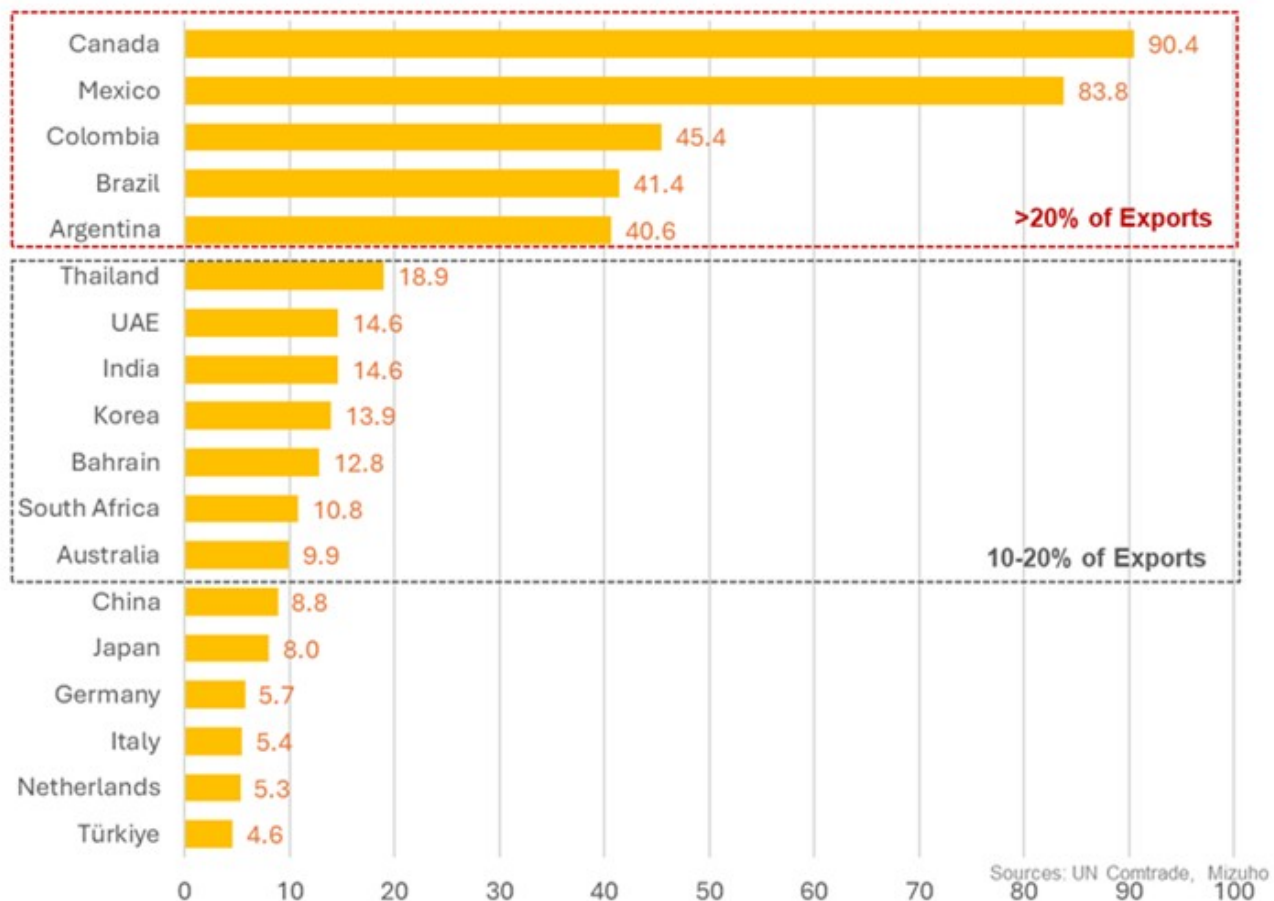


Risks of Doubling Steel (& Aluminium) Tariffs

Figure 1. % of (Weighted) Steel & Aluminium Exports Headed for US



"Maybe self-improvement is not the answer. Maybe self-destruction is the answer" – Fight Club Wars

In a Nutshell:

- **Doubling** the **steel** and **aluminium tariffs** are ostensibly aimed at **protecting the US steel industry** and **jobs**.
- And to that end, **sweetening the US Steel-Nippon Steel deal**.
- Although this will necessarily be **at the expense of global** steel (outside of Japan) and aluminium **producers**.
- Notably, *Canada, Mexico, Colombia, Brazil* and *Argentina* (given more than 40% US market exposure for steel and aluminium) *will hurt most*.
- In Asia, Thailand, Korea, India are most exposed followed by Australia. In contrast, Japan is hedged (via Nippon) although assuming investment/control risks.

- But the **US will not be unscathed** given more expensive onshore (US) steel and aluminium will inevitably **raise costs**.
- **Ultimately** this will prove to be an act of **self-harm**, **hurting** the **competitiveness of downstream US industries** (e.g. construction, autos).
- **FX/AXJ**: Admittedly, **USD may be hobbled by self-harm**. But in Asia, **THB, KRW, INR and AUD may underperform vis-à-vis JPY**.
- **Rates**: A **higher cost structure in US industries**, with **“US+1” fragmentation a risk**, suggests a **steeper curve**, which in turn may *accentuate high-yield under-performance*.
- **Doubling Down**: President Trump **doubled steel and aluminium tariffs to 50%** from 25% (effective 4th June). While ostensibly aimed at a **leg-up for the US steel industry**, this may *ultimately be self-defeating*.
- **To Assure US Production and Jobs**: To be sure, by **raising the “fence” for foreign steel imports**, the objectives are, ostensibly, to **lift domestic production** (from **import substitution**) and consequently **retain/protect jobs** (as **capacity cuts** are **averted**).
- **Sweetening the US-Japan Deal**: Arguably, this **sweetens** the **US Steel-Nippon Steel merger**, as it hands US-produced steel/aluminium **greater assurance of captive** (US onshore) **demand**.
- **Alleviates Uncertainty on Investment Returns**: Crucially, the intended demand backstop, **alleviates risks of falling short on required returns on investments**.
- **Protects US Steel Margin & Jobs**: In turn, this margin buffer (from prohibitively high tariffs) burnishes production, thereby protecting jobs.
- **At the Expense of Global Producers/Exporters**: This **advantage for the US steel industry comes at the expense of global producers exporting to the US**.
- **Steel**: **Canada, Mexico and Brazil** are **worst-hit** (44-90% dependence) followed by **Argentina, Thailand, India, Australia, Korea and Colombia** (Figure 2).
- **Aluminum**: **Canada, Colombia, Mexico and Argentina** (>50% dependence) are **worst-hit** followed by **South Africa, UAE, Brazil, Bahrain, Korea, India, Thailand, China and Japan** (Figure 3).
- **Margin Pressures Elsewhere**: Arguably, **global producers most dependent on the US markets**, now *forced to compete in other markets*, will have their **margins hurt most**.
- **Differentiated**: *But unevenly so*, as **exposures/dependence/access vary considerably**.
- **& (USMCA) Dependent**: *Without USMCA carveouts**, **pain may be most acute* for Canada and Mexico**.
- **LatAm & Asia Vulnerabilities**: LatAm (Colombia, Brazil and Argentina) is relatively more exposed, although Asia exposures feature prominently.
- **Asia Divergence**: In Asia, Thailand, Korea, India, Australia are most exposed followed by Australia.
- **Japan's Nippon Hedge that Swaps Risks**: Whereas Japan has a hedge via Nippon Steel. But that said, Japan/Nippon Steel may be swapping market access/US margin for investment/control risks.
- **US Not Unscathed**: The thing though is that the **US will not be unscathed as steel/aluminum tariffs are merely passed downstream**.
- **Self-Harm**: **Ultimately** raised costs of US steel and aluminum will prove to be an act of **self-harm**, **hurting** the **competitiveness of downstream US industries** (e.g. construction, autos).

- Without Exports Breakthrough: Fact is, *unless US-Nippon scale to become a globally dominant exporter, higher import tariffs will only incentivize higher onshore prices.*
- The “US+1” Risk: Forced manufacturing in the US *at the pain of tariffs* risks “US +1”. That is, US manufacturing **only for the US market** as the **cost structure is not globally viable**.
- FX/AXJ: To be sure, *USD may be hobbled by self-harm*. But in Asia, *THB, KRW, INR and AUD may underperform vis-à-vis JPY*.
- Rates: A higher cost structure in US industries, with “US+1” *fragmentation a risk*, suggests a **steeper curve**, which in turn may accentuate *high-yield under-performance*.

* Further clarification may be needed on this

Figure 1. % of All Steel Exports Headed for US Markets

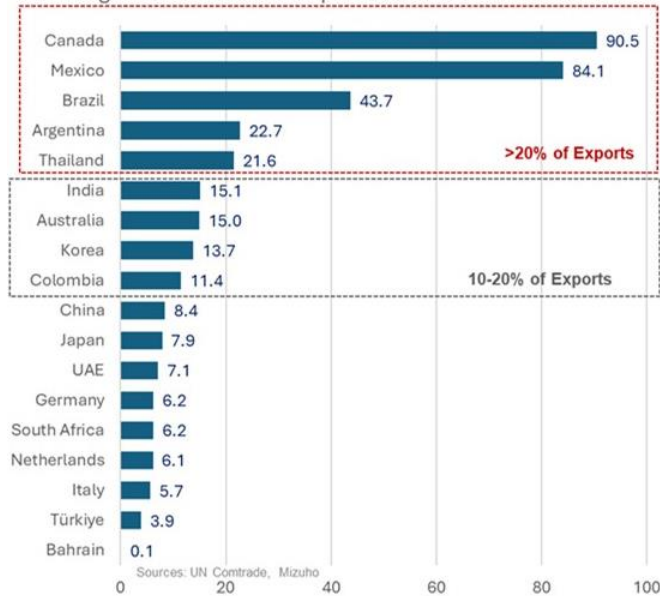
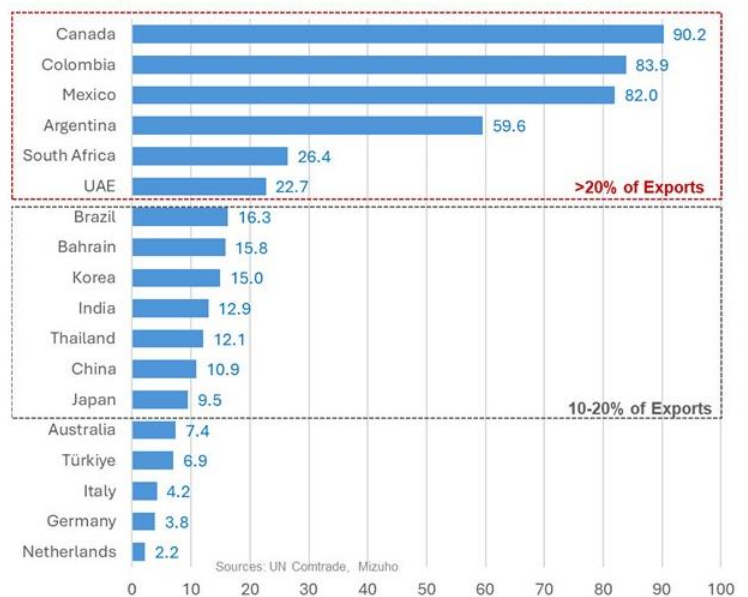


Figure 3. % of All Aluminium Exports Headed for US Markets



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