



Market Note



6 May 2019

Latest tariff threat could derail a Sino-US trade deal

On Sunday 5 May (US time), President Donald Trump signalled his intention to increase tariffs on \$200 billion of Chinese imports from 10% to 25% starting Friday 10 May 2019, while another \$325 billion of untaxed goods could face 25% duties “shortly”¹. The warning comes ahead of this week’s scheduled talks between the US and China, which market observers still hope will result in the finalising of a trade agreement. In our market note, the investment teams from Manulife Asset Management share their views on this latest development.

Market reaction²

The equity market response on Monday 6 May (14:00 HK time) was significant, with the Hang Seng index and CSI 300 index once down by 3.7% and 6.3% respectively. In currencies, the offshore renminbi (CNH) tumbled by as much as 1.3% against the US dollar, its most significant drop since January 2016, while onshore renminbi (CNY) once dropped 0.9% to 6.7976.

Chinese Vice-Premier Liu He is set to arrive in Washington this week to meet with US Trade Representative Robert Lighthizer and US Secretary to the Treasury Steven Mnuchin. Observers originally believed that the goal of this session is to finalise an agreement. Ministry of Foreign Affairs spokesman said on Monday that a Chinese delegation was still preparing to travel to the US for trade talks, but didn’t confirm the date or whether the group would be led by Vice Premier Liu³.

Our views: Hong Kong China equities

Kai Kong Chay, Senior Portfolio Manager (Hong Kong China equities) has reiterated that a global trade war is not in our base-case scenario, but recognises that any type of trade negotiation is a drawn-out process and heightened market volatility may persist.

If trade tensions do worsen, Chay believes that the Chinese government could soften the economic impact of an increase in tariffs by introducing further supportive policies targeted at domestic

¹ Source: [“China considers delaying next trade talks after Trump’s tariff threat”](#), Bloomberg, 6 May 2019.

² Source: Bloomberg, 6 May 2019.

³ Source: [“Trump threatens to raise tariffs on China to 25%”](#), Financial Times, 6 May 2019; [“China says officials still planning US trip after Trump threat”](#), Bloomberg, 6 May 2019.

6 May 2019

consumption. Some key measures that have already been implemented include a cut in value added tax and a reduction in the social security contribution rate⁴.

Chay added that the Hong Kong and China portfolio remains focused on bottom-up stock selection by identifying companies with solid fundamentals. Major themes include i) consumption upgrades, such as education and property-management services, which are structural domestic-growth stories; ii) R&D and innovation: in addition to healthcare, the team focuses on businesses that can help China to reduce its dependence on certain technological imports; and iii) policy-driven companies, as environmental protection is a long-term theme that will receive ongoing government support. In addition, the team seeks to identify firms that will be beneficiaries of China's recent policy measures.

Our views: China Fixed Income

Paula Chan, Senior Portfolio Manager (Fixed Income, Asia), believes that the investment market is undoubtedly in a risk-off mode and could well fall further if China confirms that it will cancel its trip to Washington this week which would add to the overall uncertainty. That said, given the Fed has turned more dovish this year, we believe the Fed's current stance will be more supportive for risk markets compared to late 2018 when the Fed was still increasing rates.

Chan also thinks that the US dollar will remain strong and expects the USD/CNY position could retest the previous high of 6.89 if trade tensions continue to worsen, although the 7.00 level is still expected to hold even in this scenario.

The China bond team has been steadily reducing risk on the credit front throughout April and into early May, locking-in some profits given the strong rally in assets since the start of the year. As a result, the portfolio is now more conservatively positioned compared to the start of 2019. The team has also maintained an overweight position in duration that could benefit the portfolio as the People's Bank of China will likely i) Inject further liquidity into the system; 2) Ensure financial stability; and 3) Consider other easing measures such as RRR cuts to cushion the economy from further deterioration.

⁴ Source: ["China to cut value-added tax rate for manufacturing, construction sectors"](#), 5 March 2019; ["Local Governments Cut Pension Contribution Rate to Lower Corporate Burden"](#), 4 May 2019.

Disclaimer

Manulife Asset Management is the asset management division of Manulife Financial. The information and/or analysis contained in this material have been compiled or arrived at from sources believed to be reliable but Manulife Asset Management does not make any representation as to their accuracy, correctness, usefulness or completeness and does not accept liability for any loss arising from the use hereof or the information and/or analysis contained herein. Neither Manulife Asset Management or its affiliates, nor any of their directors, officers or employees shall assume any liability or responsibility for any direct or indirect loss or damage or any other consequence of any person acting or not acting in reliance on the information contained herein.

This material was prepared solely for educational and informational purposes and does not constitute a recommendation, professional advice, an offer, solicitation or an invitation by or on behalf of Manulife Asset Management to any person to buy or sell any security. Nothing in this material constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you. The economic trend analysis expressed in this material does not indicate any future investment performance result. This material was produced by and the opinions expressed are those of Manulife Asset Management as of the date of this publication, and are subject to change based on market and other conditions. Past performance is not an indication of future results. Investment involves risk, including the loss of principal. In considering any investment, if you are in doubt on the action to be taken, you should consult professional advisers.

Proprietary Information – Please note that this material must not be wholly or partially reproduced, distributed, circulated, disseminated, published or disclosed, in any form and for any purpose, to any third party without prior approval from Manulife Asset Management.

These materials have not been reviewed by, are not registered with any securities or other regulatory authority, and may, where appropriate, be distributed by the following Manulife entities in their respective jurisdictions.

Indonesia: PT Manulife AsetManajmenIndonesia. Malaysia: Manulife Asset Management Services Berhad. Thailand: Manulife Asset Management (Thailand) Company Limited. Singapore: Manulife Asset Management (Singapore) Pte. Ltd. (Company Registration Number: 200709952G). Vietnam: Manulife Asset Management (Vietnam) Company Ltd. Australia, South Korea and Hong Kong: Manulife Asset Management (Hong Kong) Limited in Hong Kong and has not been reviewed by the HK Securities and Futures Commission (SFC). Philippines: Manulife Asset Management and Trust Corporation Japan: Manulife Asset Management (Japan) Limited. Taiwan: Manulife Asset Management (Taiwan) Pte. Ltd. (Investment is not protected by deposit insurance, insurance guaranty fund or other protection mechanism in Taiwan. For the disputes resulted from the investment, you may file a complaint to the Securities Investment Trust & Consulting Association of the R.O.C. or Financial Ombudsman Institution. License No. 106 Jin-Guan-Tou-Xin-Xin-008 "Independently operated by Manulife Asset Management (Taiwan) Co., Ltd." /6F., No.89, Songren Rd., Taipei, Taiwan 11073, Tel: (02)2757-5999, Customer Service: 0800-070-998.).