China's capital outflows soar despite trade deal

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Body

(Bloomberg) -- Operators have fled China-centric equity funds at the fastest pace in at least four years, after renewed Chinese-American tensions.

While Wall Street weighed the latest dramas between the world's two largest economies last week, investors took $330 million from BlackRock Inc.'s iShares China Large-Cap fund, the most since 2016, according to data collected by Bloomberg.

In total, money managers sold $2.7 billion of Chinese shares in the five days through May 13, the largest since at least 2016, according to Goldman Sachs Group Inc. That takes the total of four weeks to $6.2 billion, surpassing its emerging market counterparts.

While pandemic-hit investors applaud any sign of an uptick in investment and consumption in Asia, the geopolitical context is darkening.

In the latest save, White House trade adviser Peter Navarro suggested that Beijing sent airline passengers to spread the infection around the world. The missive follows last week's reports that the White House planned to block Huawei Technologies Co. global chip suppliers.

"Tensions with the United States stimulate the outflow of capital," they wrote in a Goldman FX strategist note including Zach Pandl. "At this point, we have not incorporated higher tariffs or other aggressive actions (e.g., the possible exclusion of Chinese companies on US exchanges) into our benchmark forecasts."

Overall, market participants in recent weeks have focused directly on positive data indicating how China is recovering from the pandemic. The country's industrial production increased in April for the first time since the coronavirus outbreak, adding to the first signs of a recovery that economists warned would be slow and challenging.

Global stocks have recovered more than 25% since the March lows due to central banks' easin-off measures, along with signs that confinement is declining in major economies. The question now is how much credibility investors should give to the recent dispute between the two powers.

Wildcards

"It's one of the biggest wild cards in the 2020 picture; the main uncertainty is whether the confrontation will be primarily rhetorical or evolve into concrete actions," they wrote in a note strategists from JPMorgan Chase &Co;., including Haibin Zhu. "But it is clear that bilateral confrontation will expand beyond trade to other areas, including technology, finance and geopolitical issues."

In TD Securities, strategists led by Mark McCormick suggest that an "increase in rhetoric," even without concrete actions, would probably be enough to "scare markets," given the fragility of the economic context.

Meanwhile, at Nordea Bank ABP, Andreas Steno Larsen and Joachim Bernhardsen tell their clients to take long positions for the dollar against Chinese foreign exchange risk, citing collapse in economic relations.

"The trade agreement 'born to die,'" the strategists wrote on a note. "But no one had incentives to reveal it until after the US election. The coronavirus has offered the Trump administration a chance to opt for an onslaught against China."

Still, a widespread view holds that President Donald Trump can hardly afford to alienate his Asian counterparts, given his mutual interest in fighting both the virus and the global recession, clearing the wayfor bullish cross-assets.

Original Note:A Trade Deal 'Born to Die': China Outflows Highest in Four Years

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