

A mellowed China response on fresh US tariffs

بنك الإمارات
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EMIRATES INVESTMENT BANK

LOOKING BACK

- **Global equities rally as China tones down trade talk.** Last week, the US said it is preparing to levy duties on an additional USD200 bn of Chinese goods, a move that would substantially escalate the US-China trade war. Risk assets sold-off on the news but swiftly recovered after China held back on a tit-for-tat response, paving the way for negotiations. As a result, the S&P500 ended the week higher by 1.5%. Meanwhile, a marginal increase in the June CPI figures prompted the Fed to repeat its "gradual" approach to rate increases, simultaneously warning that sustained high tariffs could hurt the economy. The US 10-year Treasury yield was volatile but ended the week flat at 2.83%.
- **Trump criticizes UK's new Brexit plan.** Trump warned UK PM May that her plan for a "softer" Brexit would all but kill the country's chances of striking a bilateral trade deal with the US. Her plans outline an ambitious free-trade area with the EU on goods while seeking a freer hand on services. The GBP fell on Trump's comments and ended the week lower by 0.6% against the USD while the FTSE100 gained 0.6%.
- **Nikkei225 rallies on a weaker JPY.** Japanese equities posted their best weekly gain in six months with the Nikkei225 rallying 3.7%, recouping most of its year-to-date (YTD) losses on a weaker JPY, which lost 1.7% last week. A muted Chinese response to fresh escalations from Trump lifted risk-on sentiment and led to the sell-off in the safe-haven JPY.
- **China posts record trade surplus with the US.** Amid increasing pressure from the US on trade, China posted a record trade surplus of USD29 bn with the US in June, higher than May's USD24 bn. This development increases the risk of further escalation and may weaken China's case when both sides restart negotiations over trade.
- **TRY falls on Erdogan moves.** The TRY lost 5.8% against the USD last week while the local currency 10-year government yield reached record highs amid fresh signs that Erdogan seeks to consolidate powers and is looking to take control of the Central Bank. His calls for lower interest rates in the face of spiralling inflation and a currency in free-fall have unnerved investors. The TRY is down 27.4% YTD and the annual inflation rate hit 15.4% in June.
- **Commodities fall on trade war worries.** Investor concerns that the US-China trade escalation could adversely affect demand for base metals from China weighed on commodities in general with the Bloomberg Commodity Index dropping 2.8%. Meanwhile, oil prices were dragged lower last week due to Libyan oil field recoveries, a jump in Saudi June output and reports that the US is considering waivers to some Iranian oil importers. Brent lost 2.3% in a highly volatile week for commodities.

LOOKING FORWARD

- China Q2 GDP and US retail sales will be released on **Monday**. UK unemployment data will be published on **Tuesday** while Fed Chair Powell testifies on Capitol Hill on the same day. UK CPI will be released on **Wednesday** while Japan's inflation figures will be announced on **Friday**.



MAIN CROSS RATES

€ 1 ————— \$ 1.1685

£ 1 ————— \$ 1.3222

\$ 1 ————— ¥ 112.38

	Yield % (15/07)	Yield % (08/07)
Abu Dhabi 2021	3.17	3.19
KSA 2021	3.40	3.44
Dubai 2023	3.65	3.72
Qatar 2023	3.55	3.60
US 10Y	2.83	2.82
German 10Y	0.34	0.29

Equities	Last Price	Weekly Chg	YTD Chg
MSCI World	2,135	1.0%	1.5%
MSCI BRIC	318	1.8%	-5.1%
MSCI EM	1,076	1.5%	-7.1%
USA - S&P 500	2,801	1.5%	4.8%
UK- FTSE 100	7,662	0.6%	-0.3%
France - CAC40	5,429	1.0%	2.2%
Germany - DAX	12,541	0.4%	-2.9%
Japan - Nikkei 225	22,597	3.7%	-0.7%
Dubai	2,884	0.1%	-14.4%
Abu Dhabi	4,687	1.8%	6.6%
Saudi	8,362	2.3%	15.7%
Oman	4,441	-1.8%	-12.0%
Kuwait	4,976	1.2%	3.1%
Egypt	15,880	-1.5%	5.7%
Qatar	9,319	0.6%	9.3%
Commodities			
Gold (\$/oz)	1,244	-0.9%	-4.5%
Silver (\$/oz)	16	-1.4%	-6.6%
Platinum (\$/oz)	829	-1.8%	-10.7%
Oil - Brent (\$/bbl)	75	-2.3%	12.7%

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