



US-China Trade Talks and Other Risks to Global Growth

April 2019

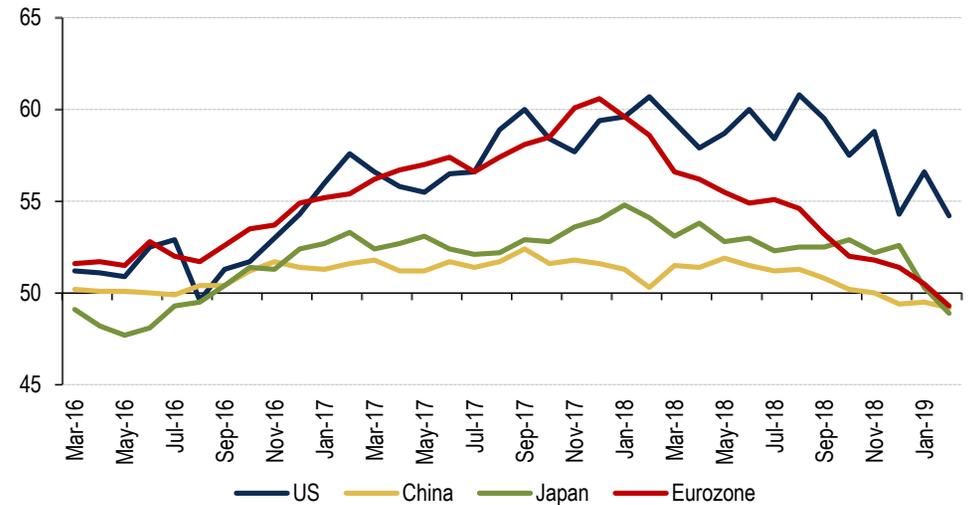
2019 Global slowdown

BofAML growth projections

	GDP growth			Inflation		
	2018	2019	2020	2018	2019	2020
Global	3.8	3.4	3.6	3.2	3.1	3.1
Developed markets	2.2	1.6	1.6	2.0	1.4	1.7
US	2.9	2.2	1.8	2.4	1.7	2.1
Euro Area	1.9	1.1	1.5	1.8	1.2	1.2
Japan	0.7	0.6	0.6	1.0	0.3	0.7
Emerging markets	4.8	4.6	4.9	4.1	4.2	4.1
China	6.6	6.1	6.2	2.1	1.6	2.2
Brazil	1.5	3.0	3.0	3.7	3.6	4.1
India	7.6	7.4	7.6	3.5	4.7	5.0

Source: BofA Merrill Lynch Global Research (as of 1 March 2019)

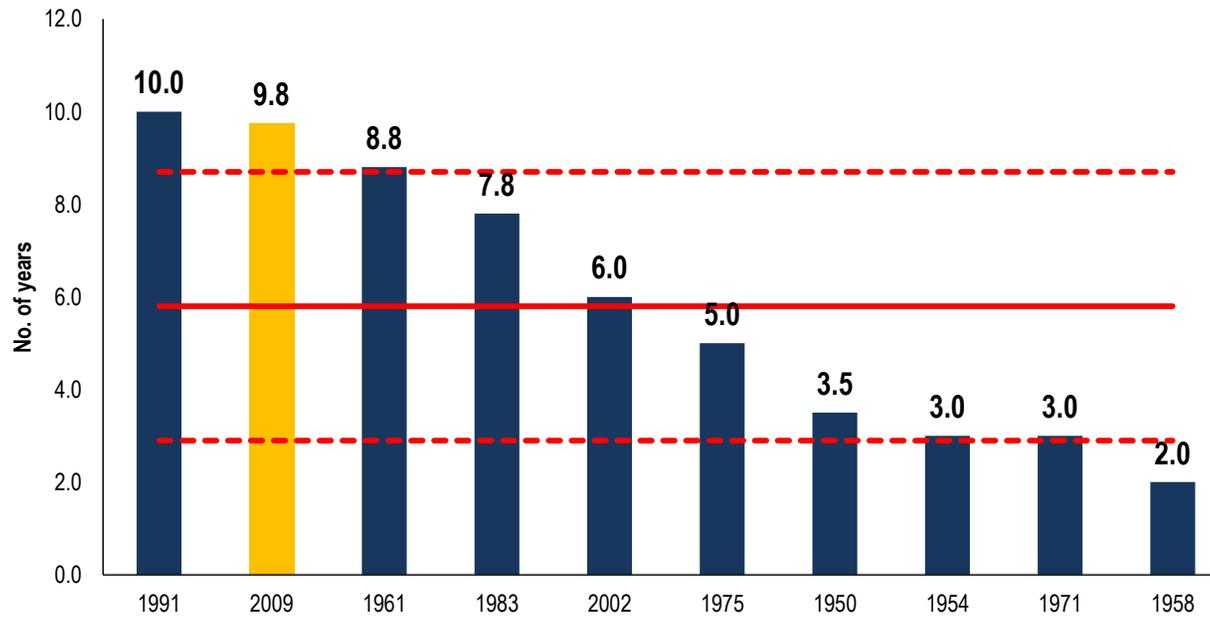
PMI of major economies



Source: Bloomberg

Current cycle nearly 10 years old

US recovery cycles



Source: Wall Street Journal

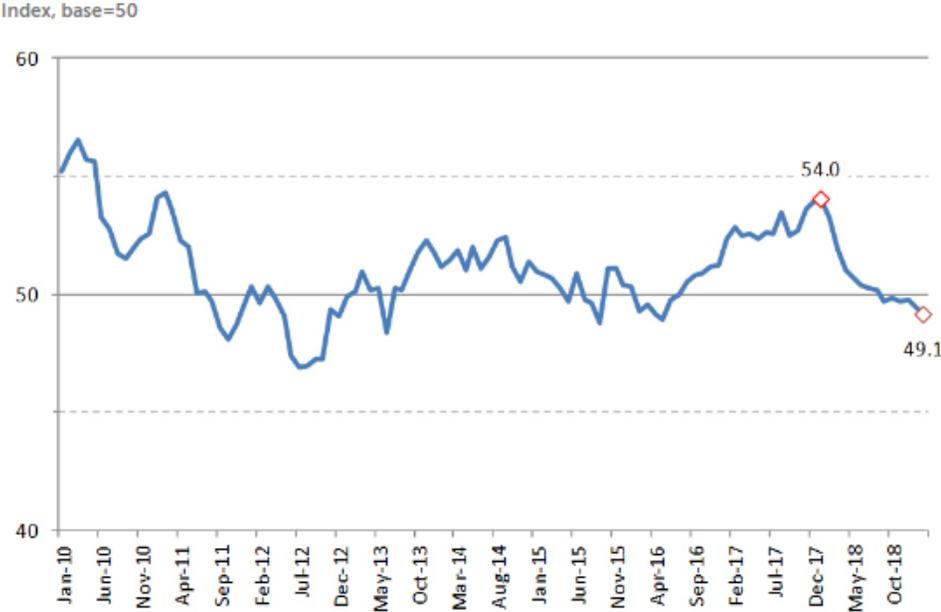
2019 baseline: Cautious optimism

- US-China: trade deal (then trade-cold war)
- China GDP bottoms in 2Q19 then revives
- No hard Brexit; no US-EU auto tariffs
- US Fed hikes 25bps in 2019

Soft-landing in China, US above-trend growth, EU near-trend growth

But global risks are harming confidence and global trade

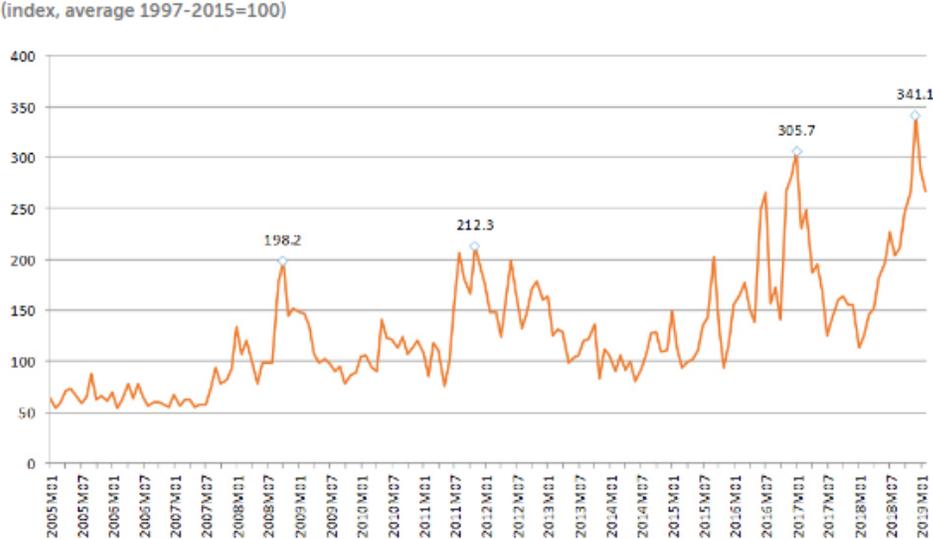
Chart 7: Global PMI new export orders index, Jan. 2010 – Feb. 2019



Note: Values greater than 50 indicate expansion while values less than 50 denote contraction.

Source: IHS Markit.

Chart 8: Global economic policy uncertainty, Jan. 2005 – Feb. 2019



Source: PolicyUncertainty.com.

US vs China 2001-2028

US population 320mn, China population 1.4bn

	2000	2010	2015	2017	2028 (e)
US GDP (nom, \$tn)	10.3	15.0	18.1	19.4	24.1
China GDP (nom, \$tn)	1.2	6.1	11.2	12.0	24.0
US GDP (% of World)	30.4	22.7	24.3	24.3	NA
China GDP (% of World)	3.6	9.2	15.1	15.0	NA
US Exports (\$bn)	828	1,029	1,448	1,501	NA
US Imports (\$bn)	1,238	1,604	2,242	2,343	NA
China Exports (\$bn)	403	1,417	2,306	2,401	NA
China Imports (\$bn)	225	1,004	1,602	1,832	NA

Source: Bloomberg, Statisticstimes.com

US-China “Trade” Talks (Ceasefire)

- ✓ Buy more US farm products
- ✓ Buy more US energy, goods
- ✓ Allow 100% US ownership
- ✓ End forced technology transfers
- X End support for SOE champions
- X US wants “enforcement mechanism”
- X Trump likes to keep tariffs

Where is the quid pro quo?

Global downside risks are correlated

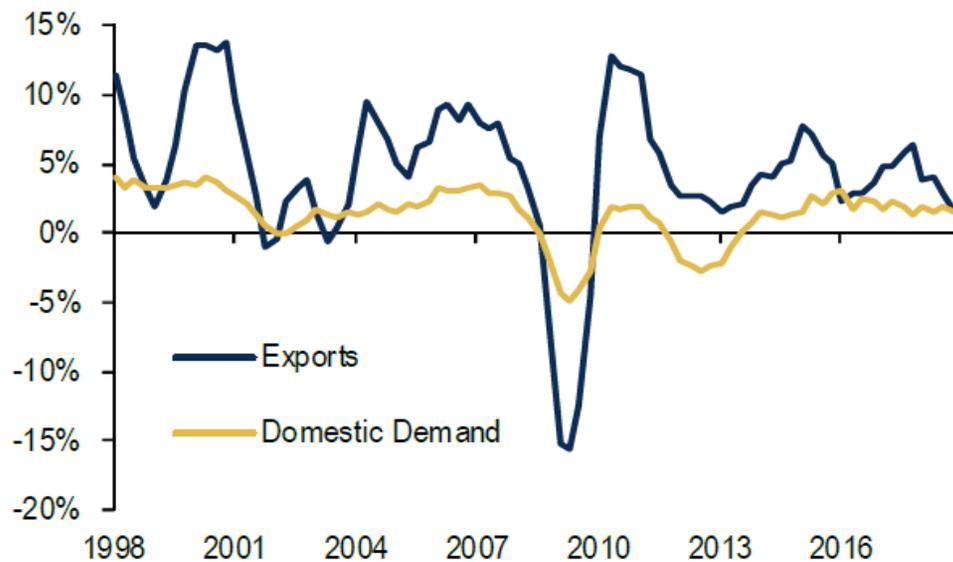
- US-China trade deal delay
- Europe is dependent on external demand
- China hard landing → Euro Area growth zero
- If China rebound delayed to 2019, Euro area growth falls from 1.1% to 0.7%
- US-EU auto tariffs

Uncertainties and threat to global supply chain are discouraging private investment

Europe: Signals of downturn

- Manufacturing PMIs <45 (Feb 47.6)
- Lack of employment growth
- Exports to China falls double-digit for a few months
- Hard Brexit would cut at least 0.7ppt off 2019 Euro Area GDP

Chart 2: External and domestic demand growth in the Euro area (yoy%)



Euro Area is dependent on external demand

Trigger for global recession: China

Table 1: We are still not close to a “hard landing” in China

Indicator	Current level	“Hard landing” threshold
BofAML China ACT indicator (%yoy)	5.2%	<3%
IP (%yoy)	5.3%	<4%
PPI inflation (%yoy)	0.1%	<-5%
Exports (%yoy)	-4.6%	<-15%
Imports (%yoy)	-3.2%	<-10%
PMI	49.2	<45
Surveyed unemployment rate	5.0%	>6%

Note: For imports and exports, we have averaged the data for January and February in order to smooth through distortions related to the Lunar New Year.

Source: BofA Merrill Lynch Global Research

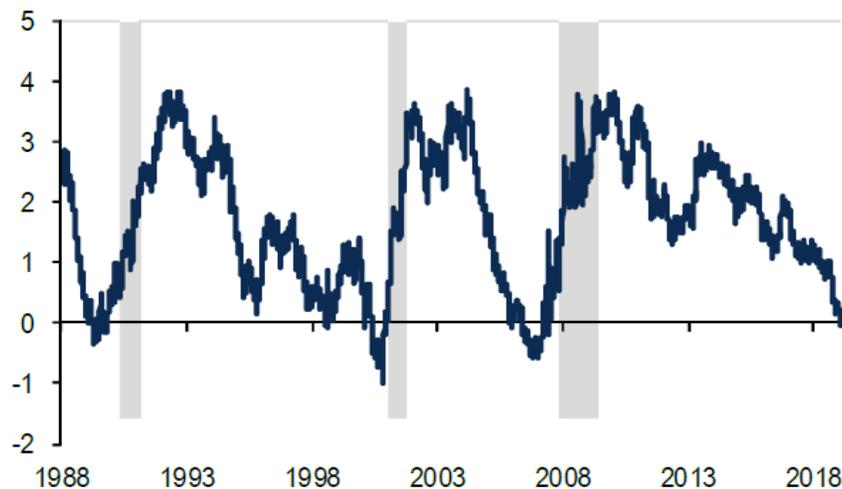
- If things go wrong, we could see global recession likely originating from China
- Key indicators: FAI, retail sales, electricity use, tax revenue

What gets the Fed to cut?

- Fight recession (1989, 2000, 2007)
- Counter market stress (1988 LTCM collapse and Russian default)
- Boost inflation in 1995 after hikes from 3% to 6%

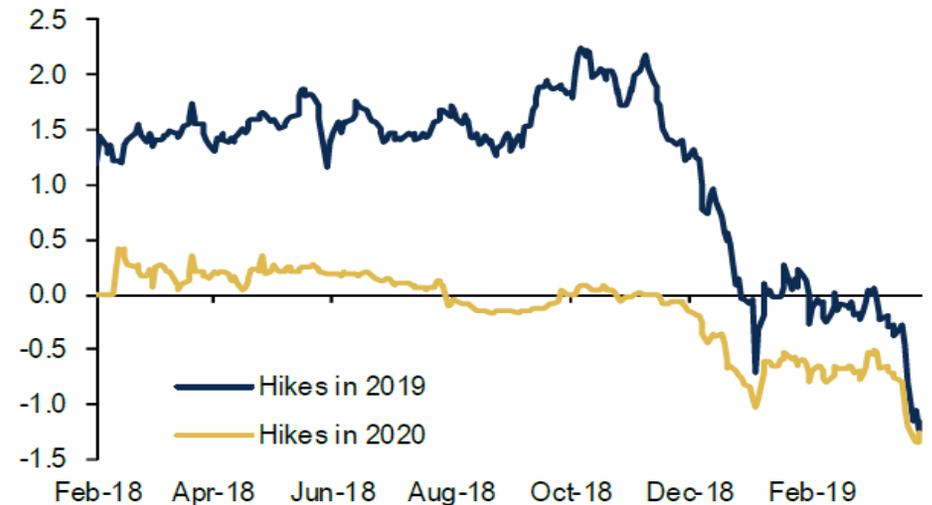
Markets pricing in 1995 but Fed is today low on policy space

Chart 3: Treasury rate spread (3-mo/10-year)



Source: Federal Reserve Board, BofA Merrill Lynch Global Research

Chart 5: Markets currently expect the Fed to cut rates in 2019 and 2020



Source: Bloomberg, BofA Merrill Lynch Global Research

Signposts of US recession

- Initial jobless claims rise, NFPR at “breakeven”
- Weak business surveys and industrial production
- Weakness in consumer spending

Table 3: Economic conditions that could prompt a rate cut

Indicators	Current	Threshold for cuts
Initial jobless claims (thousands, 4-week moving average)	217	>280
NFP (thousands, 3-month moving average)	186	<100
Unemployment rate (%)	3.8	>4.3
ISM manufacturing (index)	54.2	<50
ISM nonmanufacturing (index)	59.7	<53
Industrial production (y oy, %)	3.6	<1

Source: BofA Merrill Lynch Global Research

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