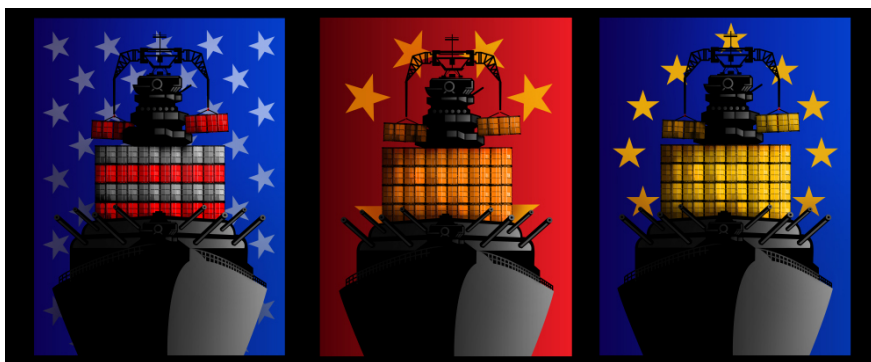


China likely to retaliate to US tariff increase

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.