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China | Trump-Xi meeting declares a trade war truce, paving way for further talks

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The US-China relationship seems to get a favourable turn after a highly anticipated dinner on last Saturday between U.S. President Donald Trump and Chinese President Xi Jinping on the sidelines of the G20 summit in Argentina. In particular, Trump and Xi agreed to keep their trade war from escalating with a promise to halt the imposition of new tariffs for 90 days and intensify their further bilateral negotiations in the following months. That means, more agreements surrounding on forced technology transfer, intellectual property protection, non-tariff barriers etc. are expected to be achieved between the two countries in the following three months to avoid tariff raising. Altogether, both sides believe that the principled agreement reached in the G20 meeting has effectively prevented the further expansion of economic and political conflictions between the two countries, benefiting financial markets and growth.

Described by Trump as "an amazing and productive meeting with unlimited possibilities for both the United States and China", more details of the negotiation results are summarized in the Statement from the Press Secretary Regarding the President's Working Dinner with China, including: (i) Trump has agreed that on January 1, 2019, US will leave the tariffs on USD 200 billion worth of product at the 10% rate, and not raise it to 25% at this time; (ii) China will agree to purchase a not yet agreed upon, but very substantial, amount of agricultural, energy, industrial, and other product from the US to reduce the trade imbalance; (iii) Both sides have agreed to immediately begin negotiations on structural changes with respect to forced technology transfer, intellectual property protection, non-tariff barriers, cyber intrusions and cyber theft, services and agriculture; (iv) If at the end of this period of time, the parties are unable to reach an agreement, the 10% tariffs will be raised to 25%. The meeting also discussed the denuclearization of North Korea.

US-China trade war is a truce not a breakthrough, more negotiations are expected

The results of the G20 meeting between the two presidents indicate a temporary truce of the long-lasting trade war between the two countries, in line with our expectation. At least, the positive sign is that real risk of a serious downside such as a meeting ending with recriminations or no agreement has been avoided, which will be supportive for RMB exchange rate and China's stock market in the short term.

However, we need to be positively cautious as further rounds of negotiations are still on the way. Suggested by the US, these include forced technology transfer, intellectual property protection, non-tariff barriers, cyber intrusions and cyber theft, services and agriculture. These key demands from the US might be a long-term conflict that moves far beyond bilateral trade imbalance, and could not be solved in a dinner meeting. That means, the short term downside risk has been removed, but in the longer term, all these risks remain in place. Thus, from China side, we expect more opening-up policies to be essentially announced within the following three months to avoid reigniting the trade war.

The principled bilateral agreement provides more policy room for China

During the past months, Chinese authorities have been facing two battles at the same time: domestic growth slowdown and the trade war with the US. Give that the Trump-Xi meeting has made some achievement, the external pressure should be significantly released at the current stage. Thus, the authorities might get more efforts focusing on domestic economy. In particular, an easing RMB exchange rate pressure after the Trump-Xi meeting will give the PBoC more monetary policy room for keeping a low interest rate to stimulate growth, instead of following the FED interest rate hike. On top of that, a temporary truce of the trade war will also give the investors more confidence on China's economy, pushing up their investment willingness and pacifying market sentiments. Altogether, we expect more opening-up measures will be announced in the following three months to achieve further bilateral agreements with the US; in addition, more monetary and fiscal easing measures to stimulate growth will also be implemented.

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