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# Asia to join Wall St and Europe in trade rally

## Equities

Vesna Poljak

Regional sharemarkets are on track for a rally after a breakthrough in the US-China trade talks suspended a tariff escalation due this week on \$US250 billion of Chinese exports set for US shores and lifted investors' hopes of a more substantial resolution.

Futures indicate the S&P/ASX 200 index will rise 0.5 per cent, or 34 points, on Monday. On Wall Street, the S&P 500 and Dow Jones Industrial Average rose more than 1 per cent, and the Euro Stoxx 50 index climbed more than 2 per cent, when Chinese Vice-Premier Liu He and Donald Trump convened in the Oval office to present a united front on Friday.

Hong Kong's Hang Seng is poised for a 0.75 per cent rise and China's CSI 300 for a gain of 1.35 per cent. US 30-year Treasury yields sold off by 6 basis points to 1.73 per cent.

"The deal that we're seeing now is a reflection of the political incentives that are facing Donald Trump today," Mottaka Global chief investment officer Andrew Macken said.

"It's pretty clear Trump's priority right now is to be re-elected in November 2020. Everybody knows one of the most important factors of any president being re-elected is a strong economy, and we've just started to see in the last few months the trade dispute with China has started to be felt in the US."

The last ISM survey measured US manufacturing activity at a more than 10-year low in September.

"I think the calculus is Trump has successfully turned the Fed to an easing bias through his actions. Monetary conditions are now highly favourable. He now knows he can systematically peel back the tariffs over the next 12 months with a series of small, sequential deals," Mr Macken said.

While Friday's agreement failed to convince anyone of an ideological common ground between the two trading

## Trump now knows he can systematically peel back the tariffs over the next year.

Andrew Macken, Mottaka Global

partners, it is a means to spring-load the economy and sharemarket that aligns with the US president's interests.

China will also buy up to \$US50 billion of US agricultural products, and a tariff hike to 30 per cent from 25 per cent scheduled for Tuesday will no longer go ahead, Treasury Secretary Steven Mnuchin said.

The ASX 200 snapped a two-week losing streak on Friday as trade optimism mounted heading into the start of the US session. But investors were reluctant to celebrate in light of the 15-month trade war's frequent lapses in



progress. In August, the tariff row initiated a currency war when China allowed the yuan to devalue past the 7-to-the-US dollar level for the first time in a decade.

"The fundamental issues that still need resolving are intellectual property and market access, and this deal does

nothing to address that," said Lachlan Hughes from Swell Asset Management.

The US earnings season begins this week and manufacturing sector earnings could offer evidence of the trade war's harm. However, the American consumer is still in "reasonably good

Donald Trump has announced a preliminary trade deal with China. PHOTO: BLOOMBERG

shape" experiencing reasonable wage improvements.

Mr Hughes said the market would want to see more before it concluded a proper resolution was afoot. "You can feel the political heat rising in Washington. The farm purchases are a good concession from the Chinese, and the farmers have been hurt," he said.

As it stands, further tariff hikes will still take effect in December.

Third quarter Chinese growth is due on Friday, with the market looking for a 6.1 per cent year-on-year expansion, slowing from 6.2 per cent.

Also on Friday, China decided to open up its financial services market to unrestricted foreign ownership by December 2020. The China Securities Regulatory Commission will scrap foreign ownership limits in futures businesses on January 1, 2020, mutual fund companies on April 1, 2020, and securities firms on December 1, 2020.

Separately, a strike on an Iranian tanker late on Friday sent the crude oil price rallying. WTI futures rose 0.4 per cent to \$US54.91 in New York.

UK banks Lloyds and Royal Bank of Scotland soared 12 per cent and 11 per cent respectively on Brexit optimism. Hugo Boss, however, fell 9 per cent in Frankfurt, blaming weak North American trading and disruption from the Hong Kong protests.