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CONY Flash Macro Note **March 27, 2019**

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Flash Macro Update (03/27/2019)

Long-awaited US trade balance data for January was released today. The data surprised, as the trade balance shrank from a 10-year high mainly due to declining trade deficit with China. Trade deficit (goods and services) in January materialized at US$51.1 bn compared to the deficit of US$59.9 bn in December. Market was forecasting a deficit of US$57 bn for January. So, the data suggested that there is a material improvement in the trade deficit in January.

We prefer to look at the goods trade balance in order to see the real economic activity. Overall trade balance includes services too and it overshadows the impact of US foreign trade policy implementations, especially towards China. US goods trade balance in January was US$72.1 bn, which was US$80.4 bn in December. Exports in January were up by 3.5% y-o-y, whereas imports increased by only 1.1% y-o-y. These resulted in an improvement of US goods trade deficit by 3.1% y-o-y in January, which appears to be good news for US Administration, as they want to reduce US trade deficit with China.

When we look at the details of the data, we see that capital goods exports of the US recorded a m-o-m decline, whereas auto and aviation exports continued to rise on a m-o-m basis. The decline in US capital goods exports could be attributable to slowing down global growth & strong US that could exert further pressure on goods exports in the coming period. On the import front, we observe a sizeable m-o-m decline in capital goods imports of the US that also signals a slowdown in investment appetite and economic activity. In fact, there is a m-o-m decline in pretty much all import segments that strengthens the view that US economy is slowing down.

Naturally, the details about the US-China trade capture most part of the attention, as it is still the hottest topic on agenda. January figures indicate that US' exports to China fell by around 20%, whereas US' import from China declined by around 10% in January. These declines resulted in a narrowing US trade deficit with China. Trade deficit with China shrank from US$34.5 bn in January from US$36.8 bn in December. Whether this will be a trend or not, is yet to be seen.

We think that the January trade data should please US Administration, but it is worth noting that ongoing talks and responses affected trade actions between American and Chinese companies. For instance, in December companies rushed shipments to avoid a possible trade tariff, but this trend seems to have normalized in January. Depending on the course of talks, we might see more volatility on that front.

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