

Pluses and minuses for President Trump on trade

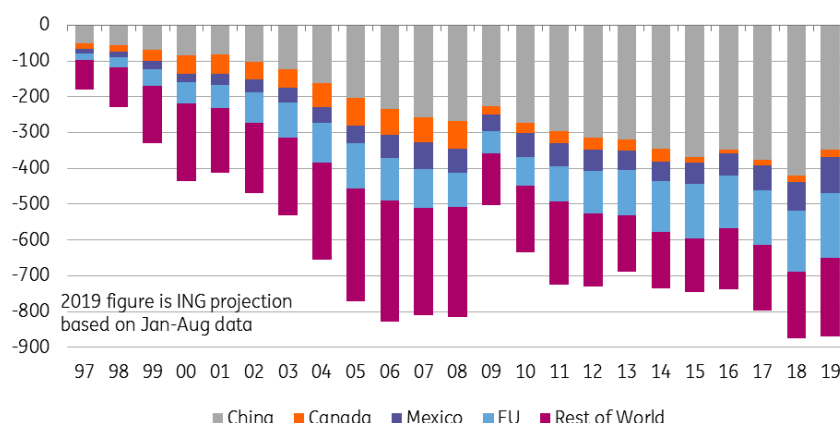
While Donald Trump may feel the contraction in the trade deficit with China vindicates his tough stance, the deficit overall is widening. This suggests Chinese imports are merely be substituted for other Asia, Mexico and EU imports rather than US manufacturers picking up the slack



The US trade deficit widened further in August to stand at US\$54.9bn. Strip out petroleum and it is the widest deficit since December last year. This shouldn't be a huge surprise given the US consumer sector has been a key driver of growth, which has helped to suck in imports. Exports though continue to be impacted by the weaker global growth environment and the strong dollar, which has hurt international competitiveness.

Nonetheless, President Trump is likely to take some comfort from the fact that the trade deficit with China narrowed yet again, which he can use to justify his tough rhetoric in trade negotiations. On a year-to-date basis, the trade deficit with China has narrowed by US\$30bn. Unfortunately, this has been fully offset by a YTD increase in the trade deficit with Mexico of US\$15.8bn and US\$14.9bn with the EU. In aggregate the US trade deficit is currently on track to be broadly in line with the record trade deficit experienced last year.

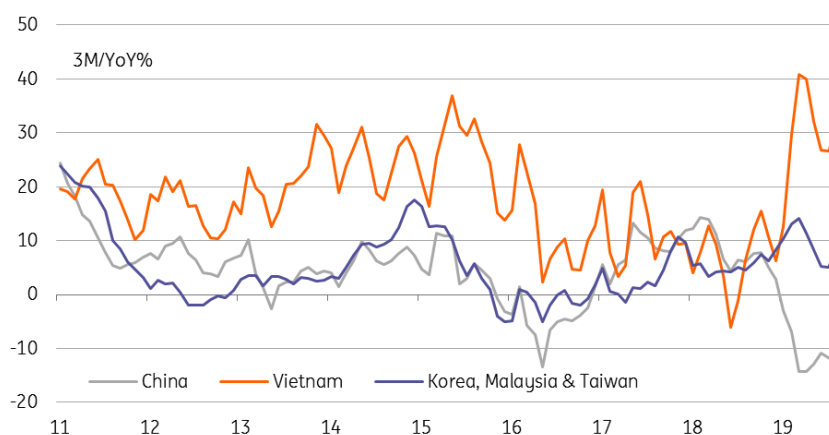
US goods deficit by country (\$bn)



Source: Macrobond, ING

Moreover, as we highlighted in our recent [piece](#) on who is winning the US-China trade war, while China is obviously feeling some pain, the deterioration in the trade balance of what is likely to be around US\$50bn equates to around 0.4 percentage points of Chinese GDP. In any case, there is evidence that some Chinese exports to the US are being re-routed via Vietnam given Vietnam manufacturing output is only rising 10% YoY yet exports to the US are running at 30% YoY. As our Asia team continues to point out China is being hurt far more by the downturn in the tech cycle than through the imposition of tariffs.

The curious case of Vietnam's export boom - US imports by Asian country



Source: Macrobond, ING

Trade talks with China resume next week and we remain pessimistic on a material breakthrough with China unlikely to suddenly give in to US demands surrounding market access and intellectual property. With trade tensions with the EU on the rise again this opens up another front in the trade war, although it is interesting to contrast the more orthodox way the US administration is going about it using the WTO rather than unilaterally declaring action.

As we repeatedly state, these trade tensions put up costs and impact supply chains, thereby weakening corporate profitability and business sentiment. This, in turn, leads to a downturn in investment and hiring, which is a clear threat to global growth. Consequently, central banks globally will retain an easing bias in this environment.

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