Why monetary easing cannot prevent consequences from trade wars

The July 17 Federal Reserve release of its Beige Book says the American economy and employment situation will expand moderately.

It also emphasizes the policy expectations for interest rate cuts to overcome uncertainties.

However, the Fed's optimism on the US economy overshadows the overall decline in the US market. On the same day, the Dow fell 0.42% to close at 27219.85, the S&P 500 fell 0.65% and Nasdaq 0.46%.

We also witnessed the decline of three major European stock indices. The German DAX by 0.72%, the French CAC40 index 0.76%, and the UK FTSE 100 index 0.55%. The downturn in the European and American stock markets also caused a callback in the Asian market the following day.

On July 18, the Nikkei 225 index fell 1.97%, the Korean KOSPI200 index fell 0.3%, the Hong Kong Hang Seng Index fell 0.46%. As for China's A-share market, the Shanghai Composite Index fell 1.04%, Shenzhen Component Index fell 1.58%, and ChiNext fell 1.66%.

Not sparing the commodity market, crude oil prices fell sharply. Gold as a safe-haven asset is the only one rising against the trend, hitting a new six-year high.

Why is the global stock market once again falling into a consistent decline? Anbound's international financial market tracking researchers believe that there are consistent amounts of risk aversion in the global market.

This indicates a gradual weakening of the optimistic effects of international trade easing and global monetary easing. The short-term rebound in the capital market since July could not maintain a sustainable recovery. The capital market has once again returned to a state of uneasiness.

There are two main reasons for the callback of the global market, which in turn is led by US stocks.

Firstly, there are concerns about the intensification of international trade disputes. The latest developments in US-China trade friction have shown uncertainties. Despite the resumption of US-China trade talks, US President Donald Trump has once again repeated his whimsical remarks.

In addition, the US-China trade friction has spilt over to other parts of the world. There is friction between the United States and Europe, and closer to home in Japan and South Korea.

These factors have aggravated the concerns of the global market. Meanwhile, there is a lot of worries in the fragile Chinese capital market about the incoming storm.

Secondly, there is also the concern about the callback of corporate performance under the global economic slowdown.

The concern of investors is global trade disputes will ultimately disturb supply chain security. They fear this will affect economic development and corporate profitability.

PROFITABILITY OF US COMPANIES

Some reports estimate the profits of US companies are further declining. The net profit of 500 major companies from April to June in 2019 may decrease by 3% year-on-year.

Net profit continued to decrease after the January-March period and has dropped for two consecutive quarters since 2016.

Reduced demand and increased costs also had negative impacts on many companies. It is because of this continued spread of said uncertainties that put the stock market into turbulence. This also means that the global capital market will once again show a downward trend.

STAGFLATION WORRIES

The simultaneous callbacks in global markets confirm Anbound's previous judgement of the fragility of the global economy and capital markets.

Measures of monetary easing adopted by central banks around the world will also have a limited impact on the economy. They can hardly reverse the global economic downturn.

It appears the turmoil caused by uncertainties in trade and the global industrial chain change cannot be reversed.

Some analysts believe if there is no increase in the money based on economic development, it will eventually lead to stagflation.

The prospect of economic and corporate earnings remains bleak. Therefore, even if central banks around the world follow the Fed's easing move, the asset bubble may not continue expanding.

Speaking in terms of the capital market, the act of central banks around the world is to continue the prevention of a market bubble burst.

Anbound has previously pointed out that global easing will not bring about a general increase in global capital markets.

Instead, it is likely to result in more imbalanced capital flows in the global financial sector.

Besides, competition among international capital markets will intensify.

At present, many financial institutions have complained about this “currency cold war”. The loose competition of different countries will not only promote the continuation of a trade war but also aggravate the friction of the capital market to a certain extent.

Looking at the capital market performance, any further global monetary easing cannot prevent a series of consequences brought by the intensification of international trade friction.

Uncertainty in the global economy will lead to capital flows and financial market volatility, increasing the possibility of economic crises.