

China Notes

US hikes tariffs leaving high uncertainty in place

So this morning we have confirmed that the US raised tariff rates. Here is what we know currently:

- 1) US raised tariff rates on USD200bn of Chinese goods from 10% to 25%.
- 2) China says it deeply regrets the move and will retaliate.
- 3) Trade talks will continue Friday.
- 4) The two sides only talked for 90 minutes on Thursday.
- 5) People close to the talks said to Bloomberg there is "little to no progress" in the talks.

Comment: The only good news here is that China stays for talks on Friday. The fact that talks were only 90 minutes suggests there was little movement on both sides. The talks Friday will probably focus on how to get talks back on track.

Best guess now is that both sides talk Friday and then pause for a rethink of how to proceed. If so, we are in for a period of high uncertainty. But we need to await the outcome of Friday's talks to make closer assessment.

We do not know details of how and when China will retaliate. But I think they will try to be measured on the surface, but start to halt purchases of US agricultural goods again. Tariffs may go up but China will aim to use measures that hurt the US but not themselves. That is why quantitative measures are better since they can buy agricultural goods elsewhere.

After Friday we should look out for whether Trump initiates the process of putting tariffs on the USD325 bn of Chinese goods he said he would do in his Sunday tweet. It would be a sign that the parties are far from each other and escalate matters further.

There are many scenarios from here but our baseline is still that we will have a deal by the end of Q2 – so within two months. The road there can take many paths, though. There is also a real risk that the problems are bigger and Trump adds more pressure with tariffs on all Chinese goods. This would be a mistake in our view as it would backfire quickly. But it is also a scenario that cannot be ruled out. For now, we need to see what comes out of the talks Friday. It can flip to both sides: further escalation, or resumption of talks with the aim to get a deal soon while tariffs and countermeasures are in place.

Note that apparently the tariff rate will not hit goods in transit but only goods shipped from China on 10 May. It leaves a window where tariffs will not be put on goods until they have reached the US with the potential they could be removed by then if a deal is struck.

Chief Analyst
Allan von Mehren
+45 4512 8055
alvo@danskebank.dk

Disclosure

This research report has been prepared by Danske Bank A/S ('Danske Bank'). The author of this research report is Allan von Mehren, Chief Analyst.

Analyst certification

Each research analyst responsible for the content of this research report certifies that the views expressed in the research report accurately reflect the research analyst's personal view about the financial instruments and issuers covered by the research report. Each responsible research analyst further certifies that no part of the compensation of the research analyst was, is or will be, directly or indirectly, related to the specific recommendations expressed in the research report.

Regulation

Danske Bank is authorised and subject to regulation by the Danish Financial Supervisory Authority and is subject to the rules and regulation of the relevant regulators in all other jurisdictions where it conducts business. Danske Bank is subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority (UK). Details on the extent of the regulation by the Financial Conduct Authority and the Prudential Regulation Authority are available from Danske Bank on request.

Danske Bank's research reports are prepared in accordance with the recommendations of the Danish Securities Dealers Association.

Conflicts of interest

Danske Bank has established procedures to prevent conflicts of interest and to ensure the provision of high-quality research based on research objectivity and independence. These procedures are documented in Danske Bank's research policies. Employees within Danske Bank's Research Departments have been instructed that any request that might impair the objectivity and independence of research shall be referred to Research Management and the Compliance Department. Danske Bank's Research Departments are organised independently from, and do not report to, other business areas within Danske Bank.

Research analysts are remunerated in part based on the overall profitability of Danske Bank, which includes investment banking revenues, but do not receive bonuses or other remuneration linked to specific corporate finance or debt capital transactions.

Financial models and/or methodology used in this research report

Calculations and presentations in this research report are based on standard econometric tools and methodology as well as publicly available statistics for each individual security, issuer and/or country. Documentation can be obtained from the authors on request.

Risk warning

Major risks connected with recommendations or opinions in this research report, including as sensitivity analysis of relevant assumptions, are stated throughout the text.

Expected updates

Ad hoc.

Date of first publication

See the front page of this research report for the date of first publication.

General disclaimer

This research report has been prepared by Danske Bank (a division of Danske Bank A/S). It is provided for informational purposes only. It does not constitute or form part of, and shall under no circumstances be considered as, an offer to sell or a solicitation of an offer to purchase or sell any relevant financial instruments (i.e. financial instruments mentioned herein or other financial instruments of any issuer mentioned herein and/or options, warrants, rights or other interests with respect to any such financial instruments) ('Relevant Financial Instruments').

The research report has been prepared independently and solely on the basis of publicly available information that Danske Bank considers to be reliable. While reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation is made as to its accuracy or completeness and Danske Bank, its affiliates and subsidiaries accept no liability whatsoever for any direct or consequential loss, including without limitation any loss of profits, arising from reliance on this research report.

The opinions expressed herein are the opinions of the research analysts responsible for the research report and reflect their judgement as of the date hereof. These opinions are subject to change and Danske Bank does not undertake to notify any recipient of this research report of any such change nor of any other changes related to the information provided herein.

This research report is not intended for, and may not be redistributed to, retail customers in the United Kingdom or the United States.

This research report is protected by copyright and is intended solely for the designated addressee. It may not be reproduced or distributed, in whole or in part, by any recipient for any purpose without Danske Bank's prior written consent.

Disclaimer related to distribution in the United States

This research report was created by Danske Bank A/S and is distributed in the United States by Danske Markets Inc., a U.S. registered broker-dealer and subsidiary of Danske Bank A/A, pursuant to SEC Rule 15a-6 and related interpretations issued by the U.S. Securities and Exchange Commission. The research report is intended for distribution in the United States solely to 'U.S. institutional investors' as defined in SEC Rule 15a-6. Danske Markets Inc. accepts responsibility for this research report in connection with distribution in the United States solely to 'U.S. institutional investors'.

Danske Bank is not subject to U.S. rules with regard to the preparation of research reports and the independence of research analysts. In addition, the research analysts of Danske Bank who have prepared this research report are not registered or qualified as research analysts with the NYSE or FINRA but satisfy the applicable requirements of a non-U.S. jurisdiction.

Any U.S. investor recipient of this research report who wishes to purchase or sell any Relevant Financial Instrument may do so only by contacting Danske Markets Inc. directly and should be aware that investing in non-U.S. financial instruments may entail certain risks. Financial instruments of non-U.S. issuers may not be registered with the U.S. Securities and Exchange Commission and may not be subject to the reporting and auditing standards of the U.S. Securities and Exchange Commission.

Report completed: 10 May 2019, 06:36 CEST

Report first disseminated: 8 May 2019, 07:00 CEST