

FLASH NOTES

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Trade deal 1.0

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What is the deal?

- US has postponed the October 15 tariff (additional 5% on US\$250bn).
- China agreed to purchase of additional agricultural goods from US, from US\$16bn to US\$40-50bn/annum within the next 2 years.
- China took measures to protect intellectual property & technology transfer.
- China opened its financial services industry and agreed on exchange rate.
- Establishing a consultation process to help with the enforcement.

The deal is expected to be finalized soon, at the APEC meeting (November 16-17).

What do we think?

US-China mini-deal is a substantial progress between both sides, which suggest that they are looking for ways to reach an agreement. This may provide near term positive to the market. But, pessimism still persist, mainly due to previous flip-flop in the past and limited details are available for now.

Is this sustainable resolution?

There are few factors to keep market anxious the US-China sustainable agreement, such as:

- China's response has been wary (to keep expectation low?)
- Dec tariff threat still persist
- Possibility of the deal slip before APEC meeting
- Lack of details in few things, i.e. currency/RMB exchange rate, technology transfer & intellectual property, enforcement mechanism, etc.

Trade war escalation

US tariff list	Value (2018, bn)	Effective date	Additional tariff rate	Key products
1st: US\$34 bn	30.4	6-Jul-18	25%	Machinery and parts, electrical machinery, auto parts
2nd: US\$16 bn	14.7	23-Aug-18	25%	Electric parts, machines and semiconductors
3rd: US\$200 bn	207.3	24-Sep-18	10%	Electronic parts, appliances, metals, furniture, plastic goods, textiles and leather
		19-May-19	from 10% to 25%	
4th: US\$300 bn	Part 1: 111	1-Sep-19	15%	Clothing, footwear, plastics, some machinery and parts
		Part 2: 156	15-Dec-19	15%
Escalation on US\$250 bn	252	15-Oct-19 (postpone)	additional 5%	Tariff list 1 + 2 + 3

Source: USTR, UBS