

Flash Note 02/07/2018

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US-China trade spat. Latest developments

Xinhua reported a slate of import tariff cuts were implemented on Sunday: Tariffs on 1,449 taxable consumer goods were reduced from an average rate of 15.7% to 6.9%, including home appliances, food and beverage, cosmetics and medicines.

The 20-25% tariffs for cars were cut to 15%, and duties on auto parts were lowered to 6% from the previous levels of 8 -25%.

The WSJ highlighted how China fulfilled a pledge to slash tariffs on imported cars Sunday, but also underlined that the respite for US auto makers who export to China could be brief as Beijing prepares to slap an additional 25% tariff on US auto imports this Friday, as a retaliatory measure if Trump goes ahead with his tariffs on imports worth US\$50bn.

China has also decided to grant higher more QFII quotas. The State Administration of Foreign Exchange (SAFE) reported that overseas institutions have received more quotas under the Qualified Foreign Institutional Investor (QFII) program. A total of 287 overseas institutions had been granted quotas amounting to \$100.46B under the QFII program as of 28-Jun, up from \$99.46B a month earlier. RMB Qualified Foreign Institutional Investor (RQFII) quotas were also raised to CNY622.07B (\$94B), up from CNY615.85B a month earlier.

Meanwhile, China benchmarks closed sharply lower on Monday, with Shanghai down 2.52% and Shenzhen down 1.58%. Sentiment continued to deteriorate with US-China trade tariffs set to take effect 6-Jul and leading to a broadly based selloff.

Softening in PMIs was also cited as a factor: June Composite index was fixed at 54.4 vs 54.6 in prior month. Official manufacturing PMI was 51.5 vs 51.9 in prior month. On the positive side, non-manufacturing PMI resulted in 55.0 vs 54.9 in prior month.

Best,