

## Flash Note 29/11/2018

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### **Despite the very good news in China, the market ended lower. Why?**

The NY Times reported yesterday that a creeping anxiety about the costs of a prolonged trade war on the financial markets and the broader economy could set the stage for some sort of truce between Washington and Beijing. In the same way, Chinese press also noted optimism suggesting that the two leaders could agree to talks on the prospects China may offer more market liberalization measures at the Trump-Xi meeting this weekend. The WSJ pointed that Trump could postpone the threatened hike in tariffs to 25%, much like he did when he struck a deal with Juncker (EU) in July to delay tariffs in autos in return for a pledge for the European bloc to buy more American soybeans and natural gas.

Even more important has been the flow of political news coming from China, in the sense that pro-reformers within the politburo are gaining traction. The SCMP reported that several prominent figures in China are using the trade war with the US to press Beijing to reform and further open up the economy. Many of their proposals correspond to America's demands – such as ending subsidies and preferential treatment on state-owned enterprises, treating companies equally and making China a real market economy.

**Well. Despite these good news, the Chinese market ended lower in the session (-1.32%), after having started the session with a very positive tone. Many of you ask me this morning, why?**

Simply put. It's China's own fault. US senators have asked the White House to probe Chinese tech firm ZTE work in Venezuela, requesting the Trump administration to investigate whether ZTE Corp violated US sanctions by helping Venezuela set up a database that monitors the behavior of its citizens.

Of course, a selloff in ZTE caused a widespread contagion to the rest of the market because these activities jeopardize the talks to reach a commercial truce. As I have been told, there is a real possibility of reaching a commercial agreement. These type of mistakes are unforgivable.

Best