



Philequity Corner (August 26, 2019)

By Wilson Sy

From friend to enemy

Last Friday, the Dow dropped 623 points and the S&P 500 plunged 2.6% as US-China trade negotiations have morphed into an all-out war. Repeated instigations by the US have forced China to retaliate with its own set of tariffs. After China's tariff announcement, Trump went berserk and fired a barrage of ballistic tweets. In his Twitter outbursts last Friday, Trump asked US companies to leave China while announcing another increase in tariffs on Chinese goods.

China to impose retaliatory tariffs

The latest trade war escalation started with China's announcement of retaliatory tariffs on US goods. China said that it will impose new tariffs on \$75b of American products. Duties will range from 5% to 10%, to be implemented in two batches on September 1 and December 15. This will cover a wide range of goods including agricultural products, soybeans, and crude oil. China will also reinstate a 25% tariff on US cars and 5% tax on auto parts and components effective December 15.

"Currency manipulator"

Aside from imposing tariffs on the US, China has allowed the USDCNY fixing rate to slide past the 7.00 mark. A weaker yuan will counter the impact of Trump's new tariffs while also supporting China's faltering export sector. The yuan's drop to an 11-year low has prompted Trump to label China as a currency manipulator in a tweet on August 5:

"China dropped the price of their currency to an almost a historic low. It's called 'currency manipulation.' Are you listening Federal Reserve? This is a major violation which will greatly weaken China over time!"

The yuan's depreciation has triggered similar downmoves in emerging market currencies. This has sparked concerns over an emerging currency war and has fueled a savage correction in global equity markets (*The currency war has begun?*, August 12, 2019).

Trump calls Xi an enemy

Trump has repeatedly referred to Xi Jinping as his friend. He has also bragged about the great relationship that he has with the Chinese leader and how this will enable him to forge a deal with China. However, Trump appeared to change his tone when he tweeted this last Friday:

"My only question is, who is our bigger enemy, Jay Powell or Chairman Xi?"

After launching another attack on Fed Chair Jerome Powell (who was appointed by the president himself), Trump has labeled Xi an enemy. This probably indicates the state of Trump's personal relationship with Xi and clouds any hopes of near-term resolution to the trade war.

"Get out of China"

Aside from referring to Xi Jinping as his enemy, Trump has ordered US companies to get out of China. He also asked these companies to bring back their operations to the US in a tweet he posted last Friday:

“Our great American companies are hereby ordered to immediately start looking for an alternative to China, including bringing your companies HOME and making your products in the USA.”

Upping the ante

In poker, players tend to raise their bets and increase the stakes as the endgame draws near. This is similar to Trump’s strategy of pushing negotiations to the brink before agreeing to a deal (*The Art of Brinkmanship*, July 8, 2019). Last Friday, Trump added fuel to the fire by urging American companies to leave China and tweeting about higher tariff rates on Chinese goods:

“China should not have put new Tariffs on 75 BILLION DOLLARS of United States product (politically motivated!). Starting on October 1st, the 250 BILLION DOLLARS of goods and products from China, currently being taxed at 25%, will be taxed at 30%. Additionally, the remaining 300 BILLION DOLLARS of goods and products from China, that was being taxed from September 1st at 10%, will now be taxed at 15%.”

The chosen one

Prior to his latest Twitter barrage on China, Trump proclaimed himself as the chosen one. Below is a direct quote from one of his recent interviews:

“I am the chosen one. Somebody had to do it so I’m taking on China. I’m taking on China on trade. And you know what? We’re winning.”

Following the tweeter-in-chief

In our past articles, we stated that utilizing psychology and understanding the volatile personality of Trump has become a necessity for investing. As seen in the last few weeks, Trump’s random quips and staged Twitter outbursts can trigger wild market gyrations and sharp corrections. Over the long run, macroeconomic and corporate fundamentals will ultimately drive market direction. However, Trump’s tweets should be closely monitored as they can drastically alter the underlying fundamentals. In this case, Trump’s recent Twitter tirades have fanned the US-China trade war. This can cause fundamentals to deteriorate and exacerbate an ongoing slowdown which is now being felt by many major economies.

Sidestepping the crossfire

Trump’s sudden Twitter salvos and hasty pronouncements on the trade war make it very difficult to navigate this market. It is impossible to guess what Trump will tweet next or how China will respond. In our **investor briefing this Saturday, August 31 (Meralco Main Theatre, 9:30am)**, we will explain how investors can insulate their portfolios and avoid being caught in the crossfire of the US-China trade war. We will also discuss the ramifications of Trump’s recent tweets and how these will impact fundamentals. Our guest speaker, Mr. David Leechiu, will share his views on the property market and explain how recent developments will affect the sector outlook.

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