

Wentz Weekly

December 16, 2019



U.S. Strikes a “Phase One” Trade Agreement with China

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- Last week ended with the U.S. and China announcing a “phase one” trade agreement in principal. The agreed upon deal will avert a new round of tariffs that were set to go in effect December 15th, which were meant to hit more consumer goods and be more impactful to the consumer. The deal will reduce existing tariffs as well, and will remove tariffs completely over time. China agrees to buy more agricultural products and is said to agree to import an additional \$200 billion of goods. China will commit to taking incremental steps on intellectual property, market access and currency. The focus for the markets has been on tariffs which tells us if we are seeing a reduction in tariffs, China must be agreeing to some of the main issues the U.S. has had with China. President Trump has said negotiations on the second phase will begin immediately, with China saying phase two will depend on implementation of phase one.
- The results of the British election should ease some of the uncertainty, at least in the short term. The election resulted in Boris Johnson’s Conservative party gaining enough seats to have a 78 seat majority in the 650 seat Parliament. The majority will give Johnson an easier path to securing a Brexit deal by the January 31st deadline. If a deal does not happen, the UK will suddenly break away from the European Union and result in tariffs on trade, checks on borders and limits on immigration. Longer-term there remains uncertainty as the UK will still need to negotiate a longer term trade agreement with the EU.
- Consumer prices, measured by the Bureau of Labor Statistics in the Consumer Price Index, rose at a 0.3% rate in the month of November. Expectations were for a 0.2% monthly increase. Compared to a year ago prices are up 2.1%. Excluding food and energy, core prices rose 0.2% in the month, as expected, and are up 2.3% compared to a year ago which matches last month’s year-over-year increase. Shelter and medical costs continue to rise at the highest pace, while the cost of new vehicles and apparel declined in the month.
- Retail sales for November were reported short of forecasts perhaps suggesting the holiday shopping season got off to a slow start (possibly impacted by the late Thanksgiving which would push more sales into December), with sales rising just 0.2% in the month compared to the 0.5% gain expected. Core sales, which exclude vehicle and gasoline sales, rose 0.1% in the month compared to the 0.4% increase expected. E-commerce sales rose 0.8%, gasoline sales rose 0.7% from higher prices, and auto sales rose 0.5%, while sales fell at department stores, outlets, and restaurants. Source: U.S. Census Bureau
- The Federal Reserve’s most recent policy meeting concluded Wednesday and the decision on policy was no change in rates, with no members dissenting the decision. Assessment of the economy was the exact same as the previous policy statement. The Fed described the current stance of monetary policy as “appropriate”, due to global developments and muted inflation. The Fed signaled it will keep monetary policy on hold for the foreseeable future, with Powell saying the Fed needs to see sustained increase in inflation before raising rates again.



Company News

- Broadcom reported fourth quarter results that beat analysts’ estimates. The company also raised its forecast for the full year. Management said they believe the core semiconductor business is bottoming and will return to year-over-year growth in the second half of 2020.
- Saudi Arabia’s oil company Aramco rose 10% on its first day of trading on the market, which pushed its value to \$1.88 trillion, and surpassing Apple as the largest listed company in the world. Aramco sold just a 1.5% stake in the company.

The Week Ahead

- This week’s economic calendar will be much busier, with key reports released including Housing Starts, Existing Home Sales, the final revision on third quarter GDP, the monthly Personal Income & Outlays report, and mid-month manufacturing surveys. The earnings calendar has several notable companies reporting. FedEx, General Mills, Micron Technology and Nike will be releasing earnings throughout the week.

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