

MORNING REPORT

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Top News

Trump Trade Deal Raises Issue of Trusting China to Deliver

With the signing Wednesday of a "phase one" deal that includes Chinese commitments to respect American intellectual property, not manipulate its currency, and a U.S. expectation for \$200 billion in new purchases that should help reduce a yawning trade deficit and repair some of the damage suffered by farmers, Trump will deliver at least a partial agreement many skeptics doubted was ever possible.

But even that political victory leaves Trump confronting the same China conundrum that has plagued his predecessors. The broad and bipartisan agreement in Washington is that American presidents have for decades been hoodwinked by a China that has often failed to deliver on its promises.

"We think it was a good negotiation, we think it will make a real difference," U.S. Trade Representative Robert Lighthizer told reporters on Dec. 13. "A skeptic would say 'we'll see' and that's probably a wise position to take. But our expectation is that they keep their obligations and in any event, they're enforceable."

Also, it's not the end of the story, the White House says. Coming soon, though even Trump acknowledges probably not before the November U.S. presidential election, is a second deal that will address long-standing American complaints not covered in the initial 86-page document. Among those: the state subsidies -- from discounted loans to cheap electricity -- that have nurtured a growing club of Chinese multinationals.

Some inside and close to the White House have their own doubts that second installment will ever materialize. Yet the more immediate question is whether China will even live up to the promises in the first phase. And if not, the question becomes whether Trump will have the political courage to take action ahead of the election, even if it risks roiling the markets on which he is hanging his economic credentials.

"There is a real enforcement provision," U.S. Treasury Secretary Steven Mnuchin said Sunday on Fox News. "And if they don't comply with the agreement, the president retains the authority to put on tariffs, both existing tariffs and additional tariffs."

Wendy Cutler, a veteran trade negotiator now at the Asia Society Policy Institute, says that by not deferring to independent panels or arbitrators, the dispute mechanism leaves the question of violations -- and how to respond -- in the eye of the beholder. That means politics and competing economic pressures and interests are likely to intrude, as they have before. It also means that the only arbiter of whether the Chinese are keeping their end of the bargain will be the Trump administration, which may be loath to admit they are not.

NZX Index				
Index	Last		Change	
S&P/NZX All Index	12,508.89	14.18	↑	0.11%
S&P/NZX 50 Index	11,551.70	14.02	↑	0.12%
S&P/NZX MidCap Index	33,003.57	30.51	↑	0.09%
S&P/NZX SmallCap Index	66,665.56	113.98	↑	0.17%

ASX Index				
Index	Last		Change	
ASX All Ordinaries	7,041.90	50.50	▲	0.72%
S&P/ASX 200	6,929.00	54.80	▲	0.80%
ASX Small Ordinaries	2,991.10	9.90	▲	0.33%
S&P/ASX MIDCAP 50	7,460.40	37.10	▲	0.50%
S&P/ASX 20	3,807.90	35.70	▲	0.95%

Foreign Markets Index				
	Last		Change	
S&P 500	3,265.35	9.35	▼	0.29%
Dow Jones Industrial Average	28,823.77	133.13	▼	0.46%
NASDAQ Composite	9,178.86	24.57	▼	0.27%
DAX PERFORMANCE-INDEX	13,483.31	11.79	▼	0.09%
ASX All Ordinaries	7,041.90	50.50	▲	0.72%
NIKKEI 225	23,850.57	110.67	▲	0.47%
HANG SENG INDEX	28,638.20	77.20	▲	0.27%

Currencies (per NZ\$ 1.00)				
	Last		Change	
AUD	0.9619	0.0005	▲	0.05%
USD	0.66	0.0000	▲	0.00%
CNY	4.5910	0.0000	▲	0.00%
EUR	0.60	-0.0002	▼	0.03%
CAD	0.8657	-0.0006	▼	0.07%
GBP	0.51	0.0010	▲	0.20%
JPY	72.6050	-0.0300	▼	0.04%

NZ Interest Rates		
	Last	Change
NZ OCR	1.00	
3m Bank Bill	1.24	
5y Swap	1.31	
10y Swap	1.64	

Commodities Futures (Spot Price \$USD)				
	Last		Change	
Gold	1,563.20	8.90	▲	0.57%
Silver	18.13	0.19	▲	1.08%
Crude Oil	59.12	0.44	▼	0.74%

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