Focus

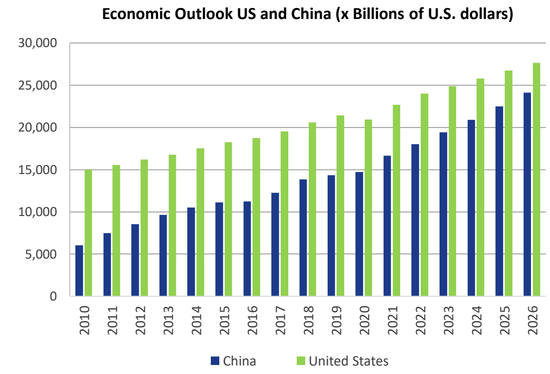
The United States (US) and China have been in a trade war for three years, with mutual tariffs. The first trade talks between the US and China, since President Joe Biden took office, were held last week. Under Trump's rule, the American approach was quite clear: progressively stimulate a trade war with China. After Trump's election defeat, many people wondered what course would be set by the Biden administration. So far, given the rejoining of the US to the Paris climate agreement and the World Health Organization (WHO), the Biden administration is returning to global governance by reviving their commitment multilateral institutions. Will this global participation translate into an improvement of the trade relationship between the two countries?

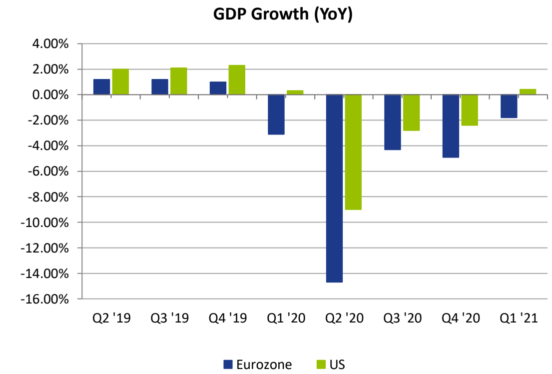
Biden's Republican predecessor pursued a hardline policy towards China. Trump saw China's growing exports to the US as a threat, the size of China’s economy (measured in GDP) is growing faster than that of the US, as shown in the figure on the right. As a result, the US introduced tariffs on Chinese products in 2018. A provisional trade agreement was reached just before the outbreak of the corona crisis in January 2020. The agreement states that China has to purchase a total of USD 200 billion worth of US products in 2020 and 2021. In return, the US promises to reduce its import tariffs. The combination of these measures should narrow the trade gap. China has sold approximately USD 450 billion to the US in 2020, while the US sold more than USD 100 billion to China. In the first quarter of 2021, these ratios were more or less the same: namely over USD 100 billion compared to USD 35 billion. Regarding the Chinese imports from the US, things have not progressed as expected, partly due to the corona crisis. According to Katherine Tai, the US trade representative, the priority is therefore to analyse how much of the promise to increase importsfrom the US has been fulfilled.

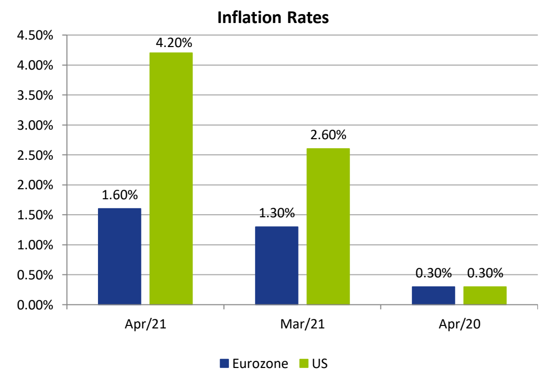
In the early months of Biden's presidency, no steps have been taken to end the trade war. However, the tone that Biden uses with regard to trade relations differs from Trump. While Trump practiced a more isolationist policy, Biden tries to keep China in check with allies. He previously stated that the best "China-strategy" is to get all allies alligned. This was therefore an absolute priority in his early weeks of his presidency. This explains the steps taken in the field of the Climate Agreement and the WHO. A possible next step would be to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). The CPTPP is a trade agreement between eleven countries that, in its original form, was intended to strengthen the ties between Asia and the US. The CPTPP has strict rules on subsidies, data flows and labour and environmental protection.

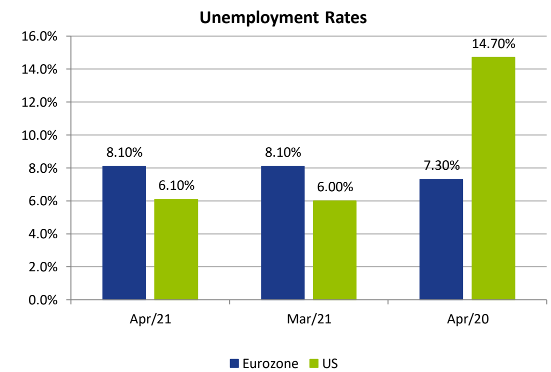
The United Kingdom (UK), traditionally a loyal ally of the US, is also looking for its new attitude towards China. Boris Johnson, the British Prime Minister, would like to strengthen ties with China with regard to their business relationships. At the same time, the UK is at the forefront of condemning China's influence in Hong Kong. However, there are major trading dependencies on China from the UK. After the European Union, China is the country from which the British import most. The US therefore cannot necessarily rely on the UK to follow it's course.

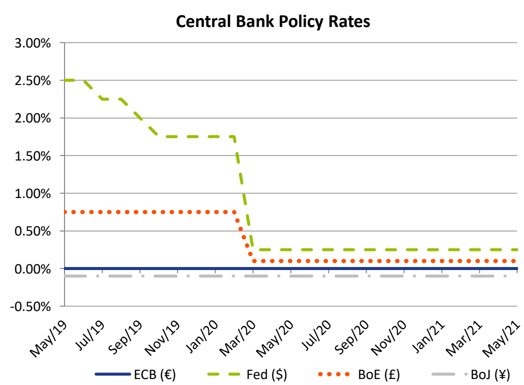
The question is whether the US, but also other countries such as the UK, can drastically minimize their economic dependence on China without the support of other countries. While the US is trying to improve trade relations with China, the Biden administration has at the same time set its course on tightening alliances. Gathering allies to counteract Chinese dependence is difficult to reconcile with improving trade relations with China. It therefore appears that the US is mainly interested in strengthening its own position vis-à-vis China.











Country Ratings	S&P	Moody's	Fitch
Netherlands	AAA	Aaa	AAA
Germany	AAA	Aaa	AAA
France	AA	Aa2	AA
United Kingdom	AA	Aa3	AA-
Russia	BBB-	Baa3	BBB
United States	AA+	Aaa	AAA
Japan	A+	A1	A
China	A+	A1	A+
Australia	AAA	Aaa	AAA

ZANDERS
TREASURY ▪ RISK ▪ FINANCE

Review & preview

The European Commission is working on a new emissions trading system specifically for road transport and buildings. European Commission President Ursula von der Leyen confirmed the arrival of the new trading system on May 25, at a press conference following the EU summit in Brussels. The sectors, like heavy industry and energy companies, will soon have to pay for the harmful greenhouse gases they emit. The hope is that a price incentive will lead to the necessary sustainability boost. The new system will directly concern citizens, which is why Brussels is working on a link to a compensation mechanism.

According to Charles Evans, president of the Federal Reserve Bank of Chicago, the rise in U.S. inflation in May is unlikely to lead to unwanted high inflation in the future. Evans thus confirmed his support for the Fed's monetary policy. Critics, including former Treasury Secretary Larry Summers, argue that the Fed's policy is actually a recipe for overheating the economy.

The financial system in the Netherlands is stable enough to cope with the consequences of the corona crisis, which is concluded by the Central Planning Bureau CPB) in a report published May 25. The financial position before the crisis was favorable and the government's support policy could therefore be generous. However, as a result of the distribution of support packages, the Dutch government debt has risen sharply: from 48.3% of GDP at the end of 2019, to 59.3% at the end of 2020.

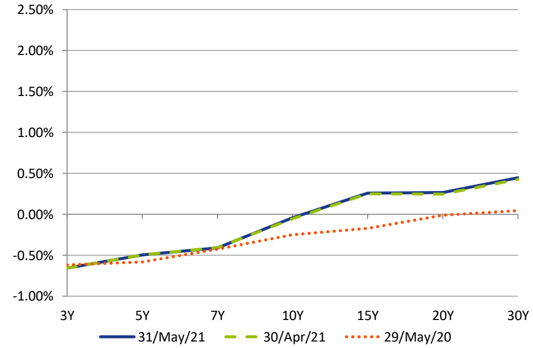
The European Union (EU) adopted a plan on May 18 for a more uniform corporate tax system in Europe. Under the proposal, some major companies operating in the EU would have to publish their effective tax rates to ensure greater transparency. In addition, there would be new measures to combat tax avoidance to address, among other things, the abuse of shell companies.

The outlook for the U.S. economy is positive for the next six months. Last month, the Leading Economic Indicators (LEI) index showed a further increase in April. The developer of the index, The Conference Board, now reported an increase of 1.6%, following a previous increase of 1.3% in March. The LEI index is used to interpret the development of the economy by compiling a weighted average of several sub-indicators, including consumer confidence and stock prices.

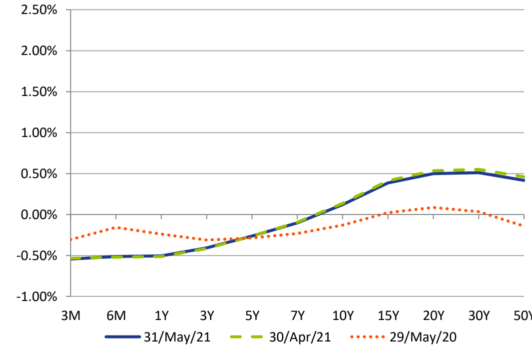
Agenda

8 June	GDP Eurozone
10 June	Interest rate decision ECB
10 June	Inflation United States
15 June	Unemployment United Kingdom
16 June	Inflation United Kingdom
16 June	Interest rate decision Fed
24 June	Interest rate decision BoE
30 June	Inflation Eurozone
30 June	GDP United Kingdom
30 June	GDP United States

Dutch Government Bond Curve



Euro Swap Curve



Bank Ratings	S&P	Moody's	Fitch
Rabobank	A+	Aa3	A+
ING Bank	A+	Aa3	AA-
ABN AMRO	A	A1	A
BNG Bank	AAA	Aaa	AAA
NWB Bank	AAA	Aaa	n.a.
Deutsche Bank	BBB+	A3	BBB
BNP Paribas	A+	Aa3	AA-
Barclays Bank	A	A1	A+
Credit Suisse Int.	A+	Aa3	A

Currencies	31/May/21	30/Apr/21	29/May/20
EUR/USD	1.223	1.202	1.110
EUR/GBP	0.860	0.870	0.899
EUR/CHF	1.099	1.098	1.067
EUR/JPY	133.970	131.405	119.770
EUR/DKK	7.437	7.436	7.457
EUR/SEK	10.145	10.173	10.473
EUR/CAD	1.475	1.477	1.530
EUR/AUD	1.581	1.557	1.667
EUR/CNY	7.790	7.783	7.924

Yields 10Y Government Bonds