N° 507
6 May
2019

BONHÔTE
BANQUIERS DEPUIS 1815

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US THREATENS CHINA

Highlights:

Trump puts pressure on China

Company results top forecasts

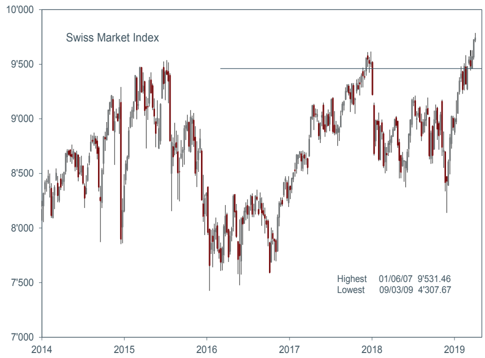
Overview

The trade talks between China and the US have not made much headway recently. The subject is once again the focal point of investors, who had almost forgotten about global trade and the potential it has to wreak damage when trade ties break down. Now with finalisation of the US-China trade deal in doubt, equity markets have tanked this morning.

Donald Trump is trying to speed up the signing of the trade agreement with China. As he considers that the talks are moving too slowly, he has reverted to his favourite technique: issuing threats. Yesterday he tweeted that customs duties on USD 200bn of Chinese imports will be raised from 10% to 25% from Friday, 8 May. And he is also dangling the threat of slapping tariffs on all imported Chinese goods in the near future. It is so far unclear whether playing hard ball with China will work. The return of stick-and-carrot negotiating has not at all pleased the Chinese leaders, who see this as a provocation. However, chief negotiator Vice-Premier Liu He has not called off his delegation's visit to Washington starting on Wednesday. In our view, neither side would benefit from a collapse in the trade talks. But Donald Trump's intimidation tactics are stoking uncertainty and, therefore, volatility in the market.

So far the first-quarter reporting season has been relatively good. Out of the 250 S&P500 companies that have released numbers, 78% have beaten estimates. Composite earnings growth had been expected to slow to a negative 4.2% but in fact has quickened marginally to 1%. In Europe, even though manufacturing activity contracted for a third consecutive month, more than half of companies have reported higher than expected profits. And the figure released by manufacturers have been especially good.

The Fed concluded its policy meeting last week by holding rates, seeing no reason to move borrowing costs in either direction for the time being. Those hoping for a rate cut this year were disappointed by the outlook. US economic growth remains solid, and Chief Powell considers that current low inflation of 1.6% is transitory. GDP increased by 3.6% in the first quarter. Since the meeting, US job-creation figures far exceeded expectations, clocking in at 263,000 for April.



The SMI has punched above resistance. But the trade-related downswing might push it towards testing support at around 9450 points.

Key data

	USD/CHF	EUR/CHF	SMI	EURO STOXX 50	DAX 30	CAC 40	FTSE 100	S&P 500	NASDAQ	NIKKEI	MSCI EMERGING MARKETS
Latest	1.02	1.14	9'741.99	3'502.48	12'412.75	5'548.84	7'380.64	2'945.64	8'164.00	22'258.73	1'082.77
Trend	➡	➡	⬆	➡	⬆	➡	➡	⬆	⬆	⬆	➡
%YTD	3.51%	1.18%	15.57%	16.69%	17.56%	17.29%	9.70%	17.50%	23.04%	11.21%	12.11%

(Daten vom Freitag vor der Publikation)

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SPOTLIGHT ON STOCKS

Swiss Re
(ISIN: CH012688881561, price: CHF 94.56)

Swiss Re's first-quarter figures are down versus the same period in 2018. Net profit decreased by 6% while premiums increased by 5.5%.

The bottom line was hit by claims relating to the many incidents occurring during the period, such as the Ethiopian Airlines aircraft crash, the grounding of the Boeing 737-Max as well as a series of flood and cyclone events across Asia and Africa.

After a difficult 2018 in terms of natural disasters and therefore claims, it made sense that reinsurance rates and premiums would increase in Q1 2019 – as per the usual reinsurance cycle, whereby higher claims experience in one period leads to an increase in premiums in the following period, or vice versa.

Swiss Re is this week launching share buybacks for a maximum of 6% of share capital. The share offers a dividend yield of around 6% – among the highest on the market.

Apple
(ISIN: US03783331005, price: USD 211.75)

Apple's quarterly results beat the consensus on the whole, despite falling relative to the same period last year. Operating profit, at USD 2.46 per share, decreased by 6%. Revenues amounted to USD 58.02bn, down 5% versus the same period last year but USD 620m better than expected.

Apple no longer gives any breakdowns of unit sales, but some calculations suggest iPhones volumes falling by between 25% and 30%. Several factors could explain this decline, such as the strength of the dollar, innovation from competitors and the fact that Apple's faithful user base tends to hold on to handsets for longer.

Positioning the iPhone as a luxury product worked quite well for Apple in the past, thus making it possible to compensate for the decline in sales volumes. But a policy geared towards a high average selling price means that it cannot be a product for every household. For that, price cuts are needed, so that the iPhone can truly become a gateway to services such as cloud storage, music, videos and mobile payments. Apple wants to refocus its growth strategy on these high-margin services as way of reducing its dependency on hardware.

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