

**Flash Note:**  
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**China continued deceleration & de escalation of trade conflict. What next?**

**High frequency data points to a continued deceleration**

- July industrial production +4.8% y/y vs +6.3% in prior month (and well below consensus of +6.0%)
- Fixed asset investment (YTD) +5.7% y/y (vs +5.8% in prior month)
- Retail sales +7.6% y/y (vs +9.8% in prior month)
- Unemployment rate 5.3% vs 5.1% in prior month

**De escalation of trade conflict**

- Chinese Vice Premier Liu He held a phone conversation at request with US Trade Representative Robert Lighthizer and Treasury Secretary Steven Mnuchin yesterday.
- After the meeting, the US Treasury Representative (USTR) stated that **“certain products are being removed from the tariff list and will not face additional tariffs of 10%”**.
- Furthermore, it was determined that **the tariff should be delayed to 15-Dec for certain articles including cell phones, laptop computers, video game consoles, certain toys, computer monitors, and certain items of footwear and clothing.**

**What next?**

- The two sides agreed to hold another phone conversation in two weeks.
- Chinese officials are sticking to their plan to visit Washington in September, signaling that talks remain on track for now despite an abrupt escalation in tariff threats last month.
- It is not expected any imminent progress, as it is unlikely that China could make significant concessions in the run up to 1-Oct, the celebration of the 70th anniversary of the founding of the People's Republic.
- However, news like the ones seen yesterday, and the constant contact among both sides, suggest that there are still some

bridges that can help make this demolition of business relations a “controlled” process.

It is in the interest of both parties that this process (and its effects) is not out of control. China is interested because the symptoms of economic agony are more than obvious (you just have to look at the recent data that I have been providing). The United States is interested because they have a presidential election in 2020.

Within the bad, this is good news.

Best