

Wednesday, 19<sup>th</sup> September 2018

## Morning Round Up

### China responds to US tariffs

China yesterday responded to the [escalation in US tariffs](#) with a vow to retaliate with its own “tariff escalation measures”. In August Beijing had stated that it would impose reciprocal tariffs on \$110bn of US imports (about 85% of the total). It has instead imposed tariffs of 5-10% on \$60bn of US goods. It also added that it is likely to cancel [recently announced talks](#) between it and US which are seeking to de-escalate the trade tensions. China may not have the trade balance to match the US but it can employ other tactics such as increasing difficulties for US firms in China, refusing to approve mergers or takeovers and restriction on critical material such as rare earth. It has already shown its teeth in that regard by killing off the San Diego Qualcomm's \$44bn takeover of NXP.

Interestingly markets seemed to shrug off this latest escalation. We think there are two reasons why. Firstly the tariff level imposed was 10%, lower than the 25% first proposed by the White House and implies there is a window for the Chinese to respond in order to de-escalate. Secondly, EM and in particular Chinese equities had taken such a hammering lately that it was likely already priced in; this announcement has at least given the market certainty. This benign take on tariffs is not likely to last however. A recent survey in the US showed that 3 out of 4 businesses expect to be hurt by China tariffs while 2 out of 4 expect to be hurt by US tariffs. It also showed that it has increased business uncertainty dramatically. And as we [wrote yesterday](#), at some points tariffs will begin to affect the US consumer and perhaps even Fed policy.

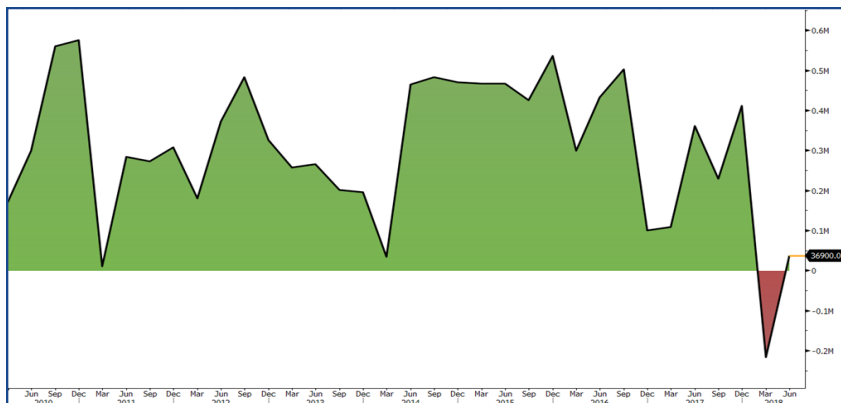
### No surprises from the Bank of Japan's (BoJ) policy meeting

The BoJ maintained its short-term interest rate target at -0.1% as well as its long-term rates around 0% by a 7-2 vote. The Bank's Governor, Haruhiko Kuroda, advised that “we must maintain our powerful monetary easing given it will take time to achieve our inflation target”. He also warned on the effects the US-Sino trade tension could have on global supply chains.

### Ocado posts strong results

Ocado reported Q3/18 numbers that showed an 11.5% growth in revenue to over £349m. This was in line with management's stated guidance of 10-15%. Average orders per week were up 11.4% while average order size was flat at £106.26. Management commented on the opening of Erith, its 4<sup>th</sup> Customer Fulfilment Centre (CFC). This centre has ramped up quickly reaching 20,000 orders after just 14 weeks of operation. This is a major improvement on previous CFCs. Though these results were strong, it is unlikely to see earnings upgrades on the back of this. We believe it is [currently fully valued](#) and maintain our Market Perform rating.

### China Current Account (CNY)



Source: Bloomberg, CF Research August 2018

### Key Upcoming Events

- 19/09/2018 EU Leaders Summit
- 19/09/2018 Bank of Japan Interest Rate Decision
- 26/09/2018 Fed Interest Rate Decision
- 30/09/2018 Conservative Party Conference

### Market View

Global markets shrugged off the escalation in trade tensions as the S&P 500 closed 8 points off all time highs at \$2,904. The risk-on sentiment fed through to Asia overnight with most markets posting gains and Europe is set to follow suit. US and European yields have been rising with 10Y rates at 3.04% and 0.48% respectively. The market will be watching a number of events today with US-China trade developments being the primary focus, however, there are also negotiations between the US and Canada on NAFTA and Theresa May is in Salzburg at an EU leaders summit. On the data front, we have some UK inflation data and US housing data.

### Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	26062	-92.55	-0.35%	5.43%
S&P	2889	-16.18	-0.56%	8.05%
Nasdaq	7896	-114.25	-1.43%	14.38%

Nikkei	23421	325.87	1.41%	2.88%
Hang Seng	27085	151.81	0.56%	-9.47%

Brent Oil	77.9	-0.15	-0.19%	16.49%
WTI Oil	69.18	0.27	0.39%	14.50%
Gold	1199	-2.05	-0.17%	-7.94%

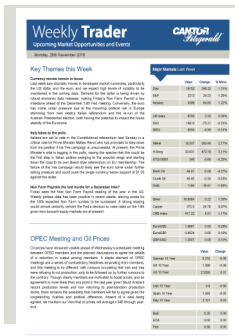
€/\$	1.1688	0.00	0.04%	-2.64%
€/£	0.8895	0.00	0.20%	0.16%
£/\$	1.314	0.00	-0.13%	-2.76%

	Yield	Change
German 10 Year	0.448	-0.01
UK 10 Year	1.525	-0.01
US 10 Year	2.9941	0.01

Irish 10 Year	0.93	-0.01
Spain 10 Year	1.485	0.00
Italy 10 Year	2.86	0.0180

Source: Bloomberg, CF Research August 2018

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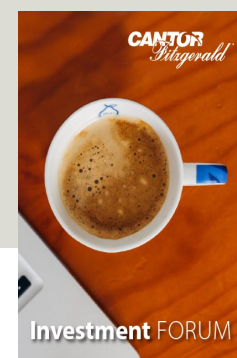
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