

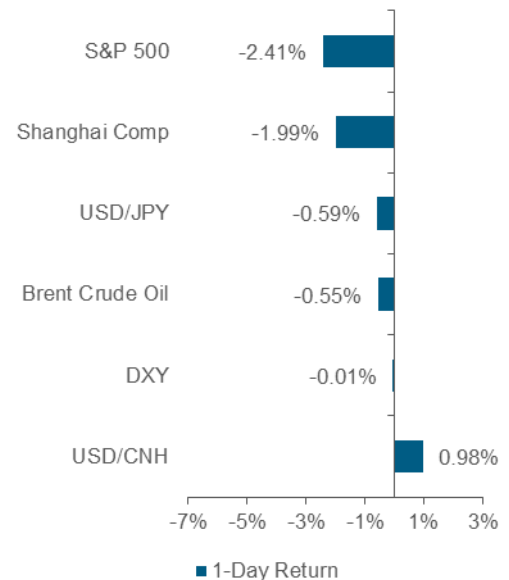
## A renewed focus on negotiations

### SUMMARY

- **China announced additional tariffs on about USD 60bn of US imports.** Meanwhile, the US released a list of about USD 300bn of additional goods that could also be subject to a 25% tariff.
- **US equities and the CNH fell sharply.** However, the reaction in other markets was more muted.
- **Watch for buy-the-dip opportunity.** Continued negotiations scenario likely, implying S&P500 support at 2720 holds.

### Muted market impact outside of US equities

Performance of selected asset classes on 13-May



Source: Bloomberg, Standard Chartered

### Key supports for S&P500 sit about 1.3% and 3.2% below yesterday's close

S&P500 Index



Source: Bloomberg, Standard Chartered

### BACKGROUND

- **China announced additional tariffs.** In what it said was a “forced retaliation”, China imposed additional tariffs on about USD 60bn of US imports that were already subject to higher tariffs from last year. In the US, the Trade Representative’s office released a list of USD 300bn worth of Chinese imports on which US President Trump has also threatened to raise tariffs.
- **US equities fell sharply.** The S&P500 fell 2.4% amid both China’s tariff announcement and poor sentiment towards recent ride-hailing IPOs. MSCI Asia ex-Japan equities fell 1.4% yesterday while the Euro Stoxx 600 fell 1.2%.
- **Other asset classes were more mixed.** USD/CNH rose by almost 1% to close above 6.91, gold rose 1% and USD/JPY fell almost 0.6% to 109.30. The 10-year US Treasury yield fell modestly by 6bps to 2.40% while the USD Index (DXY) was little-changed.

### WHAT DOES THIS MEAN FOR INVESTORS?

- **Continued negotiations remain most likely scenario.** As we laid out in our *Weekly Market View* (10-May), we believe a continued-negotiations scenario remains likely. While some tariff retaliation is not surprising, Trump’s plans to meet Chinese President Xi at the end June G20 meeting in Japan, is a positive sign, in our assessment. We also note the poor sentiment around towards recent ride-hailing IPOs may also have been a factor behind US equity market weakness.
- **Focus on key levels.** The S&P 500 faces immediate support at its 200-day moving average (about 1.3% lower) and at 2720 (about 3.2% lower). Under a continued negotiations scenario, we expect the second support to hold. Meanwhile, we took profit on our long USD/CNH trade (see *FX Alert* – 13-May), despite its value as a hedge against escalation, given the speed of the recent rise.

### WHAT NEXT?

- **Focus on the G20.** US-China negotiations between now and the end June G20 summit in Japan are likely to be key in determining whether we stay on course for our continued negotiations scenario, or whether there is a risk of a more escalatory scenario.
- **Stay on watch for buy-on-dips opportunity under continued negotiations scenario.** Following on from our *Marketwatch* (7-May), the *Weekly Market View* (10-May) and the *FX Alert* (13-May), we would take profit on our USD/CNH hedge and watch closely for a buy-on-dips opportunity as the S&P500 approaches key support.

	Amount (USD Bn)	Tariff	% of Imports*
US Imports from China	200	25.0%	37.1%
China Imports from US	60	5 - 25%	38.5%

Source: Bloomberg, IMF 2018 Data, Standard Chartered

\*Percent of imports subject to tariffs with respect to total imports from respective trading partner

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