Good MornING Asia - 19 September 2018

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By Nicholas Mapa

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International theme: Whatever you can tariff, I can tariff faster

- China struck back quickly, unleashing a less severe but still substantial tariff on good from the US in immediate response to the US move. The WTO has been called into play once again as mainland China added the latest $200bn worth of tariffs recently implemented by the US in the complaint.
- Canadian foreign minister Freeland heads down south to Washington DC to reopen trade negotiations with pressure mounting on Prime Minister Trudeau to get a deal done.

EM Space: Asian markets recover slightly as China and the US trade tariffs

- **General Asia:** Asian markets managed to post marginal gains as investors initially viewed the tariff spat to have been less severe than anticipated. Investors will still likely await developments on this front while Canada returns to the negotiating table with the US.
- **Thailand:** The Bank of Thailand policy committee meets today. Governor Veerathai has recently downplayed need of a policy move, leading to a solid consensus, 21 out of 24 analysts in Bloomberg survey, forecasting no policy change. We aren't the BoT to move the

policy anytime soon, as inflation is likely to grind below the medium-term target of 1-4% in coming months and growth is poised to slow further amid worsening trade environment. Nonetheless, we see nothing on the horizon threatening the THB's status as Asia's outperforming currency.

- **Malaysia:** August CPI inflation data is due. We expect a slowdown in inflation to 0.5% YoY from 0.9% in July on lingering impact of GST removal and with high base-year effect. Just as Thai central bank, we don't forecast any change to Bank Negara policy in the near term.
- **Indonesia:** Indonesia has required commodity exporters to retain half of the earnings while also converting and US Dollar receipts into the local currency onshore in a bid to help stem the weakness of the IDR
- **Philippines:** Economic managers met with investors on Tuesday, pledging swift non-monetary measures to curb inflation. Inflation has peaked and will likely decelerate towards year-end according to the Bangko Sentral ng Pilipinas although Governor Espenilla continues to telegraph a 50 basis point rate hike on 27 September.

What to look out for: Central bank meetings in Asia

- Developments on the tariff tit-for-tat after China unleashed its own salvo of taxes
- Japan BoJ meeting 9/19/2018
- Thailand BoT meeting 9/19/2018
- Euro zone consumer confidence 9/20/2018
- US existing home sales 9/20/2018
- US-China trade negotiations (deadline: end of September)
- Argentina-IMF credit line request (on-going)

Author

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

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From 10% to 25% and back to 10%, for now

After threatening to impose an immediate 25% tariff on Chinese goods, the Trump administration opted to raise duties by just 10%, for now. These kinds of tactics won't be effective for the negotiations. China will retaliate. But the force of the retaliation will depend on the degree of damage. A lower 10% tariff means the retaliatory measures will be less severe than they would have been otherwise.

China unlikely to return to negotiations amid threat of 25% tariffs

A 25% tariff on $200 billion of goods will now come into effect in 2019. This could be a strategy to force China back to the negotiating table. By then, US inflation will be on the rise, and Chinese exporters would be losing export orders.

Our note yesterday analysed why China would not return to negotiations before the end of US mid-term elections. It's now even harder for China to return to trade talks, as the threat of tariffs on $267 billion of goods is still on the cards. Again, this threat won't push China back into negotiations. On the contrary, it will deter China from seeking a compromise.

We believe that China will only return to negotiations if the US keeps its previous promise of no further tariffs. Then both sides can talk again. We hope this will happen though the chances are low.

Yuan likely to weaken further

USDCNH spot now at 6.8925 (08:00 Beijing time). We expect the yuan to weaken further.

Crossing 7.0 seems to be possible with the escalation of trade war though it could be temporary as the next day's fixing should manage the USDCNY back to below 7.0. But touching 7.0 could be a new norm.