FINANCIAL MARKETS

UNDERSTANDING US FOREIGN POLICY

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Founded in 2010, we now have global presence in over 90 countries, with main offices in the separately regulated markets of Australia, Cyprus, New Zealand and the United Kingdom.

We believe that sound investment and trading decisions begin with a strong grounding in financial education. Our goal is to make this available to everyone - and this free eBook is part of that commitment.

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HAS EVERYTHING CHANGED?

FOREWORD

Since the election of Donald Trump as US president, it's been anything but business as usual for the US.

Specifically, we've seen drastic changes in US foreign policy for both US allies and adversaries.

The purpose of this eBook is simple. We'll analyse the current shape of US foreign policy - and its likely effect on the financial markets.

Patrick Latchford
CEO, Blackwell Global Investments (UK) Limited

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CHANGING GLOBAL TRADE

FRIENDS TELL THE TRUTH

On the campaign trail, then-candidate Trump promised to renegotiate US trade deals with other countries.

This wasn't a false promise. Since taking office, President Trump has confronted many allies with what he sees as unfair trading terms.

Specifically, President Trump doesn't like trade deficits.

The US, as of April 2018, currently has a trade deficit of $46 billion (US dollars). This means that the US imports more goods and services than it exports.

President Trump wants to rebalance the US trade deficit to a neutral level. In this situation, the US would import and export a similar amount of goods and services.

At face value, trade deficits sound like a bad thing. There's a logic behind that thinking: surely a country would want to sell more than buys?

But this misses the point with trade deficits. Keep in mind that the US is the largest economy in the world. As such, its rate of consumption is very high. For this reason, the US needs to import goods and services from other countries in order to meet demand. It simply can't meet this demand domestically.

So in one sense, the trade deficit is actually a reflection of the strength of the US economy. In fact, in economic downturns, the US trade deficit has narrowed, as its rate of consumption fell.

Despite trade deficits not necessarily being a bad thing, it's still a point of contention for President Trump.

In recent weeks (June 2018), we've seen friction between Western allies in regards to trade. Specifically, President Trump has criticised Canada for running a trade surplus with the US.

The specific figure for the surplus is disputed by both the US and Candian governments. However, Canada doesn't run the largest trade surplus with the US. China has an estimated $385 billion trade surplus with the US, while Mexico has a $55 billion trade surplus.

These surpluses are one of the reasons why the US administration introduced US import tariffs on steel (25%) and aluminium (15%) in March 2018. Clearly, these are aggressive tariffs that make it more expensive for foreign manufacturers to import steel and aluminium to the US.

It’s these tariffs that have angered many US allies, including the European Union and Canada. They feel that US import tariffs unfairly penalise their businesses. In response, a series of retaliatory import tariffs have been actioned (or planned) for US exports.

IMPACT ON THE MARKETS

It looks like we could be entering a cycle of retaliatory tariffs. Many economic commentators have labelled this a global trade war.

Understandably, many investors are apprehensive about how global trade is changing. Many businesses have established international supply chains and markets. By making international trade more expensive, businesses may adjust plans for growth and regional expansion.

IS PRESIDENT TRUMP WINNING?

NORTH KOREA

It's also been fascinating to assess US foreign policy in relation to hostile states. Again, President Trump's unorthodox approach is dominating headlines. For instance, in June 2018, the world witnessed a historic meeting between President Trump and Kim Jong Un of North Korea. At this meeting, the leaders signed a communique pledging that North Korea would denuclearise in return for the US lifting economic sanctions.

Remember, for years the international community (spearheaded by the US) has been worried about North Korea's capability to develop nuclear weapons. Yet, many believe that President Trump's direct approach is what forced a meeting between the two leaders. Sceptics point to the limited detail within the signed communique - and the track record of North Korea failing to keep its promises.

However, there's no denying that the world (and financial markets) would rather see a cordial meeting between the two heads of state than aggressive rhetoric (like we saw in 2017).

IRAN

In May 2018, President Trump announced that the US was withdrawing from The Iran Deal. Secured by Western allies and the Obama administration, this deal intends to prevent Iran from developing a nuclear weapon. Specifically, in return for lifting international economic sanctions, Iran is obliged to roll back its nuclear capabilities (confirmed through independent inspectors).

Curiously, many foreign policy experts believe this is the kind of deal the current US administration should try to secure with North Korea. However, President Trump believes The Iran Deal wasn't strict enough - and could still result in Iran developing nuclear capabilities.

MARKET VOLATILITY

President Trump's foreign policy approach has been unpredictable. This means it can cause unexpected volatility in the markets. However, there are other consequences too. For example, imposing fresh sanctions on Iranian oil exports will squeeze supply in the Middle East and see the price of oil increase.

Our advice to traders is to be prepared for the unexpected. In particular, traders should watch developments on the Korean peninsula, especially as the details of any agreement between the US and North Korea are worked out.


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WHY BLACKWELL GLOBAL?

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Founded in 2010, Blackwell Global was established to offer brokerage solutions for private and institutional clients. Blackwell Global is a Straight Through Processing or STP broker who provide their clients with superior liquidity and price feeds from top international banks. These are offered alongside 24-hour technical support, market research tools, educational materials, professional partnership programmes and fully integrated trading platforms.

We offer access to multiple asset classes including more than 60 currency pairs, precious metals and other contracts for differences. As a global broker, we are always striving to achieve excellence in our customer service, as well as developing innovative technology to support our customers needs.

Today, the Blackwell Global group of companies has a presence in over 90 countries, with its main offices situated in the individually regulated markets of Australia, Cyprus, New Zealand and the United Kingdom.

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Or contact Customer Support:

Tel: +44 (0)203 695 0898
Email: cs@blackwellglobal.com