

Trade war escalates amid new US tariffs

After announcing 10% tariffs on \$200 billion of goods, the US said it would raise it to 25% in 2019. The tariff list has also been revised to exclude some consumer goods. We believe that China will retaliate



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.

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