N° 520
5 August
2019

BONHÔTE
BANQUIERS DEPUIS 1815

FLASH BOURSIER

CUSTOMS WAR

Highlights:

Fed cuts benchmark rate by 25bp

Trump threatens another raft of import duties

Overview

"Insurance", to ensure that growth does not splutter mid-cycle: that's how Fed chair Jerome Powell summed up the 25bp rate cut that he had just announced last Wednesday, pouring cold water on hopes among investors that this would mark the start of a new rate-cutting cycle.

Donald Trump, probably unhappy with the minor rate cut, triggered a renewed wave of stress on Thursday by tweeting that he plans to extend customs duties to virtually all types of Chinese imports from 1 September. A US trade delegation had recently been to China to resume negotiations. The tweet sent a shockwave through equity markets, propelling European indices lower by more than 3% over the week. It also sent investors stampeding into government bonds, as reflected by a -0.9% yield on the 10-year Swiss government bond, as well as into gold and other haven assets such as the Swiss franc and the yen.

Existing duties target manufactured and semi-finished goods. The announced 10% tax will be levied on electronic goods, home appliances and textiles – products for which it is hard to find alternatives to the one you want. The potential hit to retail prices could dampen household consumption, which could in turn slow growth in the US economy.

As a payback, Beijing has reportedly called on publicly owned companies to stop buying agricultural goods from the US. Expect some extra budgetary support as well. The yuan has been falling steadily, reaching its lowest level since 2008 northwards of CNY 7 to the dollar. We suspect some deliberate action from Beijing in support of its exports, as a cheaper currency will offset the higher customs duties. In turn, this will place more pressure on US companies – and companies everywhere – by enhancing the appeal of goods that are 'made in China'. In contrast, Chinese companies that have geared up in dollars will take a hit.

So the Fed is under pressure to do more rate cuts. But there is only so low it go to offset the damage from customs duties, because the US is not in recession. The job market is still in fine form. Latest additions were in line with estimates, at 165,000, with the rate of unemployment clocking in at 3.7%.

Selling pressure is likely to drive the SMI towards support at 9550 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	0.98	1.09	9'803.69	3'376.12	11'872.44	5'359.00	7'407.06	2'932.05	8'004.07	21'087.16	1'003.76
Trend	➡	⬇	⬇	⬇	⬇	⬇	⬇	⬇	⬇	⬇	⬇
%YTD	0.05%	-3.22%	16.30%	12.48%	12.44%	13.28%	10.09%	16.96%	20.63%	5.36%	3.93%

(Daten vom Freitag vor der Publikation)

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SPOTLIGHT ON STOCKS

Royal Dutch Shell
(ISIN: GB00B03MLX29, price: EUR 26.27)

Profitability deteriorated in the second quarter for leading integrated oil groups, relative to the second quarter of 2018. Output volumes increased overall but sales were impacted by significantly lower fossil-fuel prices.

The average oil selling price over the period was $58 per barrel, compared with nearly $74 in the second quarter of 2018. The price of liquefied natural gas (LNG) has collapsed in Asia to $4 per million BTUs, down from $9.9 last year. This marks the lowest level in the decade and results from the flurry of new gas-exploration projects in northern Europe, Australia and the US (Permian basin) as well as from the mild temperatures.

Royal Dutch Shell reported extremely disappointing quarterly figures in all segments, reflecting weak gas and petrochemicals markets compounded by high maintenance costs. Quarterly earnings halved to $3.5bn, way short of the market's estimate of $4.9bn.

Profit fell by 25% in the integrated gas division. Refining units were no better, reporting a drop in margins. Nor where chemicals and production. On the positive side, cash flow increased to $14.7bn from $9.5bn in the same period of 2018. Royal Dutch seems on track to achieve its target to generate yearly free cash flow of $28bn by 2020.

An attractive dividend of 47 cents per share is on offer, representing a yield of 6%. Royal Dutch Shell also announced the launch of a fifth instalment of its scheme to buy back $25bn in stock by 2020. The group plans to repurchase $2.75bn by the end of October.

Opinion: Results were poor but linked to temporary factors. The share, which is worth holding on account of its dividend, has been oversold.

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