

Snap | 19 June 2019

CHINA

What will happen after Xi-Trump meeting in G20

China and the US have scheduled a sideline meeting at the G20 in late June. What will happen next?



Donald Trump, Xi Jinping. President Donald Trump, right, with China's President Xi Jinping, left

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China US meeting scheduled

Overnight, announcements from both China and the US have stated that the two Presidents will meet at the G20 summit in Osaka for "extended" meetings to discuss the ongoing trade conflict.

As we have claimed a few times in our notes, we do not believe that the meeting will deliver a trade deal, even if the meeting does take place. From the Chinese side, the discussion with US President Trump is expected only to exchange views on fundamental issues concerning the development of China-US relations.

What will happen after Xi and Trump meet?

Reading carefully from the statement from China, we only expect that both sides will repeat their views on the already drafted terms. But it is difficult to see any concrete progress that would either lead to a deal or improve the current deadlock situation.

During the meeting, President Trump will probably leverage on recent weak China economic data to persuade President Xi to agree that a trade deal is in China's interests. President Xi

may use this opportunity to show President Trump that as long as both sides keep talking it will be helpful for the US economy and therefore President Trump's election campaign.

As such we expect no real change following the G20 sideline meeting. The fact that both sides are talking should at least postpone thoughts of a further increase in tariffs, for a while at least, until either side comes up with different thoughts.

Preventing any meaningful all-encompassing trade deal, there are still some fairly substantial hurdles. One is reform of state-owned enterprises, which is related to a lot of laws in China and fundamentally an issue of the Chinese political and economic model - in a word, sovereignty. Technology will also be discussed, and we expect China will confirm that there are no security issues on Chinese-made technological equipment. Though we do not think the US will accept this claim.

So the news on the talks in Osaka is a short term positive for asset markets, but we believe any talks will change little unless either side makes some meaningful concessions, which we do not view as likely at this time.

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Yuan has already reflected the good news

USD/CNY and USD/CNH have already appreciated from the range of around 6.93-6.934 at the end of the trading session on 18th June to around 6.90 level (as of writing) for both USD/CNY and USD/CNH.

Markets are reacting positively to the fact that at least both sides are willing to talk about trade, even if this is only likely to deliver a short-term boost.

The yuan appreciation matches our forecast of USD/CNY at 6.90 by the end of June 2019.

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