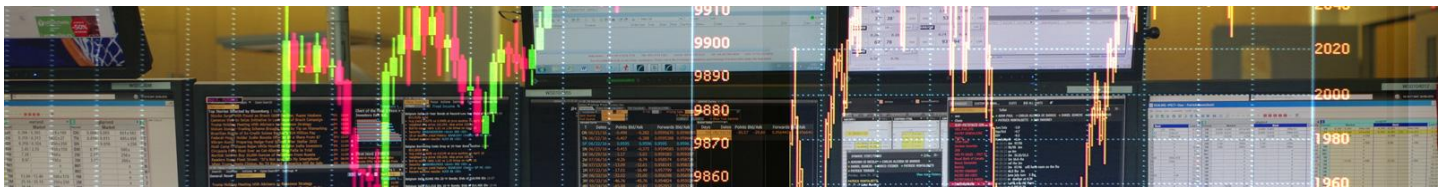
While China is fighting off new protectionist measures from the US, encouraging intra-market trade within Asia has been increasing. To capture this encouraging trend in our portfolios, we are playing the continuing opening-up of the region's financial sectors, in particular via Chinese insurers or Indian banks, where market penetration is currently low.

FIG.3. INSURANCE PRODUCT PENETRATION WITHIN ASIA (2016)



Source: MS Research, 2016

## MARKET WATCH



<b>EQUITIES</b>	<b>1 mth (%)</b>	<b>YTD (%)</b>	<b>1 yr (%)</b>	<b>3 yrs ann. (%)</b>	<b>5 yrs ann. (%)</b>	<b>10 yrs ann. (%)</b>
MSCI EM	-1.86	1.42	24.93	8.81	4.99	3.02
MSCI EM Value	-1.96	1.62	18.14	6.65	2.57	2.07
MSCI EM growth	-1.76	1.22	31.73	10.89	7.30	3.87
MSCI AC Asia ex Japan	-1.51	0.67	25.82	9.22	8.20	5.52
MSCI Brazil	-1.85	12.36	26.36	16.78	-0.22	-1.50
MSCI China	-3.29	1.82	38.91	10.50	11.33	5.99
MSCI India	-3.59	-6.95	10.23	4.26	7.87	2.96
MSCI Russia	-3.74	9.37	20.62	16.11	0.75	-4.07
MSCI EM Europe	-4.75	2.06	21.34	8.91	-1.99	-4.00
MSCI World	-2.18	-1.28	13.59	7.97	9.70	5.90

<b>BONDS</b>	<b>1 mth (%)</b>	<b>YTD (%)</b>	<b>1 yr (%)</b>	<b>3 yrs ann. (%)</b>	<b>5 yrs ann. (%)</b>	<b>10 yrs ann. (%)</b>
JPM EMBI Global Diversified	0.29	-1.74	4.30	5.78	4.69	7.04
JPM GBI-EM Global Diversified	1.02	4.44	12.99	5.43	-0.67	3.78
JPM ELMi+	0.69	2.52	8.71	3.87	-0.08	0.96
JPM CEMBI Broad Diversified Composite	-0.19	-1.12	3.66	5.02	4.15	6.50
JPM Jade Broad Asia Diversified	1.51	0.86	7.64	3.40	1.51	-
Chinabond composite	1.35	5.43	12.20	3.22	3.76	-
JPM GBI-EM Global Latin America	1.63	6.30	9.41	6.92	-0.93	4.14
JPM EMBI Global Diversified Europe	-0.05	-1.60	4.39	6.75	4.80	7.02
JPM Global All Mats	1.54	2.17	7.60	3.21	1.32	2.26

<b>COMMODITIES</b>	<b>1 mth (%)</b>	<b>YTD (%)</b>	<b>1 yr (%)</b>	<b>3 yrs ann. (%)</b>	<b>5 yrs ann. (%)</b>	<b>10 yrs ann. (%)</b>
S&P GSCI TR	2.2	2.2	13.8	-4.2	-11.9	-
S&P GSCI WTI TR	5.6	8.5	24.2	-7.2	-17.2	-
S&P GSCI Brent Crude TR	7.6	5.6	32.0	-2.2	-14.2	-
LBMA Gold pm	1.7	2.5	6.3	3.7	-3.7	-

<b>CURRENCIES</b>	<b>1 mth (%)</b>	<b>YTD (%)</b>	<b>1 yr (%)</b>	<b>3 yrs ann. (%)</b>	<b>5 yrs ann. (%)</b>	<b>10 yrs ann. (%)</b>
USD/BRL	-2.25	-0.20	-4.47	-1.30	-9.51	-6.22
EUR/BRL	-3.07	-2.55	-16.92	-5.65	-8.73	-3.81
USD/RUB	-2.36	-0.97	-3.26	0.36	-11.77	-8.56
EUR/RUB	-3.17	-3.31	-15.87	-4.07	-11.01	-6.22
USD/INR	-0.12	-2.14	-0.44	-1.37	-3.58	-4.74
EUR/INR	-0.95	-4.45	-13.42	-5.72	-2.75	-2.30
USD/CNY	0.64	3.50	9.54	-0.49	-0.25	1.09
EUR/CNY	-0.20	1.06	-4.74	-4.89	0.62	3.68
USD/ZAR	-0.38	4.48	13.17	0.75	-4.99	-3.70
EUR/ZAR	-1.21	2.02	-1.58	-3.70	-4.16	-1.23

 Top performer among the EM indices or currencies shown in this table, for the corresponding period.

 Worst performer among the EM indices or currencies shown in this table, for the corresponding period.

 Developed markets.

Source: Datastream, Bloomberg, data as at 30.03.2018 and in USD. Equity indices are quoted on a net dividend reinvested basis; bond and commodity indices are quoted on a total return basis. The currency rates evolution is treated as a performance calculation based on FX rates.

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