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New year gains for stock markets as hopes for end of trade dispute increase

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As hopes for an end to the trade war between the US and China increase, the stock markets reflected the sentiment with gains at the outset of the new year. After recent talks between representatives of the two countries in Beijing, the leading US index, Dow Jones, gained almost 3 per cent by Friday. Major European stock indices such as the DAX or the Euro-Stoxx-50 also gained between 2 and 3 per cent. Outperforming them, Austrian stock index ATX even gained over 6 per cent since the start of the year. However, while the stock markets saw the most gains during the eagerly awaited talks, the unresolved differences after the end of the negotiations halted the positive development again.

Wertentwicklung globale Aktien

Note: Past performance is not indicative of future development.

Negotiators from China and the USA met in Beijing for talks in the second week of January. The negotiations to end the trade dispute were originally scheduled for two days, but were then surprisingly extended, to close scrutiny by the markets. These were the first direct talks since US President Donald Trump and China's Head of State Xi Jinping had agreed a 90-day break in the customs dispute at the beginning of December after a series of escalating mutual punitive tariffs in the billions.

Progress after negotiations, but many differences still unresolved

Both countries reported constructive talks. China's Ministry of Commerce stated that the talks fostered mutual understanding and yielded a basis for addressing the concerns of both sides. Yet despite the initial progress, much work still needs to be done to end the trade war.

According to the US Department of Commerce, China has kept its promises to buy "significant quantities" of US products and to allow more service deals. According to the Wall Street Journal, progress has been made regarding additional imports and the opening of the Chinese market to US capital. However, differences remain over issues such as protection of intellectual property and subsidies for Chinese companies.

During the talks, the Chinese government agreed to open its market to further genetically modified grains, which was considered a sign of progress as the US had been demanding this for years. According to insiders cited by the Wall Street Journal, the trade talks also paved the way for possible further higher-level negotiations. A possible next step would be a meeting between China's Vice Premier Liu He and US Trade Representative Robert Lighthizer. US President Trump could also meet China's Vice President Wang Qishan for talks at the World Economic Forum in Davos.

However, time is of the essence. In December, US President Trump had promised to provisionally suspend the announced further increase in US punitive tariffs on Chinese imports to the tune of USD 200bn until 1 March. If no agreement is reached by then, the dispute could escalate again, which could impact not only the economy in China and the USA, but also some European countries hard.

Meanwhile, Trump's policy continues to make headlines in other areas. The trade dispute between the US and the EU recently saw some progress after high-ranking representatives of both sides came together to discuss an agreement. However, the conflict over possible US punitive tariffs on European cars is not yet resolved, and neither is the dispute over Trump's planned border wall to Mexico, which is preventing the adoption of a budget law by Congress. As a result, most of the federal authorities have been shut down since 22 December.

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