

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.

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom

this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.