

ESTX: Brexit Deal, Trade Deal, What's New?

Key Points:

- As the chance of a no-deal Brexit becomes less likely and the UK looks set to leave EU in the next three months, the uncertainty that's been overshadowing the European market for the last three years may soon be over.
- With the U.S. and China signalling they're making progress to end their trade disputes, this could also offer some reprieve for the Eurozone's economy, which has been a key victim of the U.S.-China trade war.
- ETFS EURO STOXX 50® ETF (ETSX) provides an investment proxy for those who believe these uncertainties will soon be alleviated, as the underlying economy of the Eurozone is deeply tied to both geopolitical events.



Brexit May Come Soon

Since the referendum held in June 2016, Brexit has remained in murky waters.

In the latest turn of events, the EU has agreed to grant the UK another extension for three-months, however, given the frustration expressed by many leading EU countries, we expect this to be the last extension. Solving the deadlock around the Irish boarder is presenting a significant challenge for the UK parliament and EU to agree on. As such the UK may end up leaving the EU without a withdrawal agreement.

Nevertheless, once Brexit happens, with or without a deal, the Eurozone will have one of its biggest overhanging uncertainties removed.

Brexit has not been a good showcase to inspire other Eurozone countries to follow suit. The result of the European Parliament election held in May showed that although the uprising right-wing parties have seized more seats than ever before, the parliament is still firmly controlled by the pro-EU forces, while the next EU Parliament election won't happen until 2024. We therefore expect a smoother ride for the Eurozone going forward, with other countries attempting their own Brexit seeming unlikely.



Populists (EFD) and right-wing nationalists (ENF) took 112 of EU parliament seats out of 751. Source: EP

Trade Wars and Europe

President Trump started a big trade war with China and a mini-trade war with India, whilst also threatening to place tariffs on auto parts from Europe and Japan, although he is yet to act on these threats.

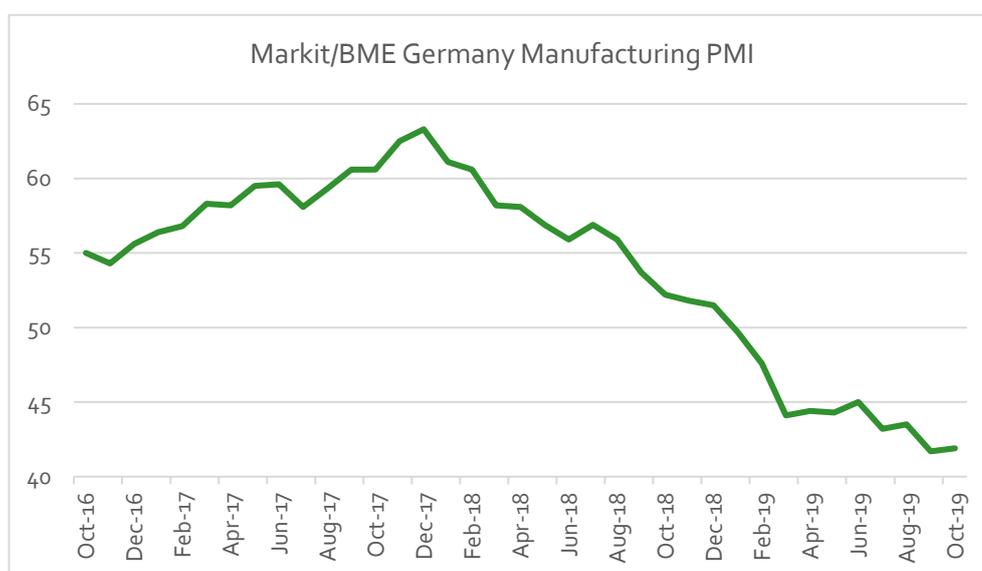
- Feb 18: the U.S. placed 30% tariff on Solar panels from China.
- Mar 18: the U.S. placed 25% tariff on steels from India.
- Feb 19: the U.S. investigated to impose tariff on EU's and Japan's autos.
- Apr 18: China imposed retaliatory tariffs (ranging from 15 to 25%) on various U.S. products.
- May 19: President Trump delayed the tariff decision on EU's and Japan's autos.
- Jun 19: India imposed retaliatory tariffs against U.S. products.

A brief timeline of some major tariff headlines between the U.S. and other countries.

America's trade wars have caused havoc to the global economy and have already begun to harm America's own economy. Investors who expect to see the U.S. unwinding more of its tariffs may invest in the eurozone, as it's a good proxy for improving international trades.

So how much damage has the U.S. trade wars brought to the Eurozone? Despite the U.S. not directly imposing tariffs on goods from the EU, the Eurozone economy has been affected by decreased trade and capital flows. Exports made up 46% of the Eurozone bloc's output in 2018, compared to 12% of the United States' and 19% of China's, according to the World Bank.

Looking into Germany, the biggest economy within the EU, the manufacturing PMI of the country has dropped from the 63.3 in December 2017 to the most recent 41.9 in October 2019, indicating that the manufacturing sector has been weakening for a while and is now in the contraction zone.



Source: Bloomberg as at 7/11/2019

Trade Talks Begin to Yield Results

The most recent development of the U.S.-China trade war was a positive one. Following the meeting between the U.S. trade Representative Robert Lighthizer and Treasury Secretary Steven Mnuchin with Chinese Vice Premier Liu He, both the U.S. and China had signalled the two countries are close to reaching a “phase one” trade deal. A resolution to the trade wars could see a boost to the economy of the Eurozone given their reliance on and recent decline in international trade.

Fund in Focus: ETFS EURO STOXX 50® ETF (ESTX)

ESTX is designed to provide a blue-chip representation of super sector leaders in the eurozone. ESTX can be used as a tool for a tactical play for investors who believe the day for Brexit and the U.S.-China trade war resolutions are just around the corner.

Name	ETFS EURO STOXX 50 ETF
ASX Code	ESTX
Management Fee	0.35%
Benchmark	EURO STOXX 50® Index
Inception Date	19/07/2016
Distribution Frequency	Semi-Annually

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