Daily Note

Views, news and topics from today's markets

Tuesday, 5th March 2019

Morning Round Up

US/China - What kind of trade deal and market impact?

There continues to be growing optimism over a US/China deal with prospects that this could be sealed later this month in a meeting between Trump/Xi. Here are some thoughts on what kind of deal and likely impact we can expect. (1) media reports suggest that a deal will likely involve China removing its retaliatory tariffs and this might include some that were levied in years prior to the latest trade spat. On the US side this will mean the removal of tariffs on \$200bn of Chinese imports but could involve retaining tariffs on the initial \$50bn where the US was targeting Made in China 2025 sectors. (2) China will increase imports of energy, aircrafts and soybeans largely through the state highlighting a shift toward the political aspect to trade flows. These purchases will likely provide more potent leverage in the future should trade tensions between US/China resurface. (3) in terms of enforcement, recent reports have suggested the US is looking for monthly (lower-level officials), guarterly (vice-ministerial level) and semi-annual (ministerial level) meetings as part of any final deal. The threat of tariffs is not gone but simply a stick to ensure compliance/progress. (4) after the failed Trump/Kim meeting last week one might think that Trump is willing to walk away from a bad deal. However, it is more likely that the failure with Kim means that Trump the negotiator is more desperate for a deal with China. (5) in terms of market impact, we are already seeing the more positive sentiment in Chinese equities that are up sharply since the beginning of the year. This more positive tone has also filtered into global stock markets creating the risk of more in the way of upside surprises for a market that has already had soothing comments/stimulus from the major central banks. (6) the more positive equity backdrop will likely keep major bond market yields biased to the upside having already corrected from the lows. Note that the S&P 500 is back to the upper end of the October-December 2018 trading range when the 10-year Treasury yield was trading north of 3% (compared to 2.73% currently).

EU set for trade talks with the US on March 6 amid concern over tariffs

The European Union's top trade officials will update their US counterparts this week on progress in obtaining a negotiating mandate for a EU-US trade deal on industrial goods and raise concern over existing and potential future US tariffs. EU Trade Commissioner Cecilia Malmstrom will meet US Trade Representative Robert Lighthizer on March 6 in Washington and the Secretary-General of the European Commission, Martin Selmayr, will meet the Director of the United States National Economic Council Larry Kudlow on March 7. The European Union's executive arm, the European Commission, has the sole responsibility for negotiating trade deals for the whole 28-nation bloc of 513 million people and has been in close discussions with Washington over trade policy since last July to avert the threat of US tariffs on EU cars and car parts. The European Commission has asked member countries to approve two negotiating mandates so that formal talks can begin. Germany is keen to start quickly, while France is reluctant. Rather than negotiating a comprehensive trade deal that could take a very long time, the EU is keen to reach a quicker agreement with the United States on trade in industrial goods alone, excluding agriculture that tends to be more controversial. This could help resolve the issue of US tariffs on European steel and aluminium and avert the threat of US tariffs on EU-made cars and car parts.

Vodafone issue Mandatory Convertible Bond (MCB)

Vodafone announced the intent to raise €4bn in sterling denominated mandatory convertible bonds (MCB) as part of the planned financing of the acquisition of Liberty Global's assets. The initial release announcing the acquisition expected €3bn in MCB.



Key Upcoming Events

07/03/2019 ECB Meeting 08/03/2019 US Non Farm Payrolls 12/03/2019 Commons vote on Withdrawal Agreement

Market View

US markets were weaker yesterday as investors look for concrete details on the US-China trade agreement, as the S&P 500 closed below 2,800. Weaker sentiment lead to a mixed trading day in Asia overnight with Chinese equities advancing on a government tax cut, while Europe opened positive this morning. Futures point to a positive open in the US later today. The National People's Congress continues today in Beijing, as markets assess the impact of Chinese fiscal stimulus. Central banks are in focus this week with the Reserve Bank of Australia holding rates at 1.5%. On the data front, there is PMI data from the US and Europe.

Market N	Market Moves				
	Value	Change	% Change	% Change YTD	
Dow Jones	25170	-220.77	-0.87%	7.90%	
S&P	2706	-25.56	-0.94%	7.95%	
Nasdaq	7288	-86.93	-1.18%	9.84%	
Nikkei	20333	-418.11	-2.01%	1.59%	
Hang Seng	27946	-43.89	-0.16%	8.13%	
Brent Oil	61.46	-0.17	-0.28%	14.24%	
WTI Oil	52.46	-0.18	-0.34%	15.53%	
Gold	1309	-1.13	-0.09%	2.07%	
€/\$	1.1331	-0.0010	-0.09%	-1.19%	
€/£	0.8763	0.0008	0.09%	-2.52%	
£/\$	1.2931	-0.0021	-0.16%	1.39%	
			Yield	Change	
German 10 Y	ear		0.114	-0.001	
UK 10 Year			1.177	0.000	
US 10 Year			2.650	-0.007	
Irish 10 Year	US 10 Year		0.883	0.005	
Spain 10 Yea	ır		1.24	-0.007	
Italy 10 Year			2.938	-0.013	

Source: Bloomberg, CF Research March 2019

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Cantor Publications & Resources

Upcoming Market Opportunities and Events				
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Weekly Trader

On Mondays, we release our weekly note in which we provide a view on equity markets for the coming days, and highlight a number of equities which we believe provide exposure to the important themes unfolding in the markets. Our in-house Investment Committee meets on a weekly basis to craft this strategy, thereby allowing clients to dynamically position portfolios to take advantage of the most up to date market developments.

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