

'2018 will be year of trade boom'

IMF revises trade projection to 4.2% in 2017, beating forecast for first time since 2014

BLOOMBERG

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It was meant to be the year of the trade war. Instead, it was the year of the trade boom.

As 2017 draws to a close, the International Monetary Fund is projecting the volume of trade in goods and services will have climbed 4.2 per cent over the year, up from 2.4 per cent in 2016. That will be the first time trade has outpaced output growth since 2014, and harks back to the pre-crisis days when such outperformance was a regular occurrence.

The winners

Among the winners are big manufacturing powerhouses such as Germany and China, and producers of electronics like South Korea, which Thursday raised its benchmark interest rate for the first time since 2011 after months of surging exports. Caterpillar and Samsung

Electronics are some of the companies that are cashing in. Closely-watched gauges on manufacturing suggest the recovery to continue into 2018. A weighted average of flash Purchasing Managers Indexes for China's major trade partners came in at 56.3 in November—the highest since February 2011—according to Bloomberg Economics. China's official manufacturing PMI unexpectedly climbed to 51.8 in November.

"A trade boom, rather than a trade war, has been the big theme," said Chua Hak Bin, a Singapore-based senior economist with Maybank Kim Eng Research, that doesn't mean the threat of protectionism has passed. President Donald Trump is still vowing to crack down on countries the US believes don't trade fairly, and negotiate deals more favourable to America. While the White House is focussed on pushing through tax cuts, there

are still signs Trump plans to get tough on trade.

The US Commerce Department this week took the unusual move of evoking powers it hasn't used in more than a quarter century to begin a probe into Chinese aluminum imports that could lead to tariffs.

Cautionary Tale

"The US move is a cautionary and potentially significant marker in the country's crusade against what are deemed unfair trade practices," said Patrick Bennett, a Hong Kong-based strategist at Canadian Imperial Bank of Commerce.

The issue of trade protectionism has potential to continue looming large for financial markets.

The country has taken other steps to tighten trade enforcement, and more is expected in 2018 as investigations into Chinese intellectual property practices and other areas continue. The US has proposed changes to the North American Free Trade Agreement that have been rejected by Mexico and Canada, raising the risk that Trump will follow through on his threat to pull out of the deal. The US also wants to revamp its trade deal with South Korea.

WTO meetings

The contradiction will loom over the world's trade ministers when they meet next month in Argentina at a high-level gathering of members of the World Trade Organisation.



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