CROSSROADS

At the Intersection of Geopolitics and Geoeconomics

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Here are some critical issues to watch around the globe over the coming month:

North America

- The United States has set September 30th as a deadline for reaching a new North American trade agreement with Canada. US officials are sending signals that negotiations are not far enough along to be able to meet the deadline. The ramifications of ending NAFTA without an adequate replacement would throw into question the economic balance of the last two decades. The purpose of the timeline is so that the outgoing Mexican president can sign the agreement before his term expires and the incoming populist president stalls negotiations.
- To force a change in Chinese trade policies, the US began imposing tariffs on about $200bn worth of Chinese products, both industrial and consumer goods. The current tariff level will be 10% until they increase to 25% at the beginning of 2019. American companies have already reported that Chinese regulators are disrupting operations through slow customs clearance and increased inspections. Shortly after the announcement, the industrial and material sectors who are closely tied to the tariffs were down by more than 1% at close as investors continue to monitor the situation.
- Adding pressure to the current trade war with China, Donald Trump threatened to take actions against the Universal Post Union if they do not change the rules allowing consumers to ship smalls items from China cheaper than they can ship within the US, which he says hurt US businesses. As an alternative, the US has threatened to set its own rates which could force countries to increase the price of US international shipping.
- The yield on the benchmark 10-year treasury broke 3% again after data signified a solid rise in industrial output over the summer. With the labor market showing strong wage growth in the last decade, it is expected that the Federal Reserve will continue to raise interest rates throughout 2018, resulting in higher yields.

Europe

- Emmanuel Macron unveiled France's new plan to tackle poverty and reduce inequality. The program focuses on children's rights to necessities like food and healthcare and includes plans to train a half-million professionals to open nurseries and allow mothers to return to work. The poverty plan, which is estimated to be worth about 8 billion Euro, focuses on providing the impoverished with educational and training opportunities to provide long-term stability.
- A parliamentary vote of no confidence ousted Swedish Prime Minister, Stefan Lovfen, as center-right opposition and nationalists formed a coalition to remove the Social Democrats from power. The Swedish election echoes similar nationalist and anti-immigration movements gaining ground throughout Europe.
- The British pound fell by as much as 1.5%following Prime Minister May's speech in which she announced that Brexit negotiations had reached an "impasse." This drop has nearly pushed the pound to its largest one-day loss in 15 months. In addition, yields on 10-year government bonds fell 3 basis points.
- Italy's ruling coalition is preparing to make announcements about the 2019 budget. Many expect that the coalition will soften its previous tone and compromise on the deficit at around 2%. Optimism over the Italian budget led to a rise in Italian stocks and bonds as well as higher European shares at close, up 0.45%%.

Asia-Pacific

- The Australian government reported its smallest budget deficit since the global financial crisis after significant increases in tax revenue and declines in welfare spending since last year. The S&P has upgraded Australia's AAA credit rating outlook to stable as it expects federal and state budgets to return to balance by 2020.
- In response to US tariffs on various Chinese goods, China responded with $60 billion of its own tariffs on US products. The Chinese government has called off all previously planned trade talks until negotiations can take place without the looming threat of tariffs. Forecasters predict that the trade war could cut global growth by 0.1%age points through 2020.

- Despite the impact of tariffs on thousands of consumers products and retailers in China, the Chinese government continues to hold steady throughout the trade battle with the United States. Chinese President Xi Jinping is preparing stimulus measures to soften any impact. It is expected that China may cut taxes in order to stabilize the economy. China's prime minister has publicly ruled out intentional currency devaluation.
- India's stock market took a significant hit as Dewan Housing Finance Corp and Yes Bank's stocks dropped to record lows. The benchmark S&P BSE Sensex swung from a 1% gain to a drop of 3% before closing with a 0.8% loss. The instability in India follows a trend of market volatility throughout Asia.

Middle East

- Egyptian stock markets have hit their lowest point this year and the largest drop since mid-2016. This weakening of the stock market likely stems from a lack of faith in the Egyptian pound. The Egyptian stock index lost 3.8% and this is likely the result of a growing distrust of emerging markets.
- Turkey's central bank has defied President Erdogan and raised interest rates from 17.17% to 24%. As a result, the lira is surging against the dollar, with a swing of 4% from negative to positive. However, President Erdogan has threatened this newfound progress by demanding that the central banks lower interest rates.
- As the Trump Administration has re-imposed sanctions against Iran, oil prices have risen to a four-year high of $81.41 a barrel. Saudi Arabia and Russia have refused calls from the United States to increase output to make up for this loss in energy markets. The Trump Administration has given many in the global community a deadline of November 4th before they must cut off Iranian oil imports. It is more than likely that oil prices will skyrocket after this next strain on supply.

South America

- Far-right Brazilian presidential candidate Jair Bolsonaro has maintained a healthy lead throughout the election season. In the wake of Brazil's recent history, the economy is a disaster and the public finances are under strain. It is feared that Jair Bolsonaro will usher in a new dictatorship which will weaken the fledgling democracy and continue down this declining path.
- Argentina's central bank chief, Luis Caputo, resigned and the effects on the currency were felt immediately. Argentina's peso slid 4.65% to open at 39.15 per USD after the announcement. Mr. Caputo is the second Argentine central banker to resign this year, and his resignation comes as the struggling country begins its talks with the IMF.
- President Nicolas Maduro announced this month that Venezuela will begin using the petro, a government-created cryptocurrency, in international trade. This comes after announcing that the country's new fiat currency, the sovereign bolivar, will be pegged to the oil-backed petro. It remains to be seen whether the international markets will accept the petro and whether this will solve the country's currency crisis.

Sub-Saharan Africa

- On September 17th, Eritrean President Isaias Afwerki and Ethiopian Prime Minster Abiy Ameh signed a peace agreement with the two countries agreeing to comprehensive cooperation in political, trade and economic fields. Both countries have agreed to begin the process of opening their economies to trade and foreign investors, signaling increased stability and economic opportunity on the Horn of Africa.
- After the South African economy dipped in its first recession since 2009, President Cyril Ramaphosa announced a new stimulus package to help revive the economy but included no injection to new cash. The weak stimulus package did little to quell the concerns of investors and the rand has continued to weaken.

Suggested Readings

Federal Reserve Considers a New Tool to Avert Crises

Kate Davidson and Nick Timiraos

The Forgotten History of the Financial Crisis

Adam Tooze

A manifesto for renewing liberalism
The Economist