

## Trade crusade

It was well flagged, but the \$50bn tariffs on China are no less disturbing for all that



### New tariffs on China

Having given so many exemptions to the steel and aluminium tariffs that it was beginning to look like a China tariff after all, the Trump administration has announced a further \$50bn of tariffs on Chinese goods. We don't know what these are yet but should have a better idea within 15 days, when US Trade Representative, Robert Lighthizer, will provide a list. What is being reported currently is that it will be aimed at aerospace, information and communication, machinery - basically technology on which the US accuses China of having infringed intellectual property rights (IPR).

Without taking sides on the IPR dispute, we don't believe tariffs are likely to deliver a positive global outcome, and the 3% decline in US stocks overnight suggests that markets agree.

If the tariffs go ahead as planned, then we believe China will retaliate. It is impossible to imagine that they cannot. And then we expect the US to retaliate further etc. This can turn ugly on a global scale very quickly. And synchronous global growth or not, markets are right to be pricing in a more subdued outlook. The JPY is one barometer of global risk concerns and looks strong today.

Although this trade dispute is largely a US / China one, it has the potential to embroil much of the

Asian region. Although trade growth figures are generally positive, we have been concerned for some time that they are narrowly focussed, with much of the gains coming from one source alone - semiconductors. Even here, trade flows appear to have topped out for some countries. Asian export growth is not so strong that they can just shrug off any spillover effects from tariffs on China. We are concerned.

## Japanese inflation - there still isn't any

Yes, National CPI inflation in Japan has risen to 1.5%, and the core rate has risen to 1.0%, but before you rush to congratulate BoJ Governor, Kuroda on getting halfway to his inflation target, stop for a brief moment to note that the broader core, which excludes all food and energy prices, is only 0.3%YoY. LNG prices across Asia are rising as China seeks to battle emissions and pollution and use cleaner gas (instead of coal) to fire its power plants. With little other option following its nuclear disasters, Japan is in a seller's market for LNG, having to accept the world price, whatever that is with little option to substitute into other fuels. This is not "good" inflation driven by demand. This is a negative supply shock. Nothing for the BoJ to cheer here.

## Day ahead

Inflation in Singapore is also conspicuous by its absence, though the core figures continue to run well above the headline, mainly because these strip out the effects of the weak property market. The effects of this are beginning to ease off, so we should begin to see headline inflation nudging ever so slightly higher, perhaps even with today's release of figures for February. Core prices might also rise a little. With the MAS decision on policy stance next month, this helps the case for tighter policy, which has been our low-conviction call since October last year. But a lot of other data has been very mixed for Singapore, and rising inflation does not make us that much more comfortable with our forecast.

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