NTREE

Market Comments from Simon Lee of CSOP

4th December 2018

1. G20 meeting outcome beyond expectations

"Xi-Trump meeting" at G20 summit concludes with 90-day truce

According to a statement from the White House（LINK）

- Leave US$200 billion product tariffs at 10%

  Trump has agreed that on January 1, 2019, he will leave the tariffs on US$200 billion worth of Chinese products at 10%, and not raise it to 25%. China will purchase a very substantial amount (pending discussion) of agricultural, energy, industrial, and other products from the United States to reduce the trade imbalance. China has agreed to start purchasing US agricultural products immediately.

- Seeking consensus on a series of issues within 90 days

  China and the US will immediately begin negotiations on issues like forced technology transfer, intellectual property protection, non-tariff barriers, cyber intrusions and cyber theft, services and agriculture. If the parties are unable to reach an agreement within 90 days, the 10% tariffs will be raised to 25%.

In addition, Xi agreed to designate Fentanyl as a Controlled Substance. Xi and Trump also exchanged opinions on denuclearization of North Korea and other topics.

Why is the outcome better than expected? Investors have been concerned about the Xi-Trump meeting at the G20 as the deadline for the US$200 billion tariff hike - January 1, 2019 approaches. The US also planned to raise tariffs for another US$267 billion of Chinese goods in early February, which would be interpreted as a sign of an all-out trade war between the two countries. Therefore, investors were eager to hear some good news from the G20 summit although the US government, which was busy with the mid-term elections last month, did not have much time to prepare for a serious negotiation.

Considering Trump had clearly reaffirmed his commitment to boost tariff levels on US$200 billion of Chinese goods to 25% just days before the summit (LINK), investors had accepted the fact and expected to hear some good news regarding another US$267 billion of goods.

Therefore, it is indeed beyond market expectations that the US will not lift tariffs on January 1 for the US$200 billion of Chinese goods and leave 90 days for more talks.

2. Short term upside momentum: A-share indexes likely to rebound to early-October levels during Q2 2019

The three negative factors for the A-share market are 1) Trade war; 2) Stock pledge risk; 3) Concerns about private companies. All three have had recent positive news:

1) Trade war: As the G20 reopened the opportunity for more bilateral talks, short term uncertainty has faded. The ceasefire is positive for both A-shares and RMB in the near term.
2) Stock pledge issue: Thanks to the Chinese government's verbal and monetary support, the pressure from the potential forced sale of pledged stocks is reduced.
3) Private companies: President Xi's early November meeting with private companies indicated the authorities' determination to support the private sector. As the central economic working conference and the meeting to celebrate the 40th anniversary of China's reform and opening up policy are to be held soon, we expect to hear more fiscal stimulus policies that will further relieve market concerns.

Therefore, we are anticipating an A-share market rally towards the start of Q2 2019. As we go into the Christmas and New Year period, interruptions from external markets will be reduced. Meanwhile positive policy stimuli from domestic markets will help shore up market sentiment.

§ **Investors who wish to maintain their exposure to core China assets can consider CSOP FTSE China A50 ETF (2822.HK).**

3. Uncertainty lies in Q1 2019 while G20 brings positive benefits for mid and long term

During the first quarter of 2019 the market will be disturbed by any setbacks in the 90-day US-China tariff negotiations. China's economic data to be published in Q1 2019 is likely to be weak as it reflects the poor last quarter of 2018. Given tight liquidity during the Chinese New Year, we maintain a prudent attitude to market performance in Q1.

- **China could make compromises in the ongoing negotiations**

  Domestic media have been, to some extent, downplaying the "90-day" part and highlighting words like "ceasefire" in their reporting about the Xi-Trump meeting. This is probably a signal that China is determined to reach an agreement at the cost of making a compromise. Ending the back-and-forth battle by making a compromise also serves China's long term interests in Sino-US trade.

- **The US may be unwilling to push China further**

  The shift of power towards the Democrats in the midterm elections will restrict Trump from wilful policy making. Furthermore, the dovish statement from the Fed chairman Powell also indicated that the country's economic recovery cycle is close to an end. The Trump administration will see the economic cycle starting to turn down at some point in 2020/21. In anticipation of this economic weakness, Trump may feel this is an ideal opportunity to relax the pressure on China.

The trade war actually provides China with the impetus to accelerate its economic structural shift and boost domestic demand. At this stage there are grounds for hope that the turning point in interest rates and the less belligerent language from the US administration could act as a catalyst for better markets later in 2019.