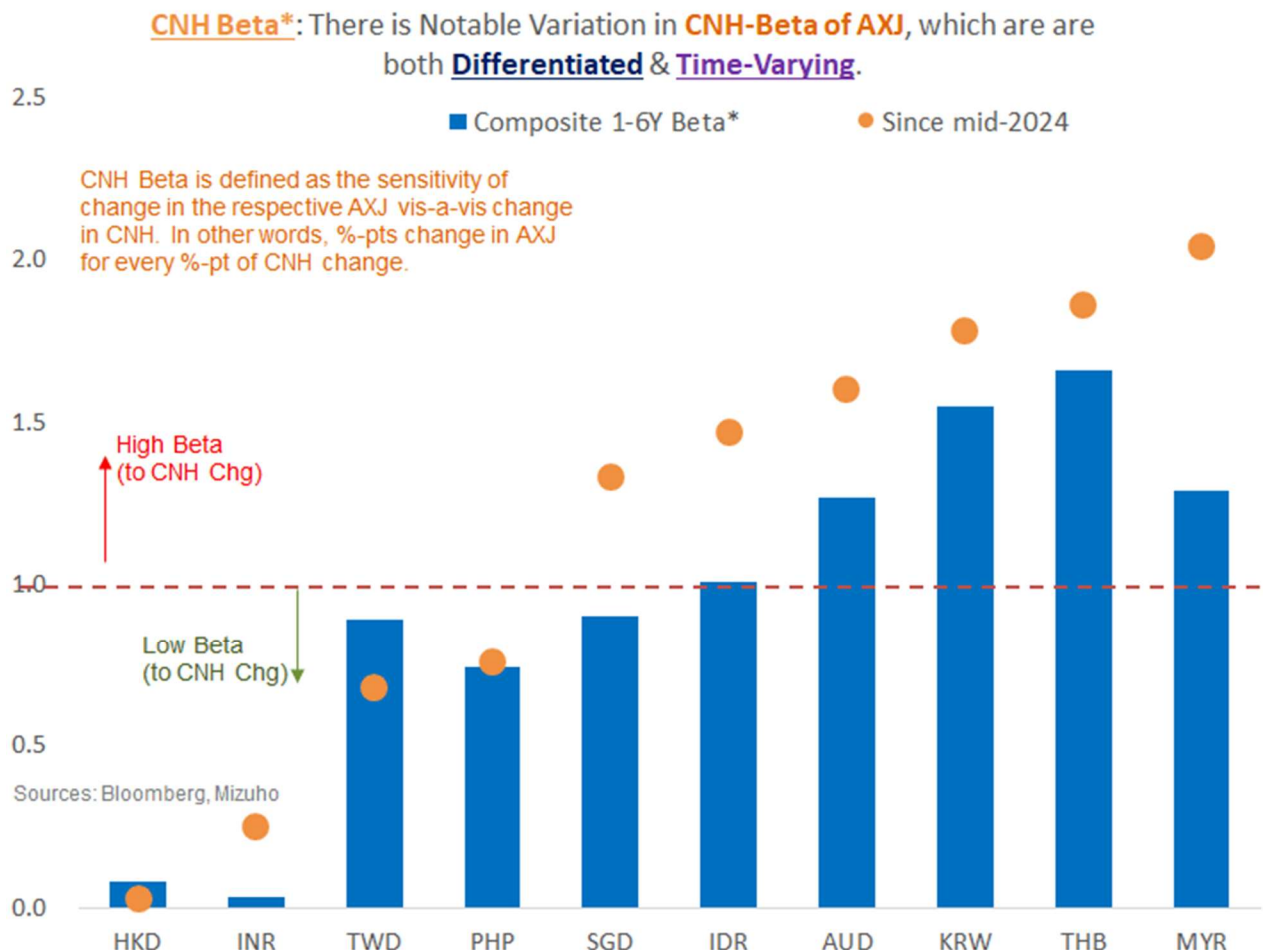


US-China Trade War: Not All Tariffs are Created Equal

“Move not unless you see an advantage; use not your troops unless there is something to be gained; fight not unless the position is critical.” – Sun Tzu, *The Art of War*

- [China Tariffs Kick-in Unlike \(In Contrast to Mexico-Canada Reprieve\)](#): The **10%-pt increase on universal China tariffs has taken effect** as Beijing has failed to secure the temporary suspension on tariffs as Mexico and Canada.
- [Different Game & Higher Stakes](#): This **stark difference in China tariff outcome** (vs. Mexico and Canada) **does not surprise**. As noted in our “Macro Daily” Note* report, *“The tariff tool may be the same. But the game is different, and the stakes higher”*.
- [Overarching Geo-Economic Factors](#): Crucially, *“the overarching geo-economic dimensions to US-China trade means that resolution will be far more fraught than is the case with Mexico and Canada”*.
- [Beijing Hits Back](#): China has responded with tariffs as well as trade/industrial action of its own, although far more targeted in range.
 - 15% tariffs on US coal, LNG; 10% tariff on crude oil, agricultural machinery & vehicles
 - In addition, PVH Group (that owns Calvin Klein and Tommy Hilfiger) and Illumina Inc (a gene sequencing firm that has partnered Nvidia) are placed on the “Unreliable Entity” list
 - Beijing will also probe Google for anti-trust violation
 - Export control on tungsten-related materials
- [Inadvertently Ups the Ante](#): This **tariff retaliation by Beijing** inadvertently **ups the ante on an escalatory tit-for-tat trade conflict should Trump exercise the clause** (in his Executive Order) **to lift tariffs in response to retaliation**.
- [Not Just Leverage](#): This underscores the point that **not all tariff salvos may be dismissed as pure leverage** for negotiations.
- [Zero-Sum Game Geo-Economics](#): In particular the **position that US assumes on China** is likely to be driven by **strategic, zero-sum-game geo-economic calculus**.
- [Inflicting Loss Maximization](#): Crucially, this may involve an **adversarial loss maximization to be inflicted** (upon China) **rather than profit maximization/loss minimization** being **prioritized for itself** (US). And this makes all the difference.
- [“China Premium”](#): Rightly or wrongly, **received wisdom about China’s relatively greater exports reliance**, and the **assumed pressures on exports earnings** may be consistent with a **hardening of “China premium”**, entrenching **valuation spreads to the disadvantage of China**.
- [More Persistent CNH Risks](#): This aspect of persistent, and imposed exports headwinds are set to **feed off, and into**, **“downside risks in CNH could prove harder to durably shake-off”**. 7.40-7.50 *USD/CNH is a significantly higher risk now*.

- Wider EM Asia Spill-Over: Given the inextricable trade-/investment-linkages between China and the rest of **EM Asia**, **collateral damage is unavoidable**.
- Higher-Beta AXJ Pressures: In fact, **higher-beta losses in many AXJ currencies* is par for the course** given the confluence of economic-financial dependencies and relatively higher degree of renminbi stability derived from policy.
- The “Usual” AXJ Suspects: And as *we have highlighted before* **KRW, THB, MYR, and AUD could be particularly vulnerable** based on trade linkages and recent CNY-beta relations.



*Excerpt from the Macro Daily earlier today

China Risks: Not Just Leverage

- All eyes will be on the talk between Presidents Trump and Xi later today. The first pass is whether a **deal to delay tariffs on China** is struck.
- But that is the **absolute low bar**. Whereas assessing where tariffs will head from here will be key.
- Fact is, the overarching geo-economic dimensions to US-China trade means that resolution will be far more fraught than is the case with Mexico and Canada.
- The (tariff) tool may be the same. *But the game is different* and the stakes high. Hence, **downside risks in CNH could prove harder to durably shake-off**.

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