Markets fall on trade war and global growth fears

By Nick Beams
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Wall Street had a sharp fall yesterday, and the yield on the 10-year US Treasury bond dropped to its lowest level since 2017, amid concerns over the increasing tensions between the US and China, and indications of slowing global growth.

The Dow Jones index finished the day 286 points down, a decline of more than 1 percent, after dropping by 451 points earlier in the session, with 80 percent of the index's components ending lower. The index is headed for its fifth straight weekly loss, which would be its longest such losing run since 2011.

Other major indexes experienced similar falls. The S&P 500 was down by 1.2 percent and the tech-heavy Nasdaq dropped by 1.6 percent. Despite the falls, these indexes are still up for the year—9.3 percent for the Dow and 13 percent for the S&P 500—largely as a result of the US Federal Reserve's decision in March to shelve interest rate rises for the rest of the year and possibly longer.

There are growing concerns that the market fall is far from over. One sign of this sentiment was the move to the safety of government debt. Increased purchases of 10-year Treasury bonds pushed the yield down to 2.29 percent, its lowest point in 19 months, sending it below the yield on three-month Treasury bonds.

Normally the yield on long-term bonds is higher than that on short-term debt. The inversion of the yield curve, if it is sustained, is regarded as an indication of recession. Over the past weeks the gap between the two yields has fluctuated between positive and negative.

In its characterisation of the stock market, the *Financial Times* cited one fund manager who said it was "panic mode" and "people are realising that the economy could be a lot slower than we thought."

Another fund chief, quoted by the newspaper said: "Equities are down because of global growth, and concerns that the trade war will lead to even lower growth. It you believe that then it makes sense for 10-year yields to fall."

Bank of America has revised downward its estimates for Treasury yields. Pointing to the downward turn in the global economy, it said: "It would be simplistic to blame these forecast revisions purely on the latest chapter in the trade war saga. Central banks have shifted to a dramatically more dovish tone." Also, inflation had continued to disappoint, "surprisingly so in the US," as well as in Europe, and "Brexit and related uncertainty remains unresolved."

The "dovish tone" by central banks refers to the abandonment of interest rate rises and moves to provide further stimulus in the face of a slowdown. This week the Reserve Bank of Australia indicated it was almost certain to cut its base rate by 0.25 percent next month, followed by a similar cut later in the year, taking it to a new record low of 1 percent.

In an apparent attempt to calm market turbulence over the economic conflict with China, US President Donald Trump said the issue of the Chinese telecoms giant Huawei could be included in a US-China trade deal.

Last week the Commerce Department placed Huawei on its Restricted Entity List, on the grounds that it was engaged in activities contrary to US "national security" interests. In effect, this banned the supply of US components needed to sustain Huawei's global operations.

In his latest comments, Trump said that while Huawei was "very dangerous from a security standpoint," it was "possible that Huawei could be included as part of a trade deal" and there remained a "good possibility" that the US-China talks could get back on track.

Trump's remarks—that while Huawei is "very dangerous," it could yet be part of a "deal"—show that the alleged "national security" threats have been bogus from the outset, invoked as a means of crippling Huawei's operations.

The Trump administration also announced a $16 billion assistance package to agricultural producers that have been hard hit by Chinese tariffs imposed in retaliation against US tariff measures. This followed a $12 billion package last year.

This indicates that the administration has all but ruled out any agreement on trade and is digging in for a long conflict.

Agriculture Secretary Sonny Perdue said the assistance payments would come in three tranches, the first of which would be made in July or August. He effectively ruled out any prospect for a deal before then, including at talks between Trump and China's president Xi Jinping at the G20 summit in Japan at the end of next month.

"While we would love a trade deal in that period of time… it'll be very difficult to understand how a trade deal could be consummated prior to that first payment," he said.

Perdue said the second payment in November, and the third one set for January 2020, would depend on the fate of the trade talks.

The official Chinese reaction to the latest measures against Huawei remains somewhat muted. In a statement yesterday, Commerce Ministry spokesman Gao Feng said: "The US… crackdown on Chinese companies not only seriously damages the normal commercial co-operation between both countries but it also forms a great threat to the security of the global industrial and supply chain. China is firmly opposed to this. We will closely monitor developments and make adequate preparations."

Beijing is anxious to present itself as the defender of the present international trading order against the actions of the United States and so has been relatively constrained in its response to this point.

However, there is intense hostility within sections of the regime to the US measures. So far, this has been confined to verbal denunciations but as the US economic confrontation continues, it could take more direct forms, such as cuts in the supply of raw earth minerals, of which China is a major global supplier, impacting on the production of batteries and electronics components.