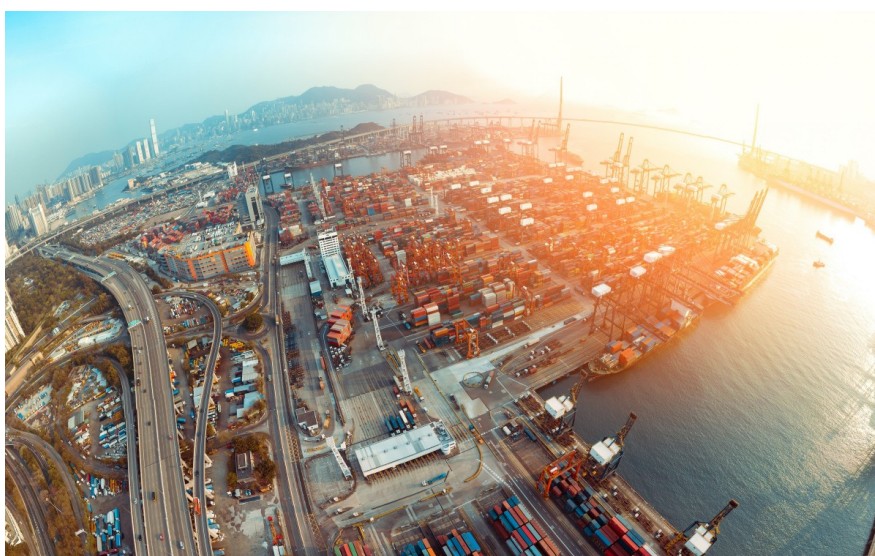


What? More Tariffs!

Trade talks were described as "constructive". Now we have an additional 10% tariffs on \$300bn of Chinese exports. This may require a rethink by the Fed, and Beijing.



Aerial view of Kwai Tsing container terminals Hong Kong, China

New tariffs not a total surprise...

Although I confess to being totally surprised at the speed with which US President, Donald Trump, has levied an additional 10% of tariffs on \$300bn of Chinese exports, the scenario of a further intensification of the trade war before an eventual deal/truce to coincide with the Presidential Election, was actually our house base case, set several months ago and documented by our trade team in conjunction with the views of our US and China economists.

However, in recent weeks, the window for a further intensification of the trade war seemed to be narrowing, and I admit that I haven't been pushing this view very forcefully. Call it a base, but low conviction assumption amongst many permutations of the trade war that were possible. But in the end, it seems to have been remarkably prescient.

The reaction from China has been fairly predictable. They have apparently already cancelled 14,700 metric tons of US pork in the fallout from the latest announcement, and USDCNY has spiked a little higher. I guess it could go a little further yet. No point in trying to claim the moral high ground on the currency if you are going to get hit by tariffs anyway. That's one way of looking at it.

Chinese growth already looked under strong pressure, and export-oriented private-owned manufacturing companies woes were being offset rather than shielded, with infrastructure spending growth. The GDP result may, as a result, have been modest so far, but this is an "apples and oranges" comparison, and apart from a few Chinese officials, whose success probably does derive from hitting GDP and other targets, this isn't particularly reassuring to the international investment community. As recent PMI data have shown, China is really beginning to open up a two-speed economy.

Its early days in this and not my call in large part to determine what now happens to economies and markets.

What now?

Its early days in this and not my call in large part to determine what now happens to economies and markets. However, in an early bid to consider what may now transpire, our Greater China Economist Iris Pang, [has some interesting thoughts in a note she knocked together quickly this morning](#). I had anticipated this morning's note waffling about how tonight's non-farm payrolls release would either cause markets to side more with the Jerome Powell view of a mid-cycle correction and see further yield curve flattening. But that's all for the birds now. Payrolls, schmayrolls! If you still care, [please read this from James Knightley](#).

Today, 2Y US Treasury yields are down 14.4bp to 1.730. Fed funds futures have moved aggressively to price in more easing. 10Y yields have also dropped sharply, and are now 1.89%, though a smaller drop than at the front end. Stock markets are deep in the red. I expect more of this in the coming days.

Markets were hoping for a string of easing from the Fed. Be careful what you wish for because if that is what we will now get, we will get it for good (that is to say "bad") reason. And risk assets won't like that backdrop, nor will Asian FX if today's movements are anything to go by.

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