

Week ahead

USA/China – unintended consequences for the US from the trade war?

Faced with new punitive tariffs, China seeking closer ties with EU and other key economic areas

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Following President Trump's announcement in June, the US administration released a list of targeted items for the new punitive tariffs against China this week. In a worst-case scenario, this list should represent annual trading volume of approx. USD 200bn. The affected product groups are food and beverages, chemical products, electronics, vehicles, metals, machinery and a variety of other goods. However, the new punitive tariffs have not yet been implemented. Once the public consultation process has been completed, the tariffs (a rate of 10% is targeted) could come into action as early as August 30. China has announced that it will be responding to the impending increase of punitive tariffs with 'quantitative' and 'qualitative' measures.

Since this step had to be expected, it caused no further significant negative reaction in the markets. It now remains to be seen whether China's leadership can succeed in reducing the scope of tariffs through negotiations or possibly postponing their implementation. Given the current US administration's already proven lack of willingness to compromise, it is, however, highly questionable whether there is a real chance for China to prevent the additional punitive tariffs. While Trump wants to enforce stronger openings for US investors, China could seek closer ties to the EU economically. In light of the trade dispute tensions, the upcoming EU-China summit in Beijing, scheduled for next week (July 16), is particularly important since, among other things, bilateral trade (the EU is China's main trading partner) and investment relations are on the agenda. In particular, negotiations on a bilateral investment treaty should be accelerated, which could further deepen economic relations between China and the EU. According to media reports, China is also currently seeking to additionally improve trade relations with other key economic areas (such as India or Japan). With its strategy, the US is therefore risking losing access to the important Chinese domestic market to competitors from Europe and other parts of the world. **We currently continue to expect no negative impact from the trade dispute on the immediate growth momentum of the Eurozone, because development in domestic demand is stable. The trade war between China and the US is probably even an opportunity for the Eurozone to accelerate its export growth. Producers located in the Eurozone could for example use their relative cost advantage resulting from the tariffs to gain export market shares in China and the US. Italy in particular could benefit, due to its high export similarity with China¹.**

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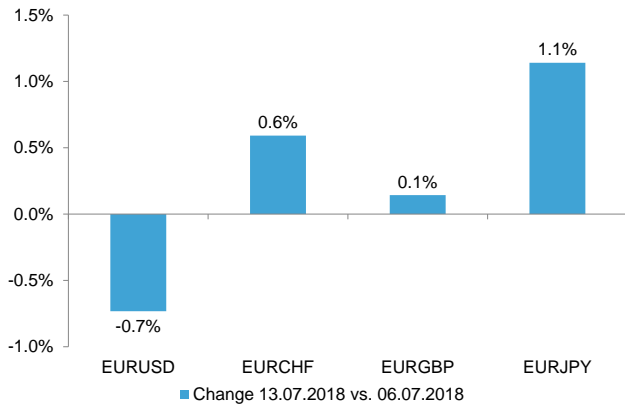
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Indications of past performance are no guarantee of a positive performance in the future

¹) Matteo Bugamelli et al., 'Back on track? A macro-micro narrative of Italian exports', 2017

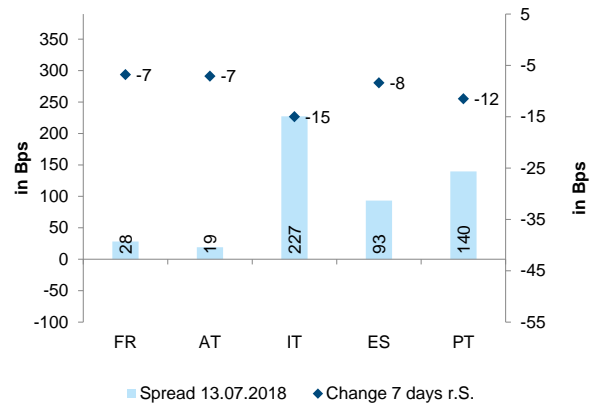
Forex and government bond markets

Exchange rates EUR: USD, CHF, GBP and JPY
change last week
(+ stronger euro / - weaker euro)



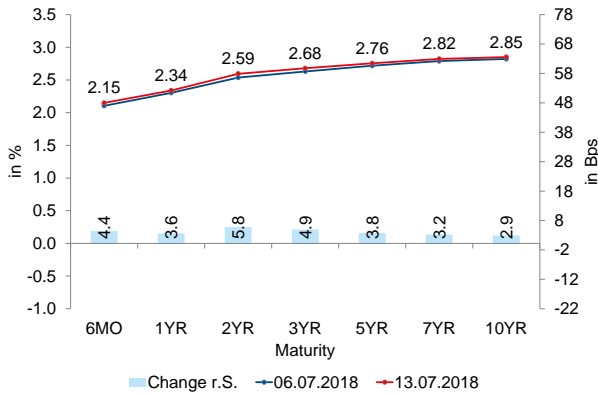
Source: Bloomberg, Erste Group Research

Eurozone – spreads vs. Germany
10Y government bonds



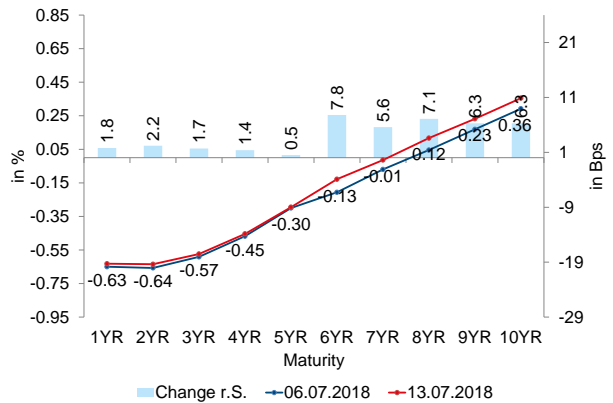
Source: Bloomberg, Erste Group Research

US Treasuries yield curve
change last week



Source: Bloomberg, Erste Group Research

DE Bund yield curve
change last week



Source: Bloomberg, Erste Group Research

Economic calendar

Date	Time	Ctry	Release	Period	Consens	Prior
13-Jul	n.a.	CN	CNY new loans	Jun	1521bn	1150bn
		CN	M2 yoy	Jun	8%	8%
16-Jul	16:00	US	Univ. Michigan Index	Jul P	98.2 index	98.2 index
	n.a.	CN	Ind. Prod. y/y	Jun	6.5%	6.8%
		CN	Unempl. Rate	2Q		3.9%
	10:00	IT	Trade Balance	May		2938m
	11:00	EA	Trade Balance	May		18105m
17-Jul	14:30	US	Retail Sales mom	Jun	0.5%	0.8%
	n.a.	US	Ind. Prod. y/y	Jun		3.5%
	11:00	IT	Inflation y/y	Jun F		1.5%
18-Jul	n.a.	AT	Inflation y/y	Jun		2.1%
		AT	CPI m/m	Jun		0.1%
	11:00	EA	CPI m/m	Jun	0.2%	0.1%
		EA	Inflation y/y	Jun F	2.0%	2.0%
19-Jul	14:30	US	Jobless Claims	-	225.7 thd	214.0 thd
20-Jul	8:00	DE	PPI y/y	Jun	2.9%	2.7%
	10:00	IT	CA Balance (m)	May		3009 m
		EA	CA Balance (m)	May		28 m

Source: Bloomberg, Erste Group Research

FORECASTS¹⁾

GDP	2015	2016	2017	2018	2019
Eurozone	2.0	1.8	2.4	2.3	2.2
US	2.9	1.5	2.3	2.8	2.2

Inflation	2015	2016	2017	2018	2019
Eurozone	0.1	0.2	1.5	1.6	1.7
US	0.1	1.2	2.2	2.2	1.9

Interest rates	current	Sep.18	Dec.18	Mar.19	Jun.19
ECB MRR	0.00	0.00	0.00	0.00	0.00
3M Euribor	-0.32	-0.30	-0.30	-0.30	-0.30
Germany Govt. 10Y	0.35	0.60	0.80	0.90	1.00
Swap 10Y	0.87	0.90	1.10	1.20	1.30

Interest rates	current	Sep.18	Dec.18	Mar.19	Jun.19
Fed Funds Target Rate*	1.91	2.13	2.38	2.63	2.88
3M Libor	2.34	2.40	2.70	2.90	3.20
US Govt. 10Y	2.85	3.20	3.30	3.50	3.50
EURUSD	1.17	1.14	1.13	1.15	1.16

*Mid of target range

In case of changes to our forecasts compared to the previous issue, arrows show the direction of the change.

Source: Bloomberg, Erste Group Research

¹ By regulations we are obliged to issue the following statement: Forecasts are no reliable indicator for future performance

Erste Group Research

Week ahead | Macro, Fixed Income | Eurozone, USA

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