

MAKING SENSE OF THE CONTINUING TRADE CONFLICT

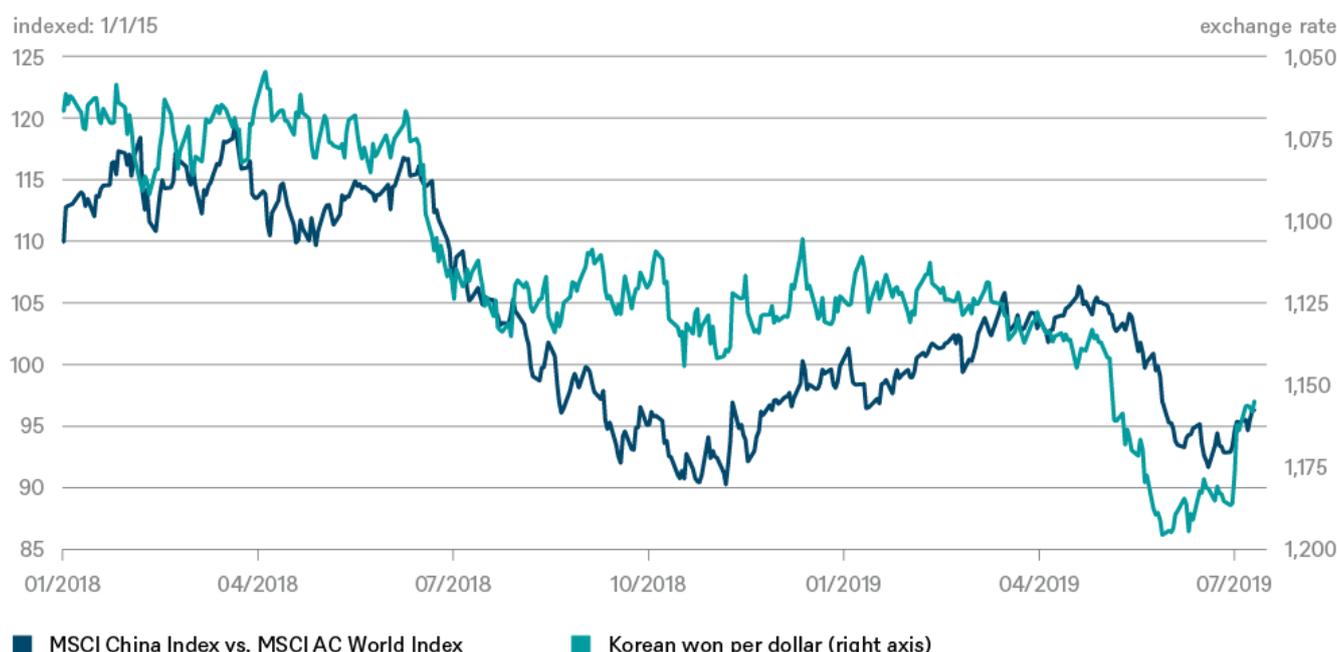
With the trade war on hold, how are markets pricing political risk? The exchange rate of the Korean won against the dollar is an indicator worth watching.

For months, investors have eagerly been anticipating the G20 summit in Osaka. In the end, it proved a bit of a damp squib. On the fringes of the summit, Chinese President Xi Jinping and U.S. President Donald Trump agreed they would continue with trade talks, but delivered few tangible results.

This has not been particularly surprising and was consistent with our expectations (see [CIO Flash: G20 as of 7/1/19](#)). But it also raises some interesting questions as to which indicators might be worth watching to make sense of lingering trade tensions. Ever since the election of Donald Trump in 2016, one we have found quite useful is the exchange rate of the Korean won against the U.S. dollar.

As a relatively small and open economy, South Korea has long been exposed to global growth trends. Moreover, the country's electronics exports are highly sensitive to the cyclical downturn we are seeing in the memory-chip sector. Signs of weaker growth in nearby China more generally as result of trade tensions between the U.S. and China has also tended to swiftly hurt the Korean won.

As our "Chart of the Week" shows, the won has been a bit of a leading indicator of trends in equity markets, specifically the relative performance of Chinese stocks (MSCI China Index) compared to global equities (MSCI AC World Index). Of course, any one indicator has its flaws, including the won. Nobody, not even foreign exchange (FX) investors, is omniscient. With the current U.S. president, there is always scope for surprises, delivered via Twitter. And as attention shifts towards trade tensions between the United States and the European Union, we would expect other indicators to come to the fore. Still, it will probably be worth keeping an eye on the won in coming months.



Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 6/28/19

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APPENDIX: PERFORMANCE OVER THE PAST 5 YEARS (12-MONTH PERIODS)

	06/14 - 06/15	06/15 - 06/16	06/16 - 06/17	06/17 - 06/18	06/18 - 06/19
MSCI AC World Index	-1.2%	-5.7%	16.5%	8.6%	-3.6%
MSCI China Index	21.0%	-25.2%	31.1%	19.6%	-9.3%

Past performance is not indicative of future returns.

Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 6/28/19

GLOSSARY

European Union (EU)

The **European Union (EU)** is a political and economic union of 28 member states located primarily in Europe.

G20

The **Group of 20** are the largest industrialized and emerging economies in the world.

MSCI AC World Index

The **MSCI AC World Index** captures large- and mid-cap companies across 23 developed- and 24 emerging-market countries.

MSCI China Index

The **MSCI China Index** captures large- and mid-cap representation across China H shares, B shares, Red chips, P chips and foreign listings.

South Korean won (KRW)

The **South Korean won (KRW)** is the official currency of South Korea.

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