

## TRUMP RENEWS FEARS OF GLOBAL TRADE WAR

This week we have been rocked by two irrepressible forces of nature – the “Beast from the East” weather front and Donald Trump’s Twitter feed. While freezing weather has caused chaos across the UK, the suggestion that the US might impose heavy tariffs on steel and aluminium imports has the potential to do the same to global trade. While there has been a lot of noise surrounding the Trump presidency, he has largely followed the Republican playbook. If the trade war materialises however, this could cause a major shock to the global economy.

Elsewhere markets were spooked by Jerome Powell, the new Fed Chair, who gave his first speech since taking over. While he’s widely seen as a safe pair of hands, hints that he might hike rates faster than his predecessor caused some turmoil. We have often been dismissive of the fevered interest rate speculation that often gripped the press in the past but this time the attention is justified. The reversal of ultra-loose policy will be the deciding factor in market behaviour for the next decade.

### THE MARKETS THIS WEEK

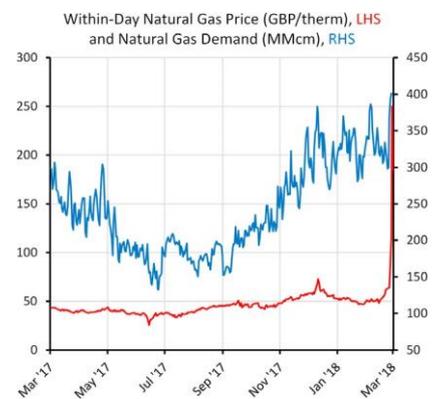
| FTSE 100 | S&P 500 | Nikkei 225 | Euro Stoxx 50 | Hang Seng | US 10 Yr | UK 10 Yr | Brent Crude | Gold   | Wheat   | GBP USD |
|----------|---------|------------|---------------|-----------|----------|----------|-------------|--------|---------|---------|
| -1.53%   | -0.97%  | -3.25%     | -2.47%        | -2.19%    | -0.06%   | -0.08%   | -5.26%      | -0.86% | +11.89% | -1.38%  |



#### UK: FREEZING WEATHER CAUSES GAS PRICES TO SOAR

This week freezing weather caused wholesale gas prices to soar. Most of the country has been suffering from freezing temperatures and snowfall which caused the demand for gas to reach its highest level for five years on Wednesday. As a result, prices for same-day delivery soared by 130 percent on Thursday to their highest level in a decade. The price for within-day gas almost doubled its previous record in 2013. The price of day-ahead gas has risen 165 percent since the middle of February, rising 8 percent on Thursday alone.

In response to the freezing weather, the National Grid issued its first deficit warning for eight years and offered to pay industrial users to reduce consumption. This led to fears of shortages as Storm Emma started to bite for the South West. However, shortages eased on Thursday night and the National Grid retracted its warning early on Friday morning. Nevertheless, this has been the biggest test of the gas market since the closure last year of Rough, the UK’s biggest natural gas storage facility.



#### US: METAL TARIFFS HEIGHTEN FEARS OF TRADE WAR

Next week tariffs of 25 and 10 percent will be imposed on steel and aluminium imports respectively. According to Trump, the US has been suffering from “unfair trade” which has cost jobs. However, many economists expect the measures to cost more US jobs than they will create. He has also cited national security as another motivation for the measures which have heightened fears of a trade war with China. The country is the biggest exporter of steel but only accounts for two percent of US imports. Meanwhile Canada, Brazil and the EU have said they will look to take action in response.

Stock markets around the world suffered on the back of the announcement. Japan’s Nikkei Index dropped 2.5 percent following the announcement, Hong Kong and South Korea were down 1.6 percent and Australia’s ASX200 was down 1 percent. Asian and Canadian steelmakers were hit particularly hard. South Korea’s POSCO fell more than three percent while Canada’s Stelco fell 5 percent. Boeing and General Motors suffered particularly heavy losses while US steel producer Nucor saw gains.



#### CHINA: XI SCRAPS CHECK ON POWER TO PURSUE REFORMS

The Communist Party of China’s Central Committee has recommended scrapping the two-term limit for both the President and Vice President. This could give incumbent President Xi Jinping the power to lead the country beyond 2023 and push through his market-oriented economic and financial reforms. The term limit was written into law by Deng Xiaoping in the 1970s to prevent a return to the excesses of Mao Zedong’s rule. The move to end these limits has been so unpopular with China that the party’s censors have blocked the phrase “I disagree” on social media.

Several high-profile party appointments are expected to be made at the annual National People’s Congress which begins next week. Wang Qishan is expected to be named Vice President despite being too old to accept a new five-year term according to party traditions. Liu He is expected to be made responsible for overseeing the People’s Bank of China as well as the country’s other financial regulatory bodies. However, the appointments won’t be officially confirmed until mid-March when the NPC comes to an end.

