

# The Tariff Saga

April 13<sup>th</sup>, 2018



As expected, trade tensions between US and China have continued to manifest in near-term volatility in the markets. While ongoing banter between the US and China could indeed be nothing more than a negotiating tactic, uncertainty (and volatility) is almost certain to prevail in the near-term.

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## Timeline: Trade relations between US and China

Date	Action Taken	Market Response
March 22 <sup>nd</sup>	Trump announces tariffs on \$50 billion of Chinese goods in retaliation for Chinese intellectual property violations	DOW: -2.93% S&P 500: -2.51%
April 3 <sup>rd</sup>	The USTR provides the detailed list of ~1300 products that will be subject to the proposed 25% tariff – targeting high-tech industries where China seeks to dominate	DOW: 1.65% S&P 500: 1.27%
April 4 <sup>th</sup>	China responds promptly with equal-sized reciprocal tariffs on \$50 billion of US goods (25% tariff on imports of 106 US products including soybeans, autos, chemicals, and aircraft)	DOW: 0.97% S&P 500: 1.16%
April 5 <sup>th</sup>	Tensions resurface once again after President Trump orders his administration to consider tariffs on an additional \$100 billion in Chinese goods “in light of China’s unfair retaliation”	DOW: 1.02% S&P 500: 0.70%
April 6 <sup>th</sup>	China strikes back and says the nation will follow suit “to the end, and at any cost”, stating that it will use “new comprehensive countermeasures” to defend its interests	DOW: -2.34% S&P 500: -2.19%
April 10 <sup>th</sup>	Xi Jinping’s speech at the Boao forum for Asia tempered concerns, as he pledged to continue to attract more foreign direct investment by relaxing restrictions on financial services, lowering auto tariffs, and strengthening foreign intellectual property rights.	DOW: 1.79% S&P 500: 1.68%

Statements from Washington and Beijing alike have suggested that neither side seem very keen on the prospect of a trade war. China’s Vice Finance Minister Zhu Guangyao and US officials from Commerce Secretary Wilbur Ross to Treasury Secretary Steven Mnuchin have expressed hope for a negotiated solution. Towards the latter half of the week, US officials continued to avoid any language of certainty involving Chinese tariffs or the potential of a trade war:

- ▶ APRIL 5: National Economic Counsel Director Lawrence Kudlow suggested that the proposed tariffs may never go into effect (“only proposals”), while stating that the latest developments are “potentially” a negotiating ploy.
- ▶ APRIL 6: US Trade Representative Robert Lighthizer said that “no tariffs will go into effect until the respective process is complete” and Director Kudlow stated that serious talks “have not really begun”.
- ▶ Meanwhile, Republicans are warning President Trump that a trade war with China would deal an economic blow to politically important areas ahead of November’s midterm elections.

The latest hard-line rhetoric from President Trump has threatened to undermine these efforts by top US and Chinese officials to defuse tensions and stave off a major conflict. While the prospects for a full-blown trade war between the US and China have indeed risen, we believe there is still time for negotiation, and President Xi’s speech on April 9<sup>th</sup> seemed to indicate a willingness to address US concerns. It should be stressed that nothing by way of tariff escalation

between the two countries has been implemented or in any way formalized at this point. For instance, the US still has not produced a list of products for the additional \$100 billion announced on April 5th and China has yet to lay out a timeframe for finalizing and implementing its counter-measures (and has stated that it will not impose tariffs until the US does). The current US tariff list still must undergo approximately two months of public consultation after which the US will have at least another six months to decide which tariffs to introduce.

We expect continued volatility over the near-term and will be closely monitoring the situation over the coming months.

### SEE HOW THE STORY HAS DEVELOPED

When President Trump first announced new tariffs at the end of March Candice Bangsund, CFA was quick to shed some light on the possible implications. Please click [here](#) to read her piece published on March 23<sup>rd</sup> entitled [Trade Protectionism](#).

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