

## The Art of the (Trade) Deal

### IN REVIEW

- The **U.S. PCE deflator** rose 0.3% M/M in December. Headline was up 1.6% Y/Y while the core PCE held steady at 1.6% Y/Y. Inflation is set to remain below 2% in the near term.
- The **ISM manufacturing index** beat expectations, rising from 47.2 to 50.9 in January. New orders and employment improved. Meanwhile, the **ISM nonmanufacturing index** rose from 54.9 to 55.5.
- The **U.S. trade deficit** widened from \$43.7 billion in November to \$48.9 billion in December, as imports and exports rose 0.8% M/M and 2.7% M/M, respectively.
- The **U.S. employment cost index** rose 0.7% in 4Q19, as expected. The ECI for private industry wages and salaries rose 3% Y/Y for the fourth-consecutive quarter, signaling wage pressure is not yet intensifying.
- **EZ GDP** rose 0.1% Q/Q in Q4, according to the advanced estimate—below expectations. Italy and France GDP unexpectedly contracted, while Spain notched gains. There is upside for Germany’s reading next week.
- Preliminary **EZ CPI** rose 1.4% Y/Y in January, aided by positive base effects from oil. Core CPI slowed from 1.3% Y/Y to 1.1% Y/Y.
- **EZ retail sales** slid 1.6% M/M in December, though seasonality issues could be weighing on the print.
- **South Korea** exports slid 6.1% Y/Y in January—the 14<sup>th</sup>-consecutive decline—while imports fell 5.3%.
- The **Caixin manufacturing PMI** slid from 51.5 to 51.1 in January, but remains in expansionary territory.

### WATCH LIST

Date		Consensus		Previous
<b>U.S.</b>				
Tue 2/11	NFIB Small Business Optimism			102.7
Tue 2/11	JOLTS Job Openings			6800
Wed 2/12	Meet the Markets - Trend Macro			
Thu 2/13	Consumer Price Index	0.2% M/M	–	0.2% M/M
Fri 2/14	Import Prices	-0.2% M/M	▼	0.3% M/M
Fri 2/14	Retail Sales	0.3% M/M	–	0.3% M/M
Fri 2/14	Industrial Production	-0.3% M/M	–	-0.3% M/M
Fri 2/14	U Mich. Sentiment (Prelim)	99.0	▼	99.8
<b>Europe</b>				
Tue 2/11	U.K. GDP (Prelim)	-0.1% Q/Q	▼	0.4% Q/Q
Tue 2/11	U.K. Industrial Production	0.2% M/M	▲	-1.2% M/M
Wed 2/12	EZ Industrial Production	-0.3% M/M	▼	0.2% M/M
Fri 2/14	German GDP (Prelim)	0.1% Q/Q	–	0.1% Q/Q
<b>Asia Pacific</b>				
Mon 2/10	China PPI	0.0% Y/Y	▲	-0.5% Y/Y
Mon 2/10	China CPI	4.9% Y/Y	▲	4.5% Y/Y
Thu 2/13	Japan Producer Price Index	1.5% Y/Y	▲	0.9% Y/Y
Fri 2/14	China Reduce Tariffs on U.S. Goods	--		--

Arrows indicate consensus forecast compared to the previous period.

### U.S.

- **U.S. inflation** is expected to remain subdued in January. Weak import prices—which do not include tariffs—should continue to keep a lid on the CPI. Low inflation should keep the FOMC from raising rates this year as they maintain an easing bias.
- The **JOLTs report** is worth monitoring, as job openings slid more than expected in November, and we look to see if weakness persists, or if they tick higher to be more in line with other positive labor market data.

### Europe

- **German preliminary Q4 GDP** is expected to contribute modestly to EZ GDP growth. While sentiment data in Germany points to growth in the fourth quarter, hard data, such as PMIs, suggest manufacturing was a drag on growth.
- **U.K. GDP** will likely remain weak in the 4Q19, as uncertainties surrounding the election suppressed economic activity. However, GDP should recover in 2020 as activity bounces back following the election and is aided by fiscal stimulus in April.

### Asia Pacific

- **Inflation in China** is likely to remain subdued. Impacts from the outbreak of the coronavirus has already led to fiscal stimulus and increased liquidity. The PBOC will likely be even more accommodative, and odds are rising for a cut in both the Loan Prime Rate and Reserve Requirement Ratios, as they try to cushion the economy.

## THE HIGHLIGHTS

### Coronavirus Update

**Shipping and transportation** have plunged amid fears that virus-related costs surpass the \$40 billion hit from SARS. Chinese tourists spend \$79 billion on hotels, luxury shops and attractions; that and more could be lost as global airlines cancel flights. China National Offshore Oil Corp. also declared force majeure on shipping contracts, as the virus constrains its ability to import fuel. Main suppliers affected are Shell and Total SA.

**Government aid** will be implemented as China “suitably extends the grace period” for firms that are challenged to meet new asset management rules by the end-2020 deadline. Insurers with ample solvency will be allowed to “appropriately raise their investment” in equities from the current limit of 30% of assets. The PBoC injected 1.7 trillion yuan through open market operations. Odds they lower the loan prime rate and cut the reserve requirement ratios are increasing. Further fiscal stimulus is also at play, particularly for industries affected by the outbreak, as well as the possibility of lowering the growth target.

**The energy sector** is reeling. Demand for crude products fell 20% in China, due to quarantines and factory production halts. British Petroleum declared a 26% drop in Q4 profits, and the outbreak could cut global demand growth by 40% this year.

### Productivity

U.S. productivity growth rebounded in 4Q19, rising 1.4% at an annualized rate, following a 0.2% decline in Q3. Productivity growth averaged 1.7% in 2019—the best performance since 2010 but still below the 2.1% long-run average. Unit labor costs increased 1.4% annualized in Q4, and 2% in 2019. Weak trend productivity growth and rising unit labor costs weigh on corporate profits and business investment.

### Policy

As per the **Phase One trade deal**, China will likely reduce duties on \$75 billion of U.S. imports by February 14. Tariffs on American crude oil will likely be lowered to 2.5% from 5%. Punitive tariffs on soybeans will fall to 27.5% from 30%, and to 30% from 35% for pork, beef, and chicken.

A **U.S.-India Trade Deal** could loom as President Trump prepares to visit the country later this month. The expected deal is worth \$10 billion and aims to mirror the USMCA. The U.S.

wants India to lift price caps on heart stents and knee implants and address U.S. intellectual property concerns. The U.S. also seeks greater access for its agricultural and dairy products on the Indian market. India wants a break on high duties on certain steel and aluminum products, as well as lowering tariffs of certain products under the American Generalized System of Preferences program, which allowed for zero tariffs on \$5.6 billion of American imports from India.

President Trump is threatening an executive order to trigger the U.S. exit from the World Trade Organization’s **Government Procurement Act (GPA)**, agreement if the pact isn’t reformed in line with American views. The act is worth \$1.7 trillion in government contracts and aimed to open government procurement markets to foreign competition. It was intended to make public purchasing more transparent though may become obsolete as the U.S. contemplates withdrawing. A U.S. withdrawal from the GPA mean its members, including the U.K., Japan, South Korea, Canada, and the EU, would lose preferential access to U.S. public procurement tenders. Current members would be subject to the Buy American Act, which bars most foreign access to the U.S. government contracts without a specific waiver.

A week after **Brexit** and the U.K. and the European Union begin an 11-month negotiation, with finance one of the leading discussion items. Officials in Europe want to amend the financial rulebook known as MiFID II by walking away from concessions they made to the U.K. Policies governing research spending, record keeping and trading in stocks, derivatives and commodities are likely to be revised and could make Brexit tougher to negotiate for international banks. Changes would also be designed to bolster the Deutsche Boerse AG against the London Stock Exchange Group Plc in futures and other listed derivatives. There are benefits, too. Certain changes could cut costs, and bankers might be freed from having to record calls with clients. Money managers might benefit from more transparency in fixed-income and equity trading in Europe.

**The U.S. Commerce Department** will amend countervailing duty regulations to address currency undervaluation. Revisions will take effect within 60 days and apply to new investigations beginning April 5. The rule likely clears the U.S. to apply punitive tariffs on goods from countries accused of having undervalued currencies. Currently, Commerce maintains 516 antidumping and countervailing duty orders, which has increased 168% since the previous administration.

7 February 2020 | The Week Ahead

## KEY FINANCIAL INDICATORS

Rates	Yield	1 W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
Fed Funds	1.75%	0 bps	0 bps	0 bps	-50 bps	-75 bps	0 bps
3 Month USD Libor	1.74%	-4 bps	-13 bps	-15 bps	-47 bps	-100 bps	-17 bps
3 Month Euribor	-0.40%	0 bps	-2 bps	0 bps	-2 bps	-9 bps	-2 bps
3 Month U.S. T-Bill	1.56%	0 bps	4 bps	1 bps	-45 bps	-85 bps	1 bps
2-Year U.S. Treasury	1.45%	2 bps	-7 bps	-18 bps	-13 bps	-108 bps	-13 bps
10-Year U.S. Treasury	1.65%	5 bps	-14 bps	-22 bps	-9 bps	-105 bps	-27 bps
10-Year German Bund	-0.37%	1 bps	-9 bps	-5 bps	17 bps	-54 bps	-18 bps
10-Year U.K. Gilt	0.63%	8 bps	-12 bps	-12 bps	1 bps	-65 bps	-19 bps
10-Year JGB	-0.04%	0 bps	-2 bps	11 bps	15 bps	-2 bps	-2 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	1.61%	N/A	-0.4%	0.9%	1.8%	8.4%	1.7%
Barclays Capital U.S. TIPS	1.76%	N/A	-0.4%	0.3%	2.0%	8.7%	1.2%
Barclays Capital U.S. Aggregate	2.12%	41	-0.3%	0.9%	2.1%	9.3%	1.4%
Barclays Capital Global Aggregate	1.31%	38	-0.3%	0.1%	1.1%	6.2%	0.4%
Barclays Capital U.S. ABS	1.77%	29	0.0%	0.6%	1.2%	4.9%	0.8%
Barclays Capital U.S. MBS	2.33%	43	0.0%	0.5%	1.3%	6.5%	0.6%
Barclays Capital U.S. Corporate Investment Grade	2.66%	97	-0.4%	1.1%	3.4%	13.8%	1.8%
BAML Euro Corporate Investment Grade	0.37%	92	0.0%	0.6%	0.7%	5.9%	0.9%
Barclays Capital U.S. Corporate High Yield	5.32%	360	0.3%	0.3%	2.5%	9.3%	0.5%
BAML European Currency High Yield Non-Financial	2.99%	341	0.2%	0.2%	2.2%	8.4%	0.4%
CS U.S. Leveraged Loans	5.98%	452	-0.1%	0.4%	2.6%	6.1%	0.5%
CS Western European Leveraged Loans Non-USD	4.42%	403	0.0%	0.6%	1.5%	4.2%	0.6%
JPM CEMBI Broad Diversified	4.70%	311	0.1%	1.3%	3.0%	11.6%	1.6%
JPM EMBI Global Diversified	4.78%	301	0.3%	1.3%	3.3%	11.3%	1.6%
JPM GBI-EM Global Diversified	4.97%	N/A	0.2%	-0.2%	1.8%	7.4%	-0.4%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	3,334.69	1.71%	1.9%	3.2%	9.0%	24.2%	3.3%
Euro STOXX 600 (Local)	423.62	3.66%	1.0%	1.3%	4.8%	16.1%	1.9%
U.K. FTSE 100 (Local)	7,482.48	4.38%	0.0%	-1.8%	1.3%	4.3%	-0.8%
Japan Nikkei 225 (Local)	23,319.56	1.93%	-0.3%	-1.4%	0.3%	11.9%	-1.4%
China Shanghai Composite (Local)	2,818.09	2.40%	-5.3%	-8.6%	-5.8%	7.6%	-7.6%
MSCI AC World (Local)	573.46	2.34%	1.2%	1.8%	6.4%	19.4%	2.3%
MSCI Emerging Markets (Local)	1,089.40	2.68%	-0.5%	-2.2%	2.7%	8.8%	-1.1%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	386.28	-3.1%	-12.9%	-8.4%	-3.9%	-5.8%	-11.4%
WTI Crude (\$/bbl)	50.85	-4.6%	-19.3%	-10.9%	-6.9%	-5.3%	-16.8%
Copper (\$/lb)	2.58	1.0%	-7.8%	-4.3%	1.7%	-8.4%	-7.7%
Gold (\$/oz)	1,553.30	-1.3%	0.3%	4.3%	6.0%	18.2%	2.5%
U.S. Dollar Index	98.30	0.3%	1.5%	0.3%	0.8%	2.3%	2.0%
Euro (USD/EUR)	1.10	0.0%	-1.5%	-0.7%	-1.6%	-3.6%	-2.0%
British Pound (USD/GBP)	1.30	-0.1%	-0.7%	0.9%	6.9%	0.3%	-2.0%
Japanese Yen (Yen/USD)	109.76	0.5%	1.6%	0.6%	3.5%	-0.1%	1.0%
Chinese Yuan (CNY/USD)	7.00	1.0%	0.4%	0.0%	-0.5%	3.9%	0.5%

Source: FactSet and Bloomberg. As of February 5, 2020.

7 February 2020 | *The Week Ahead*

*Barings is a \$338+ billion\* global financial services firm dedicated to meeting the evolving investment and capital needs of our clients and customers. Through active asset management and direct origination, we provide innovative solutions and access to differentiated opportunities across public and private capital markets. A subsidiary of MassMutual, Barings maintains a strong global presence with business and investment professionals located across North America, Europe and Asia Pacific.*

#### IMPORTANT INFORMATION

Any forecasts in this document are based upon Barings opinion of the market at the date of preparation and are subject to change without notice, dependent upon many factors. Any prediction, projection or forecast is not necessarily indicative of the future or likely performance. Investment involves risk. The value of any investments and any income generated may go down as well as up and is not guaranteed by Barings or any other person. **PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.** Any investment results, portfolio compositions and or examples set forth in this document are provided for illustrative purposes only and are not indicative of any future investment results, future portfolio composition or investments. The composition, size of, and risks associated with an investment may differ substantially from any examples set forth in this document. No representation is made that an investment will be profitable or will not incur losses. Where appropriate, changes in the currency exchange rates may affect the value of investments. Prospective investors should read the offering documents, if applicable, for the details and specific risk factors of any Fund/Strategy discussed in this document.

Barings is the brand name for the worldwide asset management and associated businesses of Barings LLC and its global affiliates. Barings Securities LLC, Barings (U.K.) Limited, Barings Global Advisers Limited, Barings Australia Pty Ltd, Barings Japan Limited, Baring Asset Management Limited, Baring International Investment Limited, Baring Fund Managers Limited, Baring International Fund Managers (Ireland) Limited, Baring Asset Management (Asia) Limited, Baring SICE (Taiwan) Limited, Baring Asset Management Switzerland Sarl, and Baring Asset Management Korea Limited each are affiliated financial service companies owned by Barings LLC (each, individually, an "Affiliate").

**NO OFFER:** The document is for informational purposes only and is not an offer or solicitation for the purchase or sale of any financial instrument or service in any jurisdiction. The material herein was prepared without any consideration of the investment objectives, financial situation or particular needs of anyone who may receive it. This document is not, and must not be treated as, investment advice, an investment recommendation, investment research, or a recommendation about the suitability or appropriateness of any security, commodity, investment, or particular investment strategy, and must not be construed as a projection or prediction.

Unless otherwise mentioned, the views contained in this document are those of Barings. These views are made in good faith in relation to the facts known at the time of preparation and are subject to change without notice. Individual portfolio management teams may hold different views than the views expressed herein and may make different investment decisions for different clients. Parts of this document may be based on information received from sources we believe to be reliable. Although every effort is taken to ensure that the information contained in this document is accurate, Barings makes no representation or warranty, express or implied, regarding the accuracy, completeness or adequacy of the information.

Any service, security, investment or product outlined in this document may not be suitable for a prospective investor or available in their jurisdiction.

#### Copyright and Trademark

Copyright © 2020 Barings. Information in this document may be used for your own personal use, but may not be altered, reproduced or distributed without Barings' consent.

The BARINGS name and logo design are trademarks of Barings and are registered in U.S. Patent and Trademark Office and in other countries around the world. All rights are reserved.

\*As of December 31, 2019  
20-1082687