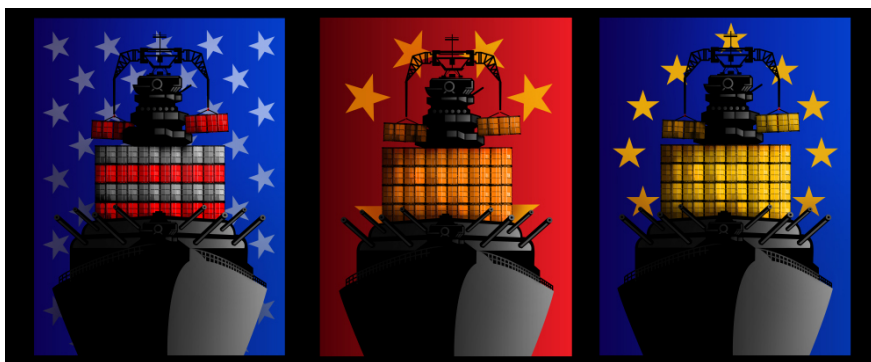


## China likely to retaliate to US tariff increase

The US increased tariffs on \$200 billion of Chinese goods to 25% on Friday. We believe that China will retaliate in kind, with \$30 billion worth of tariffs on US goods. This could happen either today or tomorrow. But it will become increasingly difficult for China to respond to a further round of tariff hikes



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### Retaliation from China is highly expected

We believe China will retaliate in kind, with \$30 billion worth of tariffs on US goods, the amount that the US has increased tariffs on Chinese goods today. This could be announced during a regular media briefing in the afternoon. China could also delay this tariff until Vice Premier Liu He returns to China tomorrow. In any event, this will happen very soon.

### But how can China retaliate in kind if US imposes 25% tariffs on remaining goods

It is very difficult for China to retaliate in kind if the US imposes 25% tariffs on the remaining goods (about \$289.5 billion, according to [US data](#)).

What we expect is that China will apply a mix of tools to penalise the US:

- First, it will impose higher tariffs on most US goods shipped to China. But this won't make up the whole amount of tariffs imposed by the US on Chinese goods.
- Second, it will make life more difficult for US companies operating in China, possibly

by stepping into M&A deals in China

However, we do not expect China to sell US Treasuries. This is a tool that China will save as a last resort, and it may not even be used in the unlikely event of a breakdown in the trade negotiations.

## USDCNY is less affected but USDCNH more volatile

The yuan will be little affected by this, as the news has been expected for a few days and has already digested by the market.

In fact, the volatility decreased after the US imposed the additional tariffs on China.

We believe the yuan, USD/CNY, will continue to remain calm while USD/CNH could be more volatile. We expect that both yuan exchange rates will head to 6.75 by the end of 1H19.

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