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US/China Relations over TikTok

As Donald Trump turned his attention to the November elections and his own bid for re-election, on Friday he vowed to ban TikTok in an announcement that asserted the Republican party's line on the US's relationship with China. Rounding off a week which had been a diplomatic disaster, as a Chinese consulate closed in the US and vice versa in Chengdu, hostilities between the US and China look set to run until at least the end of the year.

As anyone who has spent much time with someone born since the mid 90's, or who happens to be of that demographic themselves, can attest: TikTok is a big deal. The app, which allows users to share mobile video clips, has seen astronomical growth across the globe, with 1.7bn downloads. In the UK, more than 25% of smartphone users under the age of 25 have downloaded the app, which is rapidly turning the big four of social media into a big five alongside the likes of Facebook, Instagram, Snapchat and Twitter.

Trump's comments left ByteDance, the Chinese technology company behind TikTok, scrambling to sell its US interests to Microsoft in a bid to save TikTok from being forced to shut down in the US. The plan appeared to have been thwarted by further comments from the President suggesting he would not favour a sell-off solution, although in statements from the White House Steve Mnuchin and Mike Pompeo were less specific, but warning of likely action against several more Chinese businesses.

Issues around data security have been flagged by both Democrat and Republican members, but the Republican position on China is only likely to harden in the remaining weeks leading up to the election. Beyond being at the epicentre of the coronavirus outbreak, which Trump never fails to point out, the President also has further reason to be irritated by TikTok in particular after some users on the platform coordinated efforts to reserve seats, but not attend his Tulsa rally, allegedly resulting in weaker attendance on the day.

This intervention marks another blow for free trade with political risk increasing for the global businesses that get caught in the crossfire. In Europe, Huawei is another example of this as governments weigh up the risks of dealing with Chinese businesses, when they don't have trust in the Chinese government. The threat of an economic cold war between the US and China has risen. China is too big a country to ignore and underpins the growing Asian economy, so while it seems inevitable that some businesses will have their activity curbed in either Asia or the West, in the longer term, western countries need to find a way to manage the risks and work with Chinese corporates.

Market Snapshot (24.07.20 – 31.07.20)

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FTSE 100	5897.76	↓3.69%	UK	0.10	↓28.57%	£/\$	1.3100	↑2.41%	Brent Crude	\$43.32	↓0.23%
S&P 500	3271.12	↑1.73%	US	0.54	↓8.47%	£/€	1.1108	↑1.17%	Gold	\$1973.30	↑4.72%
NIKKEI 225	21710.00	↓4.43%	Germany	-0.53	↑17.74%	€/£	1.1776	↑1.03%			
DAX 30	12313.36	↓4.09%	Japan	0.02	↑0.00%	£/¥	138.5300	↑2.03%			
CAC 40	4783.69	↓3.49%									

Figures quoted are in local currency
Source: FE Analytics & Financial Times

Week Ahead

Monday – Japan: GDP (QoQ)
Tuesday –
Wednesday – UK: Composite PMI (Jul)
Thursday – UK: BoE Interest Rate Decision (Jul)
Friday – US: Unemployment Rate (Jul)

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