

Wentz Weekly

October 14, 2019

Is the U.S. Closer to a Trade Agreement with China?



Investment management for your lifetime

- The two days of trade negotiations that ended Friday between Chinese trade representatives, including Chinese Vice Premier Liu, and the U.S. resulted in a “handshake” agreement. President Trump communicated that the U.S. has what he called a substantial phase one deal with China that will have a formal signing with Chinese President Xi next month that includes issues such as intellectual property, agricultural purchases, and financial services. Trump has also said the two sides will begin phase two negotiations immediately. Treasury Mnuchin said soon after the tariff increase that was scheduled for Tuesday will now be suspended and there was also an agreement on foreign exchange transparency from China.
- The next steps would be finalizing the agreement over the next several weeks before a potential signing ceremony between Trump and Xi at the APEC Summit on November 14-15. It should also be noted that the next round of tariff increases, which includes more consumer goods related items, scheduled for December 15 was not mentioned.
- The week had started off with the U.S. adding 28 Chinese companies to a trade blacklist for engaging in activities contrary to the foreign policy interests of the U.S. The ban will prevent these 28 companies from purchasing American technology components without government approval. The companies are accused of supplying technology used to repress Muslim ethnic minorities in China.
- According to the BLS, Producer prices unexpectedly declined in September by 0.3% versus the expected 0.1% increase. Compared to a year ago the prices producers of goods and services pay rose just 1.4% and is a deceleration from the 1.8% year-over-year rate from the month of August. The core producer price index, which excludes food and energy prices, rose 1.7% compared to a year ago.
- The BLS also reported overall consumer prices were unchanged in the month of September as expected. The core index, which strips out the more volatile food and energy prices, rose 0.1%. Compared to a year ago consumer prices are up 1.7% while core prices are up 2.4% and matching August’s annual change. Prices of vehicles, apparel and communication are down over the last year while the two largest components in the index, shelter and medical costs, have been driving the index higher with a 3.5% and 4.4% y/y rate, respectively.
- Fed Chairman Powell said during his speech Tuesday that the Fed will announce plans soon to begin buying short term securities to add to the supply of reserves in the system in order to keep the appropriate level of reserves, which will expand the balance sheet again. Powell specifically stated the move was in response to technical factors in the short-term funding market and should not be considered a large scale asset purchase program like quantitative easing and this should not affect the stance of monetary policy.



Company News

- Delta reported third quarter results that were mixed with a 6.5% increase in revenue compared to a year ago. Profit guidance for the fourth quarter was slightly below expectations.
- Fastenal reported quarterly results that were better than analysts’ estimates with a 7.8% increase in revenues compared to a year ago.
- AT&T announced they will be selling the wireless and wireline operations in Puerto Rico and U.S. Virgin Islands for \$1.95 billion. This is another step forward to reduce the company’s debt load after the purchase of Time Warner. The total announced asset sales YTD total \$11 billion, compared to the company’s goal of \$20 billion.

The Week Ahead

- Expect a pick up in quarterly earnings reports this week as big banks will begin the quarterly earnings season Tuesday. 50 S&P500 companies are expected to report this week.
- On the economic calendar we will see retail sales reported Wednesday followed by Housing Starts and Industrial Production on Thursday.
- On Tuesday the International Monetary Fund will release its latest World Economic Outlook, where there is a good possibility there will be another downgrade to the global growth outlook.

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