

US-China Trade Tensions: What is the impact?

EQUITY STRATEGY TEAM

01 JUN 2024

TRADING MATTERS SERIES:
NEWS FOCUS

*The summary and impact of
a major news event*

US-China Trade Tension

The ongoing trade tensions between the United States and China have once again taken centre stage, casting a shadow of uncertainty over the stock market.¹ This clash could potentially send shockwaves through booming sectors like semiconductors and solar panels.¹ President Joe Biden has implemented new tariffs on approximately US\$18 billion worth of annual imports from China.² Under the new tariffs, the rate on semiconductors is set to double from 25% to 50% by 2025, aimed at countering China's dominance in legacy chips.² Certain critical minerals will face a 25% tariff this year, while natural graphite, permanent magnets, and ship-to-shore cranes would be subject to the same rate in the coming years.² The tariff on electric vehicles will increase to a final rate of 102.5% from the current 27.5%.² Tariffs on steel, aluminium, and lithium-ion batteries for electric vehicles would also rise.² These trade tensions have the potential to impact the global supply chain and the growth of industries heavily reliant on imports and exports between the two economic powerhouses.

China's Trade Surplus

In Apr 2024, China's trade balance rebounded after contracting the previous month, indicating an encouraging improvement in demand.³ However, China's imports fell 7.9% compared to 2023. This suggests a downturn in domestic demand for various goods, despite government efforts to boost local consumption.³ On the other hand, China's exports grew by a larger-than-expected 8.5% in Apr 2024, signalling increased overseas demand for Chinese goods.³ This resulted in a trade surplus of US\$90.21 billion, exceeding expectations.³ However, the markets are cautious that the demand boost may be short-lived, especially considering worsening global economic conditions where forecasted growth is expected to slow down.³

What is the impact?

The Western world has been trying to reduce its dependency on supply chains. In the meantime, China is increasing its footprint across emerging markets exponentially.⁴ In the past five years, China's trade to the US has flatlined, while trade to the ASEAN has more than doubled. Today, China's trade into Southeast Asia is 120% of China's trade to the US, making Southeast Asia arguably more important for China than the US.⁴ The composition of China exports is changing as well. China exports are no longer focus on commodities like plastic toys and tennis shoes. It is now selling high value items such as electric vehicles, solar panels, telecom switches, etc.⁴ This shift in focus not only shows a diversification of risk and it indicates resilience in China's growth, because it is gaining a foothold in markets that are going to be the growth markets of the future.⁴

China's Trading Partners: Then & Now

Exports to	Year 2003	Year 2023
US	26.65% (Heavy reliance)	13.42%
Emerging and developing economies	13.41%	39.87% (Shift in focus)
Developing Asia	4.52%	15.08%

Source: Bloomberg, extracted on 24 May 2024

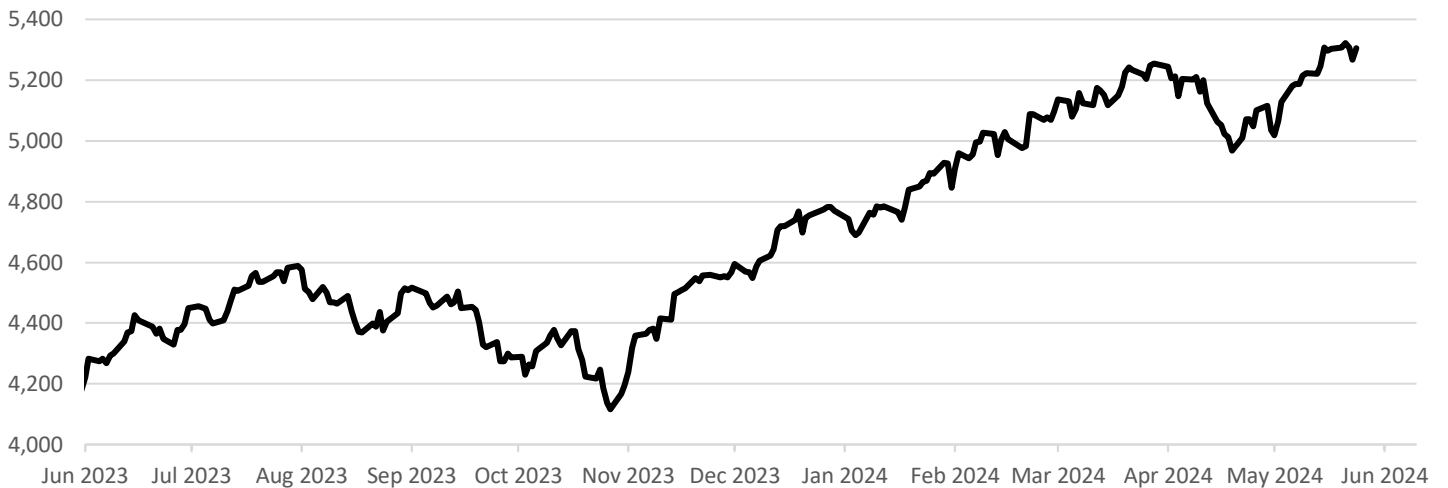
Prudently optimistic for China and Hong Kong

The initial bounce in the market was driven by low valuations, but a full recovery in earnings is necessary for the rally to continue.⁴ China's earnings are showing some improvement, but it may not be enough to sustain the recent stock market rally. The lesson learned from China's previous reopening trade during the COVID-19 pandemic is that it started well but only lasted for three months. Analysts raised forward earnings expectations by about 10% during that period, but earnings revisions turned negative in Feb 2023, and selling pressure took control Chinese stocks. Market expectations suggest that tensions between the US and China could impact stock markets, particularly due to China's increasing global competitiveness in the automotive industry and concerns over fair competition.⁴ China has provided substantial subsidies of over RMB 150 billion (US\$22 billion) in the past decade, and new restrictions will be phased in from 2024, including prohibitions on batteries sourced from a "foreign entity of concern," which alludes to China.⁵



United States

Below are the **index stocks** with **market cap of more than USD 5B**



Top 30 index stocks based on Earning Announcement Date

Ticker	Name	Market Cap	Price [USD]	Earning Announcement Date	Analysts' Consensus 12M Target Price [USD]	Potential returns from Analyst Consensus	Dividend Yield
HPE US	HEWLETT PACKARD ENTERPR	23.93B	18.41	04/06/2024	17.40	-5.49%	2.82%
BBWI US	BATH & BODY WORKS INC	10.80B	48.28	04/06/2024	52.74	9.23%	1.66%
LULU US	LULULEMON ATHLETICA INC	38.18B	303.01	05/06/2024	444.78	46.79%	N/A
BF/B US	BROWN-FORMAN CORP	21.64B	45.76	05/06/2024	57.94	26.63%	1.90%
CPB US	CAMPBELL SOUP CO	13.52B	45.34	05/06/2024	46.70	3.00%	3.26%
DLTR US	DOLLAR TREE INC	25.15B	115.37	05/06/2024	147.75	28.07%	N/A
SJM US	JM SMUCKER CO/THE	11.65B	109.77	06/06/2024	132.06	20.31%	3.86%
ADSK US	AUTODESK INC	45.97B	214.89	10/06/2024	281.79	31.13%	N/A
AVGO US	BROADCOM INC	652.42B	1407.84	12/06/2024	1521.25	8.06%	1.49%
ORCL US	ORACLE CORP	337.82B	122.91	12/06/2024	138.69	12.84%	1.30%
ADBE US	ADOBE INC	212.99B	475.43	13/06/2024	620.04	30.42%	N/A
KR US	KROGER CO	38.24B	52.99	14/06/2024	58.43	10.26%	2.19%
LEN US	LENNAR CORP-A	43.14B	156.38	14/06/2024	177.06	13.22%	1.28%
JBL US	JABIL INC	14.42B	119.60	14/06/2024	147.13	23.01%	0.27%
DRI US	DARDEN RESTAURANTS INC	17.62B	147.60	20/06/2024	177.43	20.21%	3.55%
ACN US	ACCENTURE PLC-CL A	202.00B	300.99	20/06/2024	376.92	25.23%	1.71%
KMX US	CARMAX INC	10.99B	69.88	21/06/2024	78.88	12.87%	N/A
FDS US	FACTSET RESEARCH SYSTEMS	16.62B	436.04	21/06/2024	460.41	5.59%	0.95%
FDX US	FEDEX CORP	60.93B	247.59	25/06/2024	308.81	24.73%	2.04%
CCL US	CARNIVAL CORP	18.95B	15.13	26/06/2024	21.48	41.95%	N/A
WBA US	WALGREENS BOOTS	13.83B	16.03	27/06/2024	22.82	42.38%	6.24%
GIS US	GENERAL MILLS INC	38.56B	68.30	28/06/2024	72.62	6.32%	3.46%
MU US	MICRON TECHNOLOGY INC	143.39B	129.49	28/06/2024	138.03	6.59%	0.36%
NKE US	NIKE INC -CL B	138.48B	91.75	28/06/2024	110.57	20.51%	1.61%
MKC US	MCCORMICK & CO-NON VTG	19.41B	72.21	28/06/2024	77.00	6.63%	2.33%
PAYX US	PAYCHEX INC	44.72B	124.23	28/06/2024	121.65	-2.08%	3.16%
STZ US	CONSTELLATION BRANDS INC	45.47B	248.51	01/07/2024	299.12	20.37%	1.63%
PEP US	PEPSICO INC	244.70B	177.99	11/07/2024	185.42	4.17%	3.05%
DAL US	DELTA AIR LINES INC	33.45B	51.84	12/07/2024	59.08	13.97%	0.77%
BK US	BANK OF NEW YORK MELLON	44.19B	59.09	12/07/2024	64.11	8.49%	2.84%



Hong Kong

Below are the **index stocks** with **market cap of more than USD 5B**



Top 30 index stocks based on Earning Announcement Date

Ticker	Name	Market Cap	Price [HKD]	Earning Announcement Date	Analysts' Consensus 12M Target Price [HKD]	Potential returns from Analyst Consensus	Dividend Yield
3690 HK	MEITUAN-CLASS B	713.28B	116.30	06/06/2024	135.17	16.23%	N/A
1929 HK	CHOW TAI FOOK JEWELLERY	102.07B	10.42	11/06/2024	14.28	37.09%	5.19%
1928 HK	SANDS CHINA LTD	152.96B	19.44	22/07/2024	28.08	44.42%	N/A
868 HK	XINYI GLASS HOLDINGS LTD	39.63B	9.47	31/07/2024	10.52	11.05%	6.72%
968 HK	XINYI SOLAR HOLDINGS LTD	46.06B	5.09	31/07/2024	6.61	29.77%	4.35%
2359 HK	WUXI APTEC CO LTD-H	127.79B	36.70	31/07/2024	56.99	55.27%	2.97%
5 HK	HSBC HOLDINGS PLC	1.30T	68.50	31/07/2024	76.99	12.39%	6.90%
101 HK	HANG LUNG PROPERTIES LTD	33.43B	7.64	31/07/2024	10.74	40.61%	10.50%
11 HK	HANG SENG BANK LTD	213.28B	110.10	01/08/2024	101.79	-7.55%	5.89%
6 HK	POWER ASSETS HOLDINGS	95.26B	46.90	02/08/2024	52.79	12.57%	6.31%
1038 HK	CK INFRASTRUCTURE	112.63B	46.75	02/08/2024	52.55	12.41%	5.73%
1113 HK	CK ASSET HOLDINGS LTD	117.96B	34.05	05/08/2024	39.55	16.16%	6.10%
1 HK	CK HUTCHISON HOLDINGS	157.03B	41.25	05/08/2024	53.10	28.73%	6.17%
1876 HK	BUDWEISER BREWING APAC	136.94B	10.36	05/08/2024	15.39	48.56%	3.99%
2 HK	CLP HOLDINGS LTD	165.23B	65.15	05/08/2024	69.22	6.25%	4.74%
1997 HK	WHARF REAL ESTATE INVESTMENT	76.66B	25.35	07/08/2024	32.52	28.28%	5.07%
2015 HK	LI AUTO INC-CLASS A	165.94B	78.25	08/08/2024	150.88	92.81%	N/A
9988 HK	ALIBABA GROUP HOLDING	1.51T	78.15	09/08/2024	101.14	29.42%	1.25%
669 HK	TECHTRONIC INDUSTRIES CO	179.98B	98.60	09/08/2024	118.08	19.75%	1.97%
762 HK	CHINA UNICOM HONG KONG	192.16B	6.20	09/08/2024	7.49	20.79%	5.78%
1211 HK	BYD CO LTD	630.45B	208.00	12/08/2024	285.10	37.07%	1.62%
981 HK	SEMICON MANUFACTURING	182.73B	15.34	12/08/2024	17.58	14.61%	N/A
2331 HK	LI NING CO LTD	53.89B	21.30	12/08/2024	26.61	24.93%	1.92%
66 HK	MTR CORP	163.20B	26.45	12/08/2024	29.57	11.80%	4.99%
941 HK	CHINA MOBILE LTD	1.62T	73.20	12/08/2024	85.08	16.23%	6.50%
2628 HK	CHINA LIFE INSURANCE CO-H	799.97B	11.78	14/08/2024	14.34	21.71%	3.99%
2318 HK	PING AN INSURANCE GROUP	820.03B	42.05	14/08/2024	54.42	29.42%	6.30%
2899 HK	ZIJIN MINING GROUP CO	501.01B	17.48	14/08/2024	20.16	15.34%	1.52%
939 HK	CHINA CONSTRUCTION BANK	1.48T	5.81	14/08/2024	6.44	10.80%	7.39%
700 HK	TENCENT HOLDINGS LTD	3.43T	377.00	14/08/2024	548.18	45.41%	0.93%

REFERENCES

1. Sangmi Cha, Kit Rees, and Esha Dey, "A stock trader's guide to navigating fresh US tariffs on China", *Bloomberg*, 19 May 2024
2. Josh Wingrove, "Biden accuses China of 'cheating' on trade, imposes new tariffs", *Bloomberg*, 14 May 2024
3. Joe Cash, "China's exports and imports return to growth, signalling demand recovery", *Reuters*, 09 May 2024
4. John Mauldin, "Chinese Exceptionalism", *Mauldin Economics*, 10 May 2024
5. Peter Ker, "Lithium miners plead 'foreign entity' case to US over China links", *Financial Review*, 21 May 2024

DISCLAIMER

The information provided herein is a compilation or summary of materials and data based from external sources available to OCBC Securities Private Limited ("OSPL"), and does not represent OSPL's view on the matters mentioned. Whilst we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee its accuracy or completeness, and you should not act on it without first independently verifying its contents.

Trading in capital markets products and borrowing to finance the trading transactions (including, but not limited to leveraged trading or gearing) can be very risky, and you may lose all or more than the amount invested or deposited. Where necessary, please seek advice from an independent financial adviser regarding the suitability of any trade or capital markets product taking into account your investment objectives, financial situation or particular needs before making a commitment to trade or purchase the capital markets product. In the event that you choose not to seek advice from a financial adviser, you should consider whether the capital markets product is suitable for you. You should consider carefully and exercise caution in making any trading decision whether or not you have received advice from any financial adviser. You should also read the relevant prospectus and/or profile statement (a copy of which may be obtained from the relevant fund manager or any of its approved distributors), prior to any trading or investment decision. Please refer to the prospectus of the relevant fund for the name of the fund manager and the investment objectives of the fund. In relation to collective investment schemes, the value of the units and the income accruing therefrom, if any, may rise or fall. For funds that are listed on an approved exchange, investors cannot redeem their units of those funds with the manager, or may only redeem units with the manager under certain specified conditions. The listing of the units of those funds on any approved exchange does not guarantee a liquid market for the units.

No representation or warranty whatsoever (including without limitation any representation or warranty as to accuracy, usefulness, adequacy, timeliness or completeness) in respect of any information (including without limitation any statement, figures, opinion, view or estimate) provided herein is given by OSPL and it should not be relied upon as such. OSPL does not undertake an obligation to update the information or to correct any inaccuracy that may become apparent at a later time. OSPL shall not be responsible for any loss or damage howsoever arising, directly or indirectly, as a result of any person acting on any information provided herein.

The information provided herein is intended for general circulation/discussion purposes only and may not be published or circulated in whole or in part without our written consent. All trademarks, registered trademarks, product names and company names or logos mentioned herein are the property of their respective owners, and you agree that you will not do anything to infringe or prejudice those rights. Reference to any products, services, processes or other information, does not constitute or imply endorsement, sponsorship or recommendation thereof by OSPL.

Past performance is not necessarily indicative of future performance.