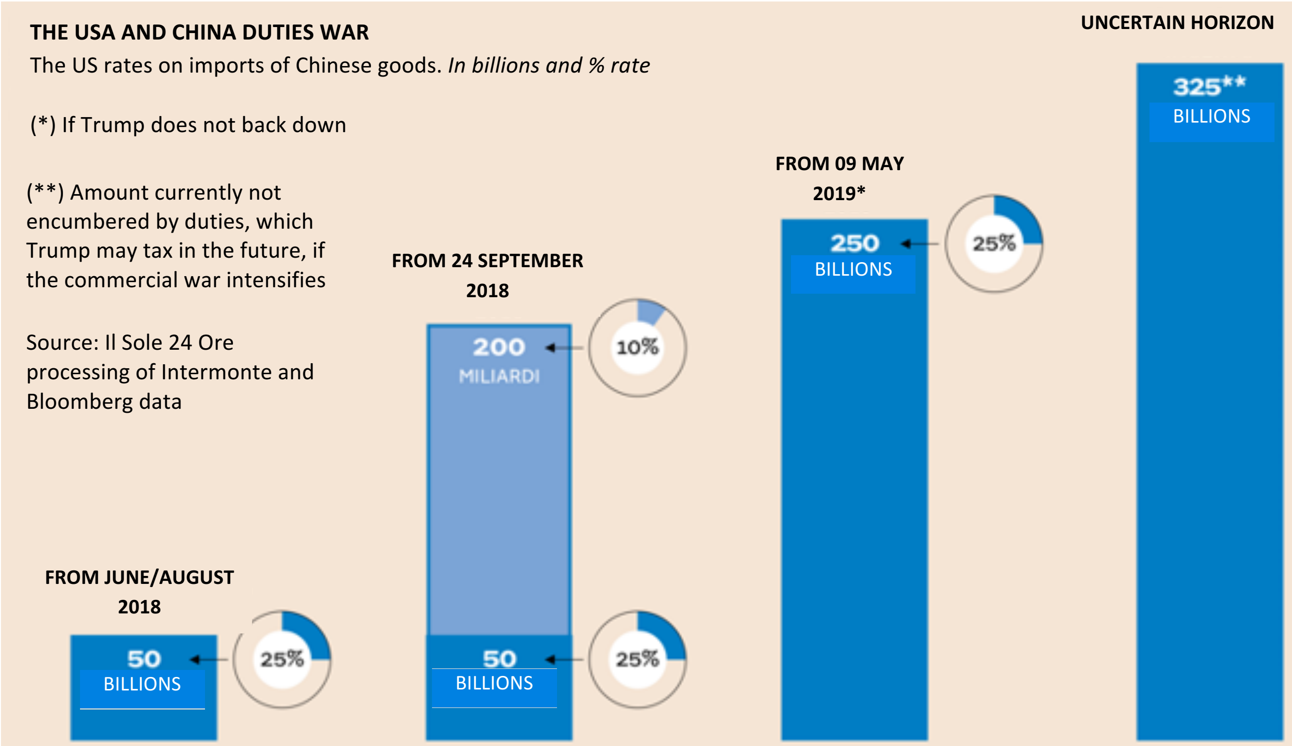
Stock exchanges, what if Mr Trump isn't bluffing about duties?

– by **Vito Lops** | 07 May 2019

In the morning, when financial operators observe the first listings oscillating on the monitors, they would now do well to get into the habit of also taking a look at US President Donald Trump's Twitter profile. Because it took just two tweets (on 5 May) to compromise the ideal scenario that was starting to emerge for investors, that typical of the Goldilocks economy, in which the economy grows constantly but not so sufficiently as to warrant fears over inflation and, consequently, a rise in rates.

In his tweets, Mr Trump made an explicit threat against China. If it does not concede to an agreement in the next few hours, starting 9 May the USA will raise the rate of duties over 200 billion imported Chinese goods, from 10% to 25%. It will only be a few hours, therefore, before we see whether or not Mr Trump is bluffing and if this is all part of his typical negotiating strategy, or if on the other hand he has effectively run out of patience and the commercial war is heading not towards a resolution (as last Friday's markets hypothesised), but instead a sudden escalation.

"At present, the USA imports goods worth a total of around 500-520 billion dollars from China. Of these, 50 billion are encumbered by 25% duties (started last summer) and 200 billion are taxed at 10%," explains Antonio Cesarano, Chief Global Strategist for Intermonte sim. "The threat is that the 25% rate will be extended to include these 200 billion as well. The increase was to be applied starting 1 January, but in December the two super-powers reached an agreement, declaring a truce on the commercial war".



The threat is now back and stronger than ever. With an impact on the financial markets. Indeed, yesterday Shanghai lost 5%, also having an impact on the European and Wall Street stock exchanges (albeit to a lesser degree). China has yet to respond officially to Mr Trump's tweets, allegedly furious that negotiations have halted over the clauses of the contract which stipulate the measures to be taken if the terms are not complied with.

Is Mr Trump bluffing?

The experts are divided, although at present the opinion that it is a bluff prevails. "Mr Trump's announcement that he will be imposing new duties on more than 200 billion dollars worth of products imported from China sounds much like a bluff aimed at speeding up a commercial agreement before entering election campaign mode, in view of the US 2020 elections," said Luca Riboldi, Investor Manager of Banor Sim. "The market has today shown that it does not credit a breakdown to negotiations, recording a minimum decline of 1%. We believe that the two powers will reach at least a partial commercial agreement, favourable to the USA especially in terms of agricultural raw materials and industrial goods".

Neil Goddin, Co-Manager of the Kames Global Equity Fund, believes that "China will not want another dive to the market and it is likely to attempt to maintain a certain balance between news and opinions, thereby weakening the impact of the President's tweets".

It will be interesting to see how things develop over the next few days. "The US markets," Goddin continues, "have taken the news with far fewer concerns than Asia. It is therefore likely that, in the USA, there is a stronger belief that this is merely a bluff on Mr Trump's part. If the United States were to follow through with the threat and impose new duties starting this weekend, China would almost certainly meet fire with fire, which would slow the markets in the next few days. This is why we believe it is more a matter of smoke and tactics than a prelude to reality. As long-term investors, it is almost impossible to attempt to exploit these prolonged political disagreements but we will certainly be keeping a very close eye on the situation".

According to the latest rumours, the Chinese delegation, guided by Deputy Premier Liu He, will in any case be heading over to Washington this week. In that case, it may also be that Mr Trump’s reaction is just one of his many negotiation tactics, in order to move out of the stalemate and gain an advantage before closing the negotiations.

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"From our point of view, in light of the information available at present, what seems clear is the commercial attempt by Mr Trump, who now acts with a consolidated pattern (as we have already seen previously with North Korea, Mexico, etc.), whereby he puts the adversary under pressure with a unwelcome proposal, before thereafter reaching an agreement," said Fabiola Banfi, Valeur Asset Management Investments Manager. "In this case, the stakes are high because there could be real repercussions for both counterparties, in not only commercial and social-economic terms, but also in terms of the financial markets at a global level".

First China, then Europe

"Mr Trump intends to speed up negotiations, because his aim is to close with China by end May," concludes Mr Cesarano. "This is why he is attempting to force the situation, with the risk that if he comes up against a wall on the other side, his bluff will have to be backed up with hard facts. Mr Trump wants to close by the end of May because afterwards, with the European elections over, he will need to negotiate with Europe and his aim may be to do so with a weakened Ms Merkel. In Europe, the clash will be between agricultural products and the car sector".

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