

Friend or Foe?

US President Donald Trump's categorization of the EU as a "foe" on trade is well wide of the mark. And with China and the EU meeting at a summit in Beijing today, we will see what happens when your foe's foe becomes your friend.



Source: shutterstock

US President goes to Moscow with low expectations - Beijing-EU summit more interesting in our view

President Trump does not expect much out of his visit to Moscow, which really begs the question, "Why is he going?" As far as we can tell, there is no agenda for this meeting. And the indictment over the weekend of 12 Russian security personnel only makes this visit look odder still. Only last week, President Trump was criticizing Germany for being too closely linked to Russia through its natural gas imports. And the weekend was spent insulting the EU, China and also Russia as "Foes", (first define 'Foe', Mr. President, and no, it does not mean 'competitor', it means enemy).

But a point we have made in this note before is that the US President has embarked on a mission to alienate, not just China, but most of the rest of the world, and that is a risky game because, despite the US enormous economic strength, the simple fact is, the rest of the world is bigger than the US. And if the rest of the world decides that they can strike deals on trade, on security, on Iran, on climate change without the US, then the only 'loser' from the trade war will be the US. This is

the principle reason the China-EU summit taking place today is worth watching, for signs that the rest of the world, despite its differences, is pulling together. It could be a lot more interesting than the Moscow photo-shoot.

World this week

Outside the murky world of politics, there are some events worth watching this week - most notably, Fed Chair Jay Powell's first semi-annual testimony to Congress. Key for us will be the extent to which Powell shifts on his views on what the trade policies are doing to US growth, and how that may affect Fed policy ahead. Our best guess is that he will brush it off, as recent US data flow has been pretty good. There is a lot of stimulus holding US economic growth aloft currently, but it won't last forever. Ask former Fed Chair, Ben Bernanke.

Brexit will, unfortunately, not stay off our screens this week, with some Brexit legislation passing through the commons (Taxation cross-border bill) today. With the opposition Labour Party opening up a decent lead in opinion polls, hardline Brexit attempts to undermine PM May's softer Brexit approach raise the chances that the government in the UK falls. That does not seem to be causing any reduction in criticism of the PM from within her own party.

China 2Q18 GDP today will also herald a long hard look by us at all our Asian GDP numbers, not just China. We believe we will need to trim growth forecasts, and in some cases, significantly. The axe is being sharpened. Other bellwether's of the trade war's impact include Singapore's June domestic export data due later this week. [See also our week ahead note for more detail.](#)

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