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MARKETS

INITIAL TRADE DEAL SEEN POSITIVE FOR A SHARES

Signing of phase one trade agreement tipped to boost earnings growth at mainland firms in segments from software to financial sector, analysts say

Chad Bray and **Martin Choi**

A phase one trade deal between the United States and China could be another positive for the latter's share market this year, as earnings growth is expected to be strong in sectors ranging from software to the financial sector, according to investment strategists and economists.

The truce in an 18-month fight between the world's two biggest economies should ease some of the pressure on Beijing and allow China to proceed with a number of reforms, including addressing the stability of its financial system, according to Norman Villamin, chief investment officer for wealth management at Swiss private bank Union Bancaire Privee.

"We think the [phase one trade deal] is going to be very good for the A-share market in general, and that's a place where we're really focusing investors, in terms of allocating their money, in 2020," Villamin said.

Union Bancaire Privee was bullish on the biotechnology sector, which could benefit from the trade deal, he said.

US President Donald Trump and Vice-Premier Liu He signed the phase one deal in Washington on Wednesday.

Trump has used tariffs to try and force Beijing to change decades of industrial and trade policies, adding duties to about US$360 billion of Chinese-made goods. China has responded with tariffs on about US$110 billion of American goods.

The tit-for-tat has created an environment of uncertainty that has caused firms to delay investment or attempt to shift parts of their supply chain out of the mainland, and has weighed on global trade.

The phase one agreement included commitments by Beijing to buy, over a two-year period, at least US$200 billion more of American goods and services than it did in 2017. Beijing has also agreed to lift barriers on a number of US exports, including beef, poultry and infant formula, and has also pledged greater financial market access and intellectual property protection.

The phase one agreement included commitments by China to buy more US goods and services and reduces a drag on Asian exports. Photo: AP

"A phase one deal, I would say for Asian exports, it reduces a drag," said Frederic Neumann, co-head of Asian economics research at HSBC.

"It doesn't necessarily cure all the challenges that we see in the export space. We see a gradual recovery of trade this year."

Analysts have expressed scepticism over whether the deal would pave the way for further agreement on more difficult issues between the two countries, such as China's support of its state-owned enterprises.

Also, neither country plans to remove tariffs put in place over the past 18 months, as part of the deal.

"The agreement is a positive step, but an extremely modest one, which will defer the most important – and difficult – issues to subsequent negotiations," said Stephen Olson, research fellow at the Hinrich Foundation, an independent research body focused on global trade. "Unless and until those more difficult issues [such as industrial policies and subsidies] are meaningfully addressed, the trade war might simmer down, but it will not be resolved."

Olson also said there were questions about whether the terms of the agreement would be fully implemented.

"The agreement could help boost bilateral exports by the two economies and lead to an improvement in business confidence, as well as investment," said Michael Taylor, managing director for credit strategy and standards at Moody's Investors Service.

"But the details of the agreement suggest there remains considerable scope for friction between the two sides, and Moody's continues to expect tensions between China and the US to wax and wane in the years ahead."

> **[A deal] doesn't necessarily cure all the challenges that we see in the export space**
>
> FREDERIC NEUMANN, HSBC

Asian markets were mixed yesterday, with indices rising in Hong Kong, Korea and Japan, but declining in the mainland. The Hang Seng Index gained 0.4 per cent to 28,883.04 points, while the Shanghai Composite Index dipped 0.5 per cent to 3,074.08.

Analysts have said investors had already priced a potential phase one agreement into the markets since it became clearer in December the two sides were moving closer to a deal.

Herald van der Linde, HSBC's head of equity strategy, Asia-Pacific, said earnings growth in China should be a more important driver for equities this year.

"The impact for listed companies is not as big as what it is for the rest of the economy," he said. "We're actually starting to see a bit of earnings upgrades coming through in China, but it's really minuscule."

The rise of empty nesters on the mainland, strong growth in parts of the software industry and the banking sector, alongside increasing automation were likely to drive earnings at mainland firms this year, he said.

"They, by far, offset some of the negativity. So, I'm not so worried or positive either on the impact [of the trade deal] on earnings for Chinese companies."

Neumann said Hong Kong's economy, which has been hurt by months of street protests, could benefit from the trade truce.

"Logistics is still a very integral part of this economy," he said. "We see, therefore, logistics activity increasing. What we've seen in the past year will become stronger as well – intra-Asian trade corridors and supply chains becoming stronger. Even as the transpacific relationship cools, or [becomes] completely stuck in terms of trade volumes, we actually see that increase in regional activity come through. That should benefit Hong Kong."