

Trade the trade wars

Simon Brown
20th June 2019

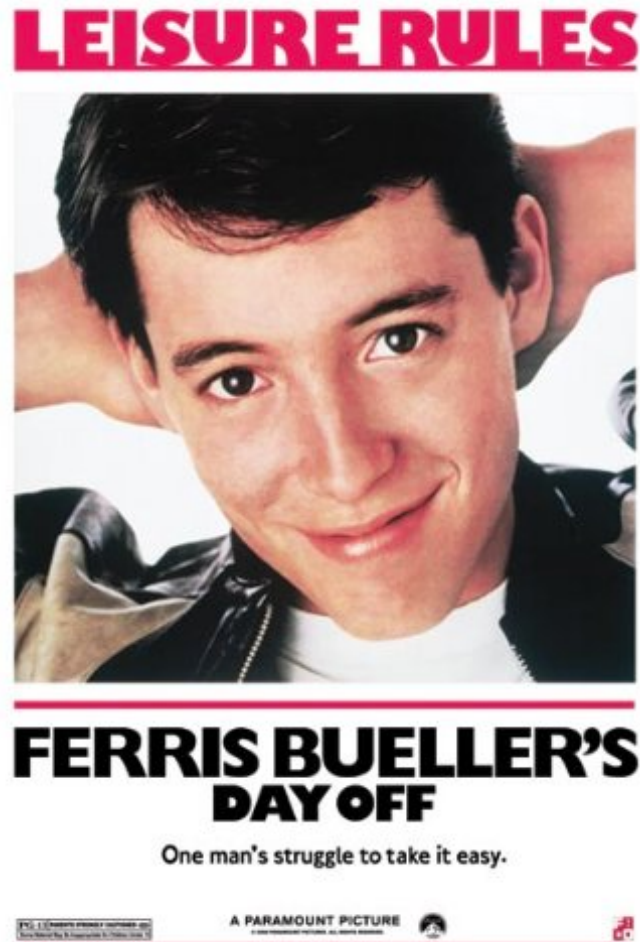


@JSE_markets / @JustOneLap

Smoot Hawley ~ 1930



Smoot Hawley ~ 1930





Tariffs



What?

- Customs charge at port of entry
 - Goes to national treasury (tax?)
- Increases cost to importer
 - Passed onto end user
- Currently not directly on consumer
 - New round will be
- World Trade Organization (WTO)



China



- China (up to 25%)
 - US tariffs applied to Chinese goods: US\$250bn
 - US\$300bn more coming late June
 - Out of total +/- US\$500bn*
 - Chinese tariffs applied to US goods: US\$110bn
 - Out of total +/- US\$130bn*
- Lowering tariffs with other trading partners



* 2017 actual

Europe

- US lists includes £8.5bn of EU products
- But trade talks are “on going”



Mexico



- United States–Mexico–Canada Agreement (new NAFTA)
 - Not yet signed by congress
- US / Mexico trade
 - Exports \$299bn*
 - Imports \$372bn*



* 2018 actual

Impact



Losers

- Globally US\$455bn GDP at risk
 - Larger than SA economy
- US US\$62bn GDP lost
 - Global GDP -0.7%*
 - US GDP -0.4%*
 - China GDP - 0.9%*
 - EU GDP -0.8%*



* WEF 2020 estimates

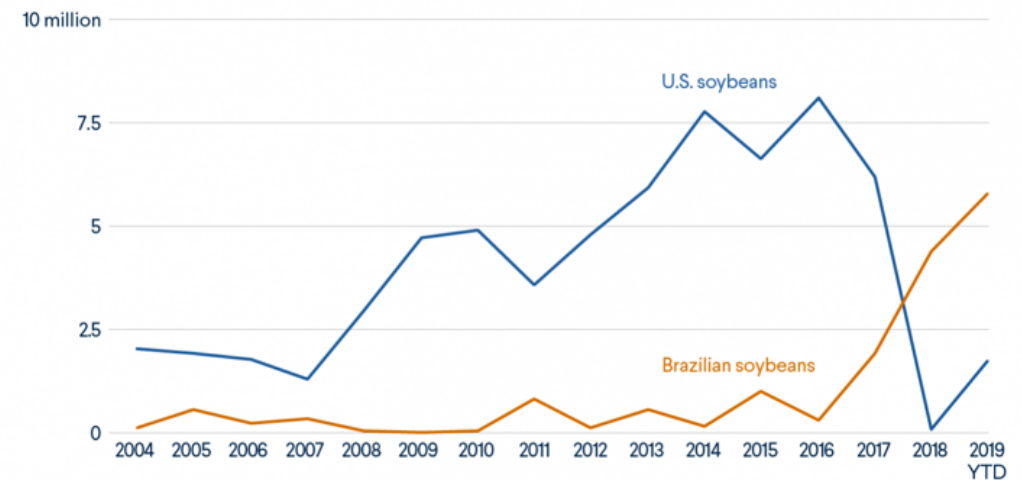
Winners

- South Korea, Vietnam and Taiwan (SE Asia)
 - Production moves just outside China
- South America (Brazil, Argentina)
 - Soya bean production etc.



Brazil Is Becoming a Major Soy Supplier to China

Soybean exports to China (metric tons)



Source: Bloomberg.

COUNCIL on
FOREIGN
RELATIONS

Inflation

- Globally inflation remains very low
 - With no real upward pressure
- Tariffs ultimately hurt inflation
 - This could see rates rising
 - But current trend is down
 - Maybe cutting cycle stalls?



Bonds



- Flight to safety
 - US bonds, sending yields even lower?



- See;

Surviving the bear ~ justonelap.com/video-surviving-the-bear/

EMs

- Mixed
- Some winners, lots of losers
- But when the elephants fight the grass suffers



South Africa?

- Steel? Maybe a little
- Food? Maybe some chicken relief
- Gold? Platinum?
- Lower petrol? Oil down, ZAR ?
 - Expect weaker ZAR?
- Long-term potential. Short-term pain.
- BUT ~ SA Inc.

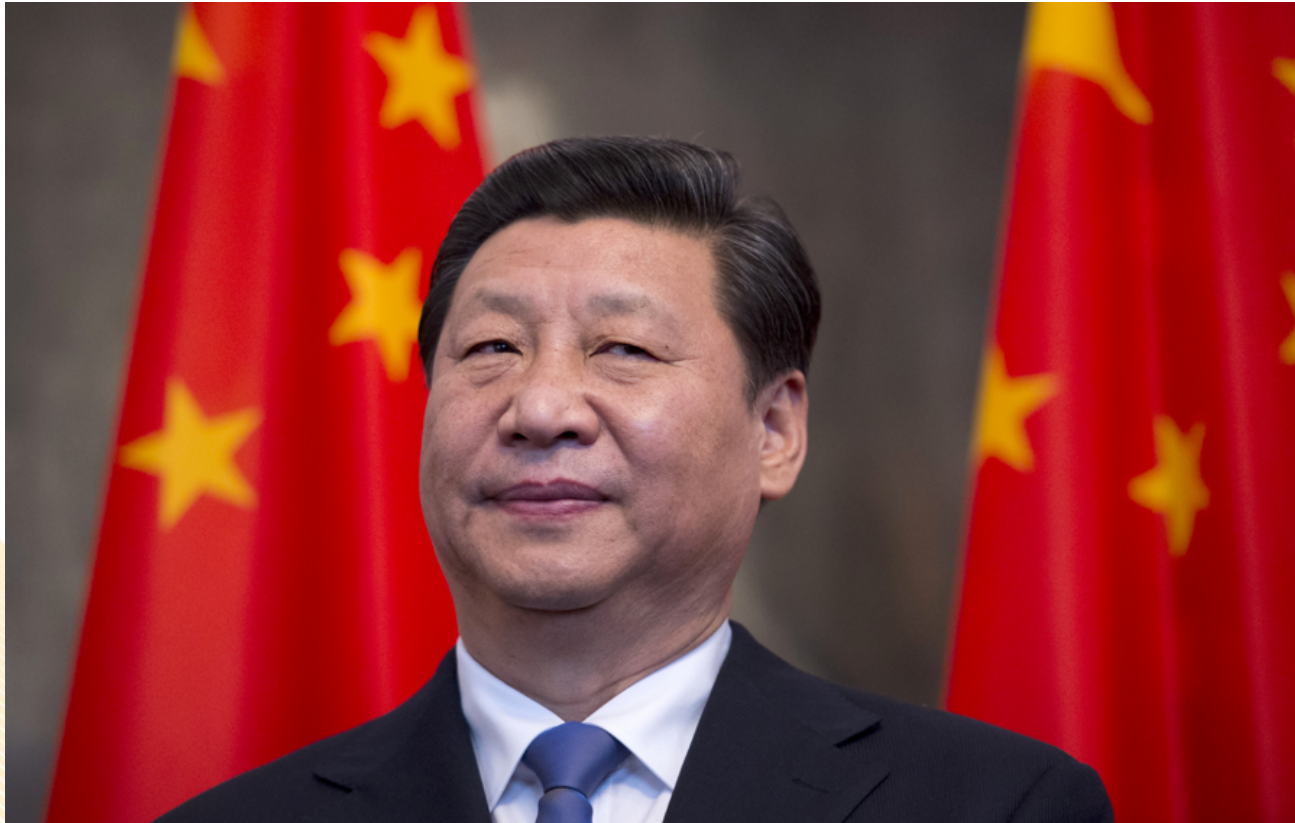


China response



Long game ~ Xi Jinping

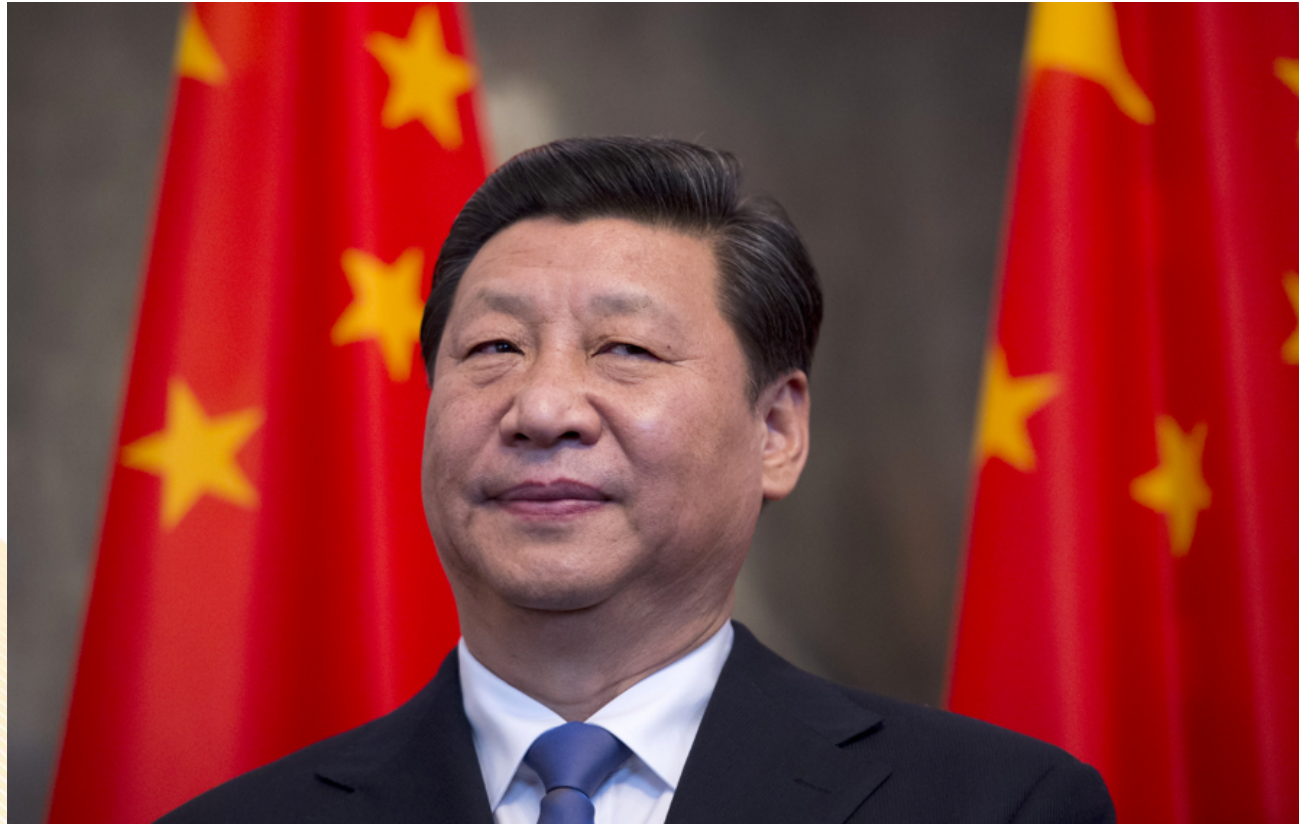
- 581 more days of Trump



Long game ~ Xi Jinping



~~581 more days of Trump ~ 2,041 more days of Trump~~

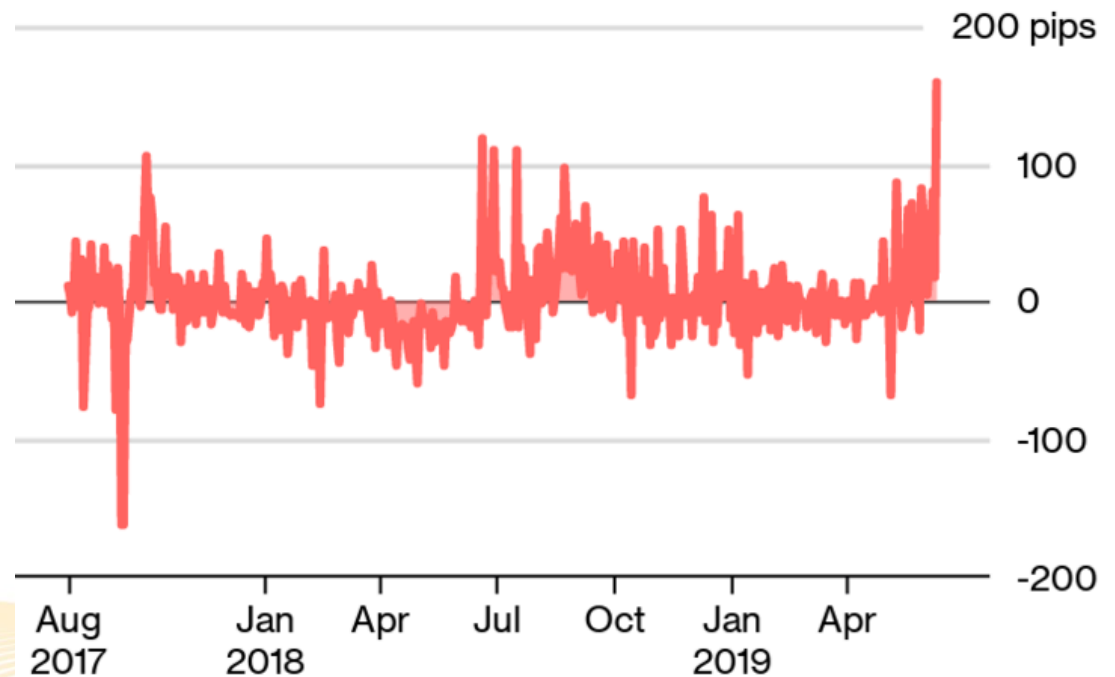


Weaken the yuan

China's Defense

PBOC sets fixing at stronger-than-expected level, signaling support for yuan

■ Gap between PBOC's fixing and average forecast in Bloomberg survey



Bloomberg

Bloomberg

Rare earth elements (minerals)

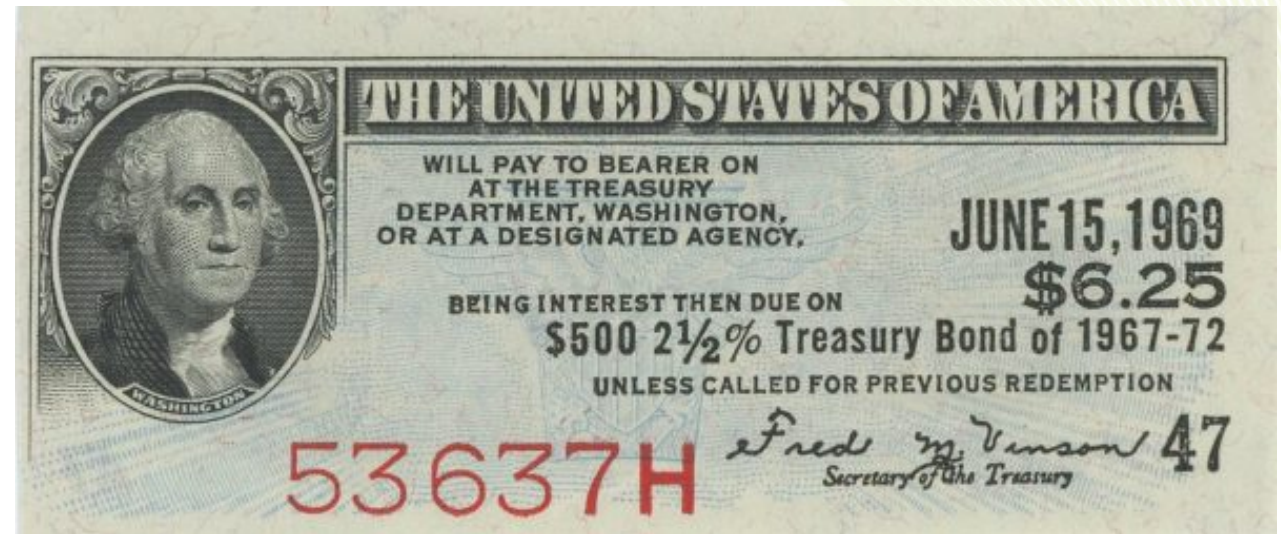


- 17 such as; terbium, dysprosium, ytterbium, lutetium, neodymium, europium, cerium, lanthanum etc.
- Not so rare
 - Occur naturally but need concentrations high enough to mine
- China 90% of world supply
 - But can round trip in short-term
 - Longer-term new production



T-bills

- US treasury bonds
- Largest holders*;
 - China (US\$1.13tn)
 - Japan (US\$1.02tn)
 - Brazil (US\$313bn)
 - Ireland (US\$287bn)



T-bills

United States / Government debt



\$22 Trillion



U.S. National Debt Hits Record \$22 Trillion : NPR. U.S. National Debt Hits Record \$22 Trillion Federal deficits are now expected to average \$1.2 trillion, or 4.4 percent of gross domestic product — far higher than the average over the past 50 years. Feb 13, 2019

* end 2018

Huawei

- Huawei banned from purchasing from US companies ??
- National security or bargaining tool ?
- 5G
 - Ericsson & Nokia only other tech giants with 5G



G20

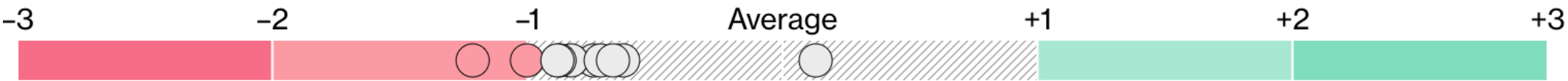


G20 2019 JAPAN

It's ugly and
starting to
hurt

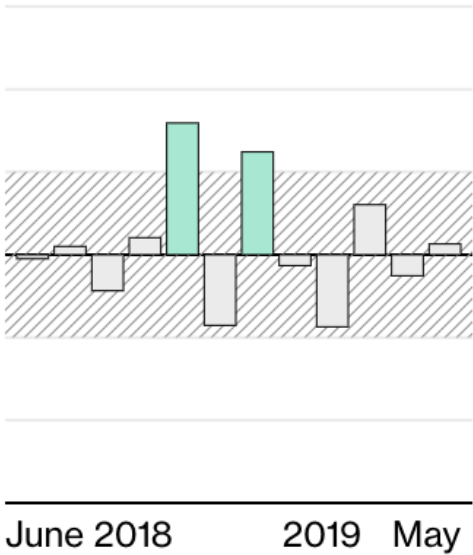


Latest data available for shipping, sentiment and export volume indicators, z-scores*



Shipping

Port of LA Cargo



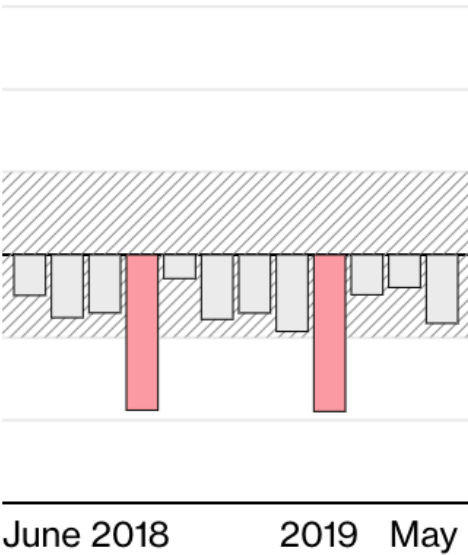
Processes about 40% of the world's containers

Singapore Throughput



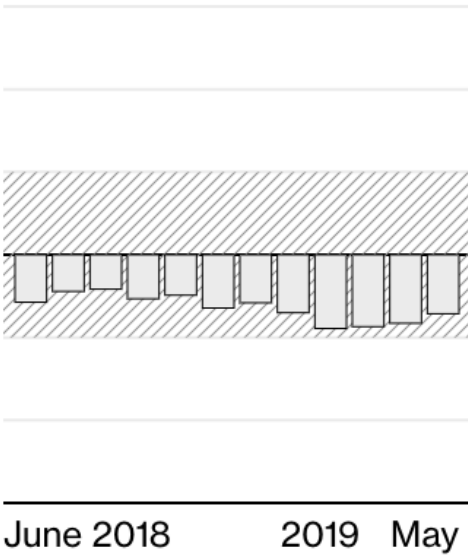
World's second-busiest port by volume

Hong Kong Port Cargo



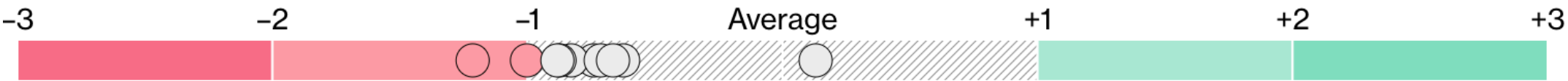
A key North Asia trans-shipment port

Baltic Dry Index



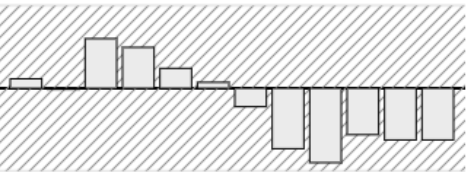
Tracks changes in cost of moving raw materials

Latest data available for shipping, sentiment and export volume indicators, z-scores*



Sentiment

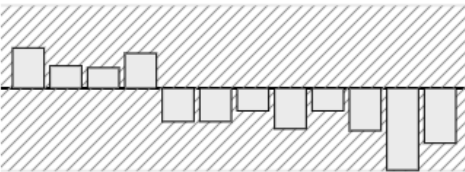
German Expectations



June 2018 2019 May

Business expectations of about 7,000 firms surveyed by IFO

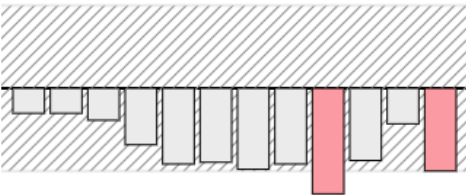
U.S. New Exports



June 2018 2019 May

Exports outlook from 300 managers in 18 industries surveyed by ISM

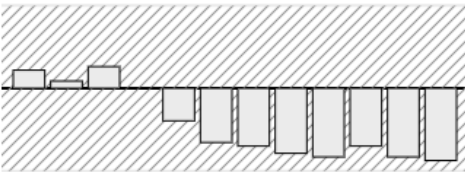
China New Exports



June 2018 2019 May

Export views from 3,000 manufacturing firms

Singapore Electronics



June 2018 2019 May

PMI of 150+ firms' views on electronics exports

Where to hide? Investors



Cash? Absolute vs. relative



Avoid tech

| | Chinese Equities Revenue Exposure to U.S. | U.S. Equities Revenue Exposure to China |
|-------------------------------|---|--|
| Information Technology | 9.0% | 14.2% |
| Energy | 7.8% | 4.6% |
| Industrials | 2.6% | 5.6% |
| Consumer Discretionary | 1.7% | 3.9% |
| Banks | 1.1% | 2.2% |
| Materials | 1.0% | 7.1% |
| Health Care | 0.2% | 2.1% |
| Consumer Staples | 0.2% | 5.1% |
| Utilities | 0.1% | 0.0% |
| Diversified Financials | 0.0% | 2.8% |
| Insurance | 0.0% | 2.8% |
| Telecommunication Services | 0.0% | 1.3% |
| Real Estate | 0.0% | 2.1% |
| Total | 2.8% | 5.1% |

Source: MSCI

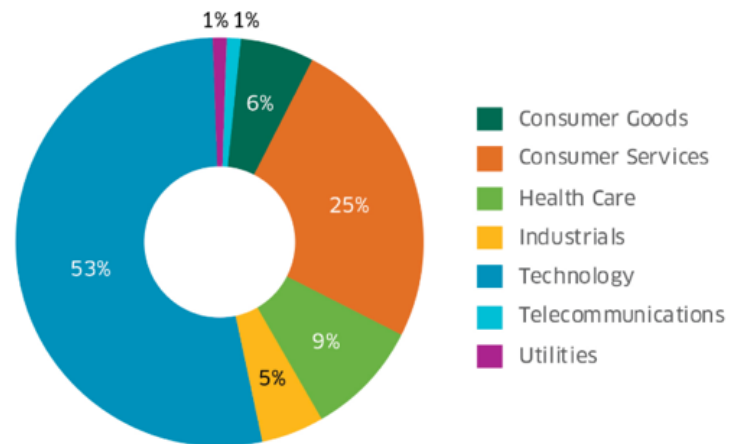


Avoid tech

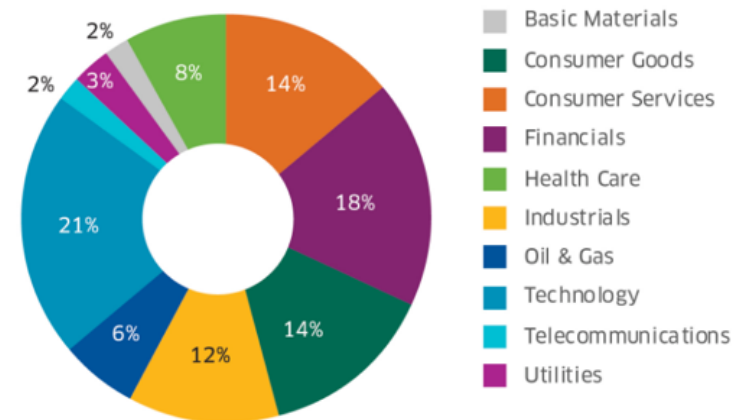
- Dec07 - Jan19
- Amazon = consumer services

| | NASDAQ-100 TR | S&P 500 TR |
|-----------------------|---------------|------------|
| Cumulative Return | 272% | 133% |
| Annualized Return | 13% | 8% |
| Annualized Volatility | 22% | 20% |

Nasdaq-100 Industry (ICB) Weights



S&P 500 Industry (ICB) Weights



Consumer staples

- Costs will rise
- Demand is stable

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GLODIV

CORESHARES GLOBAL DIVIDEND ARISTOCRATS

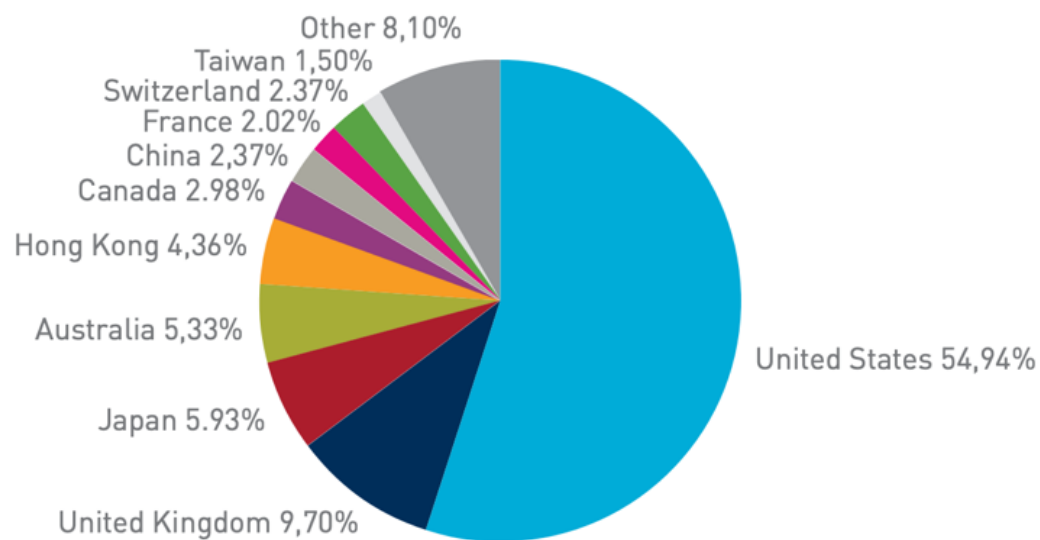


- Dividends used as quality metric, example;
 - 25-years of continuous dividends for US stock to be included
 - So very light in tech
 - Most didn't exist in 1994, never mind dividends
- US\$ based ETF so weaker ZAR boosts price

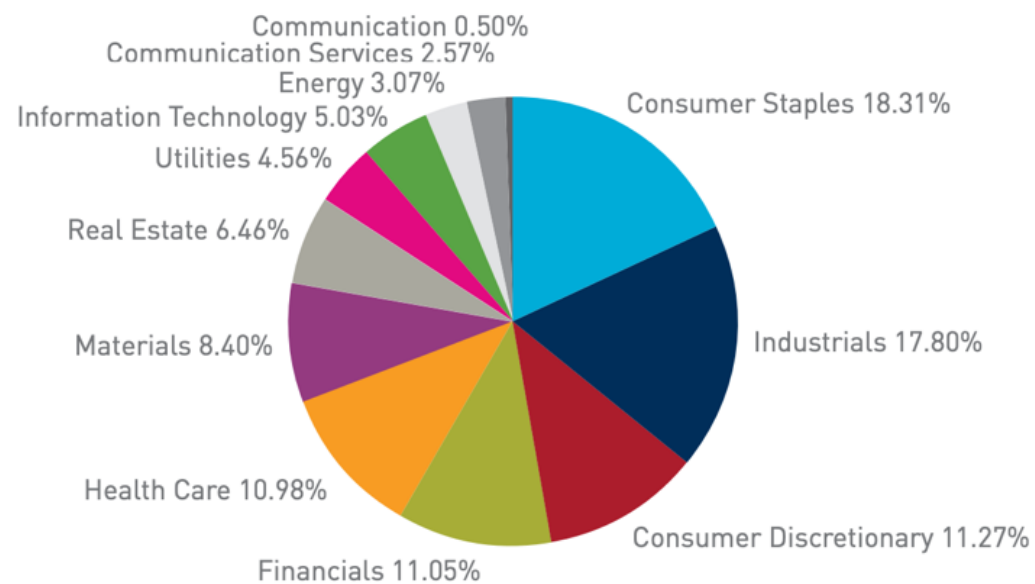
GLODIV



COUNTRY WEIGHTINGS



SECTOR WEIGHTINGS



Commodities

- Chinese GDP under pressure
 - Less commodity demand
- Gold
 - Gold is gold, currently moving on Iran / oil fears
 - Maybe a well leverage gold miner



Where to hide? Traders



Same old, same old

- Stick to your strategy
- Obey your stops



In closing

- Slowly .. Slowly
 - News cycle (and markets) will get distracted
 - Fed rate cut / Mexican stand off peace
- But without trade peace = global economic pain
- Not helped by mostly over stretched markets
- Trump to meet with Xi at the G-20 summit, June 28-29 in Japan



In closing

- This is a top of cycle event
- Be very careful;
 - Tech & commodities
- I NOT selling anything (already light on tech)
- Using free cash to buy
 - GLODIV
- SA Inc.



Do nothing, especially your ETFs



Questions?

Contact



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