Current Market News

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Wartime president?

What's happened

On July 6 at 12:01 a.m., the U.S. imposed 25% tariffs on $34 billion worth of imports from China targeting areas such as auto parts, electronic equipment, and machinery. China immediately retaliated with equivalent value tariffs targeting primarily U.S. agriculture. The Trump administration is already mapping out tariffs on an additional $16 billion worth of goods from China that would go into effect supposedly within the next month; again with China planning to respond in kind. The July 6 tariff implementation date has been known for a while now and was not a surprise to the markets. Chinese equities in particular have been struggling for the past month.

The U.S. for its part, has a list of **818 goods categories imported** from China that are **subject to the new 25% tariffs**.

What's next

Besides the expected follow-on tariffs of $16 billion worth of Chinese goods mentioned above, President Trump has also asked the U.S. Trade Representative to identify an additional $200 billion worth of goods for possible 10% tariffs, and potentially more after that. Essentially, all imports from China are on the table for future tariffs by the Trump Administration. Other areas of the trade confrontation between the U.S. and China are heating up as well. S&P 500 firm Micron Technology reported that China is blocking some of its chip sales in the country due to an ongoing patent case. Other non-tariff actions, such as port delays for U.S. goods in China are also being reported.

The Trump administration has already rejected China's trade proposals made in prior months that would have led to increased purchases of U.S. goods and further opening of certain markets. One challenge to a faster resolution is that different factions with the Trump administration are looking for different outcomes to the trade negotiations – all the way to wholesale changes of China's industrial policy and long-term economic path. Another challenge to a faster resolution is that neither side has reached meaningful pain levels from the current tariffs. The U.S. may believe that China's slowing economy gives the U.S. the advantage, whereas China may believe that the democratic system and corporate influence on politics in the U.S. will lead to a faster weakening of the U.S. position. This remains to be seen, but President Trump may cast himself as a "wartime president" to garner support if the administration looks to dig in for the long haul with China.

Economic and investment implications

The economic fallout from the current round of tariffs is not expected to be broad-based or sufficiently damaging to derail the U.S. economic expansion. The impact on certain industries, sectors, and companies will be meaningful, so we certainly don't trivialize these tariff actions. U.S. companies are in

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full-swing to re-evaluate their supply chains, and in the near term companies without pricing power will have to bear the costs and those with pricing power will pass them on to consumers.

China, even before these trade frictions, was already managing a gradual slowdown from its debt-fueled growth of the past several years. Other emerging markets, of course, are heavily exposed both to the U.S. and to China. Our recent downgrade to emerging markets reflected this concern. *From an economic standpoint*, the U.S. probably has a stronger hand than China's, but when and how each side will bend is as much a political question as an economic one.

Exhibit 1: Major goods targeted for tariffs by the U.S. and China

U.S. tariffs on China goods	China tariffs on U.S. goods
Pumps / Turbines	Soybeans
Electrical equipment	Aircraft
Manufacturing equipment	Cars
Office equipment	Computer chips
Electronics	Jet engines
Motors	Gold
Machinery	Medical instruments
Earth moving equipment	Chip making equipment
Radio-TV equipment	Scrap paper
Instruments	Chemical instruments
Motor vehicles	Fruits and nuts

Source: CNBC.com, International Trade Centre

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