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06:53 25 Jan 2019

# Markets are becoming hyper-sensitive to US-China trade talks, as interest rate worries fade

Now that the European Central Bank has finally woken up to the prospect of slowing global growth, all the world's major central banks seem to be in alignment at least in terms of putting rate rises on hold.

The Fed pleased markets earlier in the month by signalling that it would adopt a cautious approach to further rate rises, the Bank of Japan continues on its long-established path of zero or negative rates, the Bank of England is hamstrung by Brexit, and the Chinese are busy pumping liquidity into their economy.

All told, the likelihood that the global recovery that we've witnessed over the past couple of years will now turn into anything resembling a boom seems very remote.

Markets are sensitive to all this with regard to economic activity and the likely impact on earnings but also, in the case of equities, with a view to the attractiveness of the asset class itself.

As long as money remains relatively cheap, equities offer good value, which is why although we've seen some pretty heavy swings over the past few weeks, on the whole markets are holding up pretty well in the face of a somewhat darker horizon.

And the new consensus amongst central bankers also means that positive and negative sentiment can be turned solely by news of and rumours about the ongoing US-China trade talks.

Miners in particular are sensitive to the vagaries of the market in this regard. The Chinese economy continues to be the bellwether for commodity prices, and in consequence for mining company earnings too.

So, when the market hears talk attributed to Steve Mnuchin that the trade talks are going well, it's the miners that hit the top of the leader board. And likewise, with statements that the US is backing off from talks, it's the miners who are among the heaviest fallers.

Both scenarios have been played out in the last week or two, and still the market is no wiser. It's clear that ultimately both sides want a deal, but both also have red lines. Mr Trump is unpredictable, while as far as market watchers are concerned it's not clear if Mr Xi's domestic strong man credentials can be translated onto the international stage when facing up to the world's number one economic and military power.

China's growth is slowing, that we know. What we don't know is how those managing the Chinese economy will handle a recession, when at last one comes, as it inevitably will. Recessions aren't pleasant for any modern economy, but in the Western world there are pressure valves, including the ability of electorates to opt for different governments.

In China there is no comparable democratic valve. Instead, there is nationalism, which is good at turning angst outwards, and would be favoured by the authorities, and there is internal dissent, which decidedly would not.

Neither of these longer-term scenarios is particularly attractive from a global economic perspective, although US hawks like John Bolton would doubtless welcome pressure on the authoritarian structures of the Chinese regime.

Such calculations are not at this stage driving US policy. The primary objective is to bring manufacturing jobs home, and to open up the Chinese market as a fairer playing field for US firms.

But it's worth noting that one of the reasons why the communists took power in the first place was that Western nations, primarily the US and Britain, had adopted an overly heavy hand in trying to prize open Chinese markets in the late nineteenth and early twentieth centuries.

This is an aspect of modern history that's not been forgotten in China, and it won't be easy for the Chinese to walk back the anti-foreigner narrative that has been one of the dominant themes in restoring China to the global prestige its population feels it deserves.

In its own context, the Chinese communists came to power with a mandate to make China great again after long periods of economic exploitation by unfair Western trading practices.

Sound familiar? It's an intriguing dynamic and presents two paradoxical propositions. The first is that since on one level the China and US negotiating positions have common roots, there is every chance of finding a common language and negotiating a rational solution.

The second is that since both sides are nurturing justifiable grievances against the other, there may not be a way through after all, and the tit-for-tat tariffs and rhetoric that we've seen recently on the global stage are just the start of a steeper downward spiral in relations.