

# Weekly Digest

Week ending 22 May 2016

## All is fair in love and (trade) war

Last week the US increased its import tariff from 266% to in excess of 500% in an attempt to curb dumping of Chinese-produced steel into the US market. Dumping is used to describe the practice of countries and/or companies exporting goods at below their cost of production. This practice is problematic for the importing country because it provides a potential flood of a good at a price that local producers cannot compete with. Conversely, the consumer may benefit from dumping due to a reduction in input prices. The longer term impact can be detrimental, however, because it can inflict significant damage on a local producer which, taken to its extreme, could result in a structural change in the importing economy, whose dependency puts them at the mercy of foreign suppliers in future. In recent years there has been an increase in actions and rhetoric that may be seen as contrary to free markets. These actions, at their heart, hint at market intervention and protectionism which are anathemas to free marketers, but nevertheless are understandable from a more parochial point of view. Currency wars and other restraints on trade are inherently self-interested and do not necessarily benefit the global consumer overall in the same way as letting the lowest marginal cost of production producer provide supply.

There is no denying that there are tax rebates in place in China which soften the blow of low steel prices for producers in China and US producers may therefore have a point when they take umbrage at the cheapness of the steel, but there is also a case to be made that US producers are taking advantage of an inherently protectionist government. For example, Bloomberg confirms that the US has also imposed preliminary tariffs on imports from Brazil, India, South Korea, Russia and, remarkably, the UK. Few of those impacted by the looming closure of Tata's Port Talbot steel plant as a consequence of the relative lack of competitiveness of their output vis-à-vis Chinese imports would agree that the UK is dumping steel.

However the Economic Strategy Institute suggest that the US is correct to go ahead with its anti-dumping tariffs stating "...the United States has a strong interest in countering dumped and subsidized steel imports. The alternative of simply accepting these market distortions would harm the US industrial base, erode high-wage employment, and impose considerable net costs on the US economy."

The Boston Global disagrees, stating that "It is irrational to attack foreign exporters for not charging us higher prices...steel that enters the United States has been sold by a specific Chinese producer and bought by a specific American buyer. The transaction is voluntary, the price mutually agreed to, and the benefits ripple outward through the entire community...Protectionist tariffs are for cry-babies [sic], not for the backbone of American manufacturing."

The long term economic impacts are difficult to prove either way and as a result intervention of this sort is as much about ingratiating the political leadership to the voting public as it might be about sound economic practice. For example, had the UK government taken similar steps as the US they would likely be less pilloried for the severe problems faced by the UK steel industry today. If a company wants to offer a discount – however savage – that may well be fair enough, after all they must answer to their shareholders when the time comes. If, however, a government sponsors a price reduction designed to nullify their international competition then it seems anti-competitive in the long run and contrary to a sense of fair play. But given the vast sums of money involved, perhaps those responsible can be forgiven for taking the view that all is fair in love and (trade) war.

## The Marketplace

- UK retail sales remain strong
- US CPI rises faster than expected
- Japanese growth returns to positive territory
- Japanese trade surplus increases despite overall decline in trade
- Oil posts fresh high in 2016

## Market Focus

### UK

- Retail sales increased during April, with sales excluding fuel growing by 1.5% and sales including fuel growing by 1.3%. Both beat market expectations of 0.6%.
- The CBI industrial trends survey fell 8 points in April. Nonetheless this was ahead of forecasts, which had predicted a 13 point decline.

### US

- The Consumer Price Index, one of the primary measures of inflation, increased by 0.4% in April, marginally beating the expected gain of 0.3%, and bringing the year-on-year figure to 1.1% from 0.9% in March.
- The Empire state (New York) manufacturing index, which measures the rise and fall of manufacturing activity in the region, fell 19 points to -9 this month. A positive reading of 6.5 had been expected. This represents the largest monthly change since October 2014.
- In contrast, industrial production for the whole of the US increased by 0.7% in April, beating market expectations of +0.3%.
- The yield on shorter-dated treasuries rose over the week, with 2 year yields rising by 13 basis points (0.13%), and that of the 5 year rising by 16 basis points.

### Japan

- On Wednesday (18 May), Japan's GDP was reported to have grown by 0.4% over the first quarter of the year, with a more modest 0.1% increase expected. The annualised growth therefore moved to 1.7% from -1.7% in December.
- At the time of writing the yen has appreciated by 0.6% against the US dollar, and the Nikkei 225 stock index has fallen by 0.5% from its opening level on Monday (23 May). Over the weekend, exports were reported to have fallen by 10.1% on a year-on-year basis last month. In net trade terms, this decline was more than offset by imports falling 23.3% year-on-year, bringing Japan's trade surplus to its highest level since March 2010.

### Commodities

- On Tuesday (17 May), Brent crude oil closed at USD 49.28 per barrel, its highest level since early November last year. Despite a further intraday rally on Wednesday (18 May), the commodity is yet to touch USD 50 so far this year.
- Gold's fall of 1.7% over the week represents the third consecutive week of declines. The precious metal has only delivered gains in one of the previous six weeks.

*James Klempster, CFA & Jonathan Adamson*

Asset Class/Region	Currency	Currency returns			
		Week ending 20 May 2016	Month to date	YTD 2016	12 months
<b>Developed Market Equities</b>					
United States	USD	0.3%	-0.5%	1.0%	-2.0%
United Kingdom	GBP	0.5%	-1.0%	0.7%	-9.1%
Continental Europe	EUR	1.0%	-1.0%	-6.7%	-14.7%
Japan	JPY	1.8%	0.2%	-12.3%	-16.5%
Asia Pacific (ex Japan)	USD	-1.6%	-4.6%	-2.8%	-19.2%
Australia	AUD	0.7%	2.5%	3.1%	0.0%
Global	USD	0.3%	-1.6%	-0.4%	-7.2%
<b>Emerging Market Equities</b>					
Emerging Europe	USD	-3.1%	-7.8%	9.2%	-19.4%
Emerging Asia	USD	-1.8%	-5.1%	-4.5%	-22.6%
Emerging Latin America	USD	-5.9%	-9.1%	14.8%	-19.5%
BRICs	USD	-2.6%	-6.0%	-2.5%	-26.5%
MENA countries	USD	-0.8%	-2.6%	0.5%	-20.7%
South Africa	USD	-3.1%	-12.3%	4.0%	-27.4%
India	USD	-1.4%	-2.7%	-3.9%	-12.1%
Global Emerging Markets	USD	-2.6%	-6.4%	-0.6%	-22.4%
<b>Bonds</b>					
US Treasuries	USD	-0.8%	-0.1%	3.2%	4.1%
US Treasuries (inflation protected)	USD	-1.0%	-0.9%	4.2%	2.1%
US Corporate (investment grade)	USD	-0.9%	-0.5%	4.8%	4.1%
US High Yield	USD	0.2%	-0.3%	7.1%	-1.4%
UK Gilts	GBP	-0.9%	1.0%	5.0%	6.6%
UK Corporate (investment grade)	GBP	-0.6%	0.6%	3.8%	4.0%
Euro Government Bonds	EUR	-0.2%	0.6%	2.9%	3.8%
Euro Corporate (investment grade)	EUR	-0.2%	0.0%	2.7%	1.9%
Euro High Yield	EUR	0.1%	-0.5%	3.4%	1.1%
Japanese Government	JPY	0.1%	0.2%	6.0%	8.1%
Australian Government	AUD	-0.1%	1.4%	4.0%	6.4%
Global Government Bonds	USD	-0.8%	-1.2%	6.7%	6.8%
Global Bonds	USD	-0.8%	-1.2%	5.6%	4.9%
Global Convertible Bonds	USD	-0.1%	-1.7%	-0.7%	-4.6%
Emerging Market Bonds	USD	-1.2%	-0.8%	7.0%	5.9%

Asset Class/Region	Currency	Currency returns			
		Week ending 20 May 2016	Month to date	YTD 2016	12 months
<b>Property</b>					
US Property Securities	USD	-2.7%	0.3%	3.6%	5.3%
Australian Property Securities	AUD	0.1%	2.3%	11.0%	12.1%
Asia Property Securities	USD	0.6%	-4.9%	-0.9%	-10.5%
Global Property Securities	USD	-1.4%	-1.9%	3.5%	-2.0%
<b>Currencies</b>					
Euro	USD	-0.8%	-1.9%	3.4%	1.2%
UK Pound Sterling	USD	1.0%	-0.6%	-1.6%	-6.6%
Japanese Yen	USD	-1.3%	-3.4%	9.2%	10.2%
Australian Dollar	USD	-0.7%	-5.1%	-0.9%	-8.3%
South African Rand	USD	-1.4%	-9.0%	-1.0%	-24.3%
Swiss Franc	USD	-1.5%	-3.2%	1.2%	-5.4%
Chinese Yuan	USD	-0.2%	-1.1%	-0.8%	-5.3%
<b>Commodities &amp; Alternatives</b>					
Commodities	USD	0.2%	-0.8%	7.6%	-19.5%
Agricultural Commodities	USD	-0.4%	-0.4%	4.4%	-2.4%
Oil	USD	1.9%	1.2%	30.7%	-25.1%
Gold	USD	-1.6%	-3.2%	18.0%	3.5%
Hedge funds	USD	-0.1%	-0.5%	-2.2%	-7.9%

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