Tariff news - isn't news

The latest tariff headlines aren't exactly news - these additional tariffs have long been flagged - we just now have a better idea of the start date - market reaction could be transitory

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Not fake news, just not news

That the remaining $257bn (give or take) of Chinese exports to the US would eventually be subject to tariffs if no trade deal was found, is not news. We have known this for months. What we did not know exactly, was when these would be implemented. Now, it looks like we can pencil in some rough dates into the calendar.

The idea is that non-talks with President Xi at the G-20 meeting - I don't believe there is a concrete agenda here, a week or so ago, these talks were not even happening - will yield an unsatisfactory trade outcome for the US (that is if they happen at all - Xi has virtually nothing to gain by even showing up). Following that, there will be a 60-day consultation period, when a list of items will be drawn up to cover all remaining Chinese exports to the US.

In practice, that puts the start date of these new tariffs sometime in February, which some are linking to the Chinese New Year, though I find it fanciful that this is deliberate. This will come shortly after the previous $200bn tariff list sees its tariff rates rise from 10% to 25%. I can't see anywhere anything that says what rate these new tariffs will be - the administration may not have got this far yet, but I suspect the US President's preference is for 25%, and it remains to be seen if he can be persuaded to phase these in starting at 10%, as he did with the last lot.

Market reaction - negative, but maybe not for long

Although these tariffs are not exactly news, the timing of the announcement just before the mid-terms may be construed by some as an attempt to boost President Trump's approval ratings ahead of the elections. Some polls have reported a fall in his approval recently if you take these seriously.

The S&P500 continues to trend down, with this tariff story probably providing a helping hand to further declines. Tariffs will squeeze profit margins and maybe also sales turnover, so theoretically aren't great news for the bottom line, whether it is in the US or China. That's not why they are being implemented though, and in any case, stocks weren't looking particularly strong before, so its hard to pin the entire blame on the latest stock sell-off this one factor.

The USD has responded as one would expect following the artificial terms of trade boost that a tariff increase will deliver. It has appreciated. The Chinese yuan continues to move steadily in the direction of 7.0 vs the USD, the EUR is also weaker. News that Germany's Angela Merkel will not stand again for re-election as head of the CDU flags the future departure one of the strongest political figures from European politics. Whichever side you support (if any), that's not a EUR positive development.

China quiet, for now

We haven't heard much from China over the latest tariff announcement. Sales tax cuts on autos with engine capacity under 1600cc from 10% to 5% should spur not only national auto firms but the big foreign producers too - including US auto producers and exporters. But these tax cut suggestions are not a response to the latest tariff announcements, though they might as well be. There are other less headline-grabbing tax cuts too. What these do, is signal China's intent to use fiscal policy (as well as all other policy tools at their disposal) to mitigate the worst of the damage from the trade war. This is not a costless response, but at least it helps to minimize the damage that might ensue from a tit-for-tat policy response, which given the disparity in Chinese trade flows with the US, is not feasible anyway.

The latest news comes hard on the heels of disappointing industrial profits figures, and further stock market losses, in spite of government attempts to use state-backed funds to support the stock market. Yesterday saw the announcement that these firms were buying, not selling, after confusion over recent news that these firms were liquidating their positions caused some anxiety. Easier share buy-back rules could also help stop the rot in Chinese shares, which are down 23% year to date (Shanghai composite).

Asia Day ahead

Newsflow out of Asia has not got off to a terribly good start with Korean business surveys showing further signs of weakness, in particular in the manufacturing sector. Discount store sales later this morning will show whether this weakness is being offset by household spending. So far, the Korean household sector has held up reasonably well. But with unemployment rising and high levels of debt, this remains vulnerable.

Australian building approvals for September have also already been released. And they are weaker than expected, though there is some historical revision at work here, and allowing for that, the figures merely look disappointing at -14.1%YoY (dwellings), though have a way to fall to match the October 2016 low of -23.4%YoY.

And this from Prakash Sakpal on Thailand**:** Thai manufacturing for September is due today. Our estimate of -0.5% YoY growth is close to the center of estimates ranging from -3.5% to +2.2% in the Bloomberg survey. A surprising 5% YoY fall in exports in September doesn't bode well for manufacturing. Data will help us to fine-tune our 3Q GDP growth forecast, currently 4.1% (4.6% in 2Q). Yesterday the finance ministry reaffirmed its 2018 GDP growth forecast of 4.5%, but cut its export growth forecast to 8% from 9.7% projected three months ago. The ministry expects no change to central bank policy this year.

Author

Alissa Lefebre
Economist
alissa.lefebre@ing.com

Deepali Bhargava
Regional Head of Research, Asia-Pacific
Deepali.Bhargava@ing.com

Ruben Dewitte
Economist
+32495364780
ruben.dewitte@ing.com

Kinga Havasi
Economic research trainee
kinga.havasi@ing.com

Marten van Garderen
Consumer Economist, Netherlands
marten.van.garderen@ing.com

David Havrlant
Chief Economist, Czech Republic
420 770 321 486
david.havrlant@ing.com

Sander Burgers
Senior Economist, Dutch Housing
sander.burgers@ing.com

Lynn Song
Chief Economist, Greater China
lynn.song@asia.ing.com

Michiel Tukker
Senior European Rates Strategist
michiel.tukker@ing.com

Michal Rubaszek
Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea
Economist, Romania
tiberiu-stefan.posea@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Jesse Norcross
Senior Sector Strategist, Real Estate
jesse.norcross@ing.com

Teise Stellema
Research Assistant, Energy Transition
teise.stellema@ing.com

Diederik Stadig
Sector Economist, TMT & Healthcare
diederik.stadig@ing.com

Diogo Gouveia
Sector Economist
diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com

ING Analysts

James Wilson
EM Sovereign Strategist
James.wilson@ing.com

Sophie Smith
Digital Editor
sophie.smith@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Adam Antoniak
Senior Economist, Poland
adam.antoniak@ing.pl

Min Joo Kang
Senior Economist, South Korea and Japan
min.joo.kang@asia.ing.com

Coco Zhang
ESG Research
coco.zhang@ing.com

Jan Frederik Slijkerman
Senior Sector Strategist, TMT
jan.frederik.slijkerman@ing.com

Katinka Jongkind
Senior Economist, Services and Leisure
Katinka.Jongkind@ing.com

Marina Le Blanc
Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan
Junior Economist
samuel.abettan@ing.com

Franziska Biehl
Senior Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne
Senior Editor and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)
mirjam.bani@ing.com

Timothy Rahill
Credit Strategist
timothy.rahill@ing.com

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Oleksiy Soroka, CFA
Senior High Yield Credit Strategist
oleksiy.soroka@ing.com

Antoine Bouvet
Head of European Rates Strategy
antoine.bouvet@ing.com

Jeroen van den Broek
Global Head of Sector Research
jeroen.van.den.broek@ing.com

Edse Dantuma
Senior Sector Economist, Industry and Healthcare
edse.dantuma@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Rico Luman
Senior Sector Economist, Transport and Logistics
Rico.Luman@ing.com

Jurjen Witteveen
Sector Economist
jurjen.witteveen@ing.com

Dmitry Dolgin
Chief Economist, CIS
dmitry.dolgin@ing.de

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

Egor Fedorov
Senior Credit Analyst
egor.fedorov@ing.com

Sebastian Franke
Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga
Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier
Head of Corporates Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter
Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen
Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com

Thijs Geijer
Senior Sector Economist, Food & Agri
thijs.geijer@ing.com

Maurice van Sante
Senior Economist Construction & Team Lead Sectors
maurice.van.sante@ing.com

Marcel Klok
Senior Economist, Netherlands
marcel.klok@ing.com

Piotr Poplawski
Senior Economist, Poland
piotr.poplawski@ing.pl

Paolo Pizzoli
Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Marieke Blom
Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering
Senior Macro Economist
raoul.leering@ing.com

Maarten Leen
Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller
Head of Financials Sector Strategy
Maureen.Schuller@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Inga Fechner
Senior Economist, Germany, Global Trade
inga.fechner@ing.de

Dimitry Fleming
Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu
Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com

Sophie Freeman
Writer, Group Research
+44 20 7767 6209
Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA
Regional Head of Research, Americas
padhraic.garvey@ing.com

James Knightley
Chief International Economist, US
james.knightley@ing.com

Tim Condon
Asia Chief Economist
+65 6232-6020

Martin van Vliet
Senior Interest Rate Strategist
+31 20 563 8801
martin.van.vliet@ing.com

Karol Pogorzelski
Senior Economist, Poland
Karol.Pogorzelski@ing.pl

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

Viraj Patel
Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

Owen Thomas
Global Head of Editorial Content
+44 (0) 207 767 5331
owen.thomas@ing.com

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroder@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Gustavo Rangel
Chief Economist, LATAM
+1 646 424 6464
gustavo.rangel@ing.com

Carlo Cocuzzo
Economist, Digital Finance
+44 20 7767 5306
carlo.cocuzzo@ing.com