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Donald Trump and Xi Jinping declared trade truce at G20. How long will it last?

The meeting between Trump and Xi in Buenos Aires finally produced a truce similar to the agreement reached between the US and the EU president, Jean-Claude Juncker, in July.

According to this agreement, the increase in rates will be frozen at current levels (in this case, for 90 days), while the negotiators try to find solutions to the underlying conflicts between the two parties.

This is clearly good news for markets, with Chinese equities rising 3.3% (Shenzhen), 2.6% (Shanghai), or 2.53% (Taiwan) on Monday. In Japan, the Topix Index gained 1.30% and the Korean Kospi rose 1.7%. Vietnam closed 2.6% higher.

Here are some of the key points of the agreement:

1. No new US tariffs on Chinese goods to be applied on January 1.
2. China will immediately start buying US soybeans and US goods.
3. Ban Chinese exports of the opioid drug fentanyl.
4. China offered to reconsider the Qualcomm-NXP merger
5. US-China negotiations on other issues will continue.

Both parties agree that they will endeavor to have this transaction completed within the next 90 days. If at the end of this period of time the parties are unable to reach an agreement, the 10% tariffs will be raised to 25%.

Longer-Term view

The US and China leaders have agreed to begin immediate negotiations on “structural changes” including the practice of forcing US investors to hand over technological knowhow, intellectual property protection and barriers to entry for US businesses.

President Trump himself valued the agreement in the following terms: “We have established a very good relationship” which **suggests a certain confidence that negotiations can be successfully developed.**

Reasons for optimism: The deal gives China what it wanted—a respite from external pressure on its economy-. But it also favors Trump with the first signs of weakness in the economy and stress in financial markets. Just recall how General Motors announced plans to shut down several North American plants and lay off 15% of its North American work force, while leaving its China operations unscathed, given that GM sells more cars in China than in the US (835,000 versus 694,000 in the 3rd quarter), and China is likely to prove the crucial development market for electric vehicles. GM also claimed that Trump’s tariffs on steel and aluminum would cost it US$1bn this year. All this should lead President Trump to think that a trade war would further weaken the US economy.

There are also some arguments that raise some doubts about the durability of the equity rally seen today in Asia.

1. National security hardliners in Washington are likely to keep ratcheting up the pressure on Beijing.
2. Xi Jinping made some concessions in the areas of forced technological transfers and intellectual property concessions, but not in the key question of aggressive industrial policy and subsidies.

We will have to wait and see how the negotiations develop during these 90 days. For the time being, the agreement is undoubtedly good news for the markets.