

**US-China trade dispute****US stocks fall sharply as US-China trade war escalates**

Slide continues in Asia after S&P 500 suffers biggest loss since January as Beijing raises tariffs



Xi Jinping, Chinese president, left, is due to meet Donald Trump, US president, at a G20 summit in Japan next month © AP

Don Weinland in Beijing, James Politi in Washington, Joe Rennison in New York and Richard Henderson in London  
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The US-China trade war escalated sharply on Monday as Beijing said it would raise tariffs on \$60bn of American goods, defying warnings from President Donald Trump and sparking the biggest fall in US stock prices since January.

China's ministry of finance said it was increasing levies on goods ranging from liquefied natural gas to toothpaste in "response to US unilateralism and trade protectionism" — its characterisation of the Trump administration's move last Friday to [increase tariffs](#) on \$200bn in Chinese imports to 25 per cent.

The Trump administration later on Monday set in motion a plan to hit a [further \\$300bn in Chinese imports](#) with 25 per cent tariffs. But those levies would not be imposed until the end of a comment period running through to late June, and Mr Trump said no final decision had been made on whether he would proceed with them.

Stocks fell in response to China's retaliation as investors fled to safer assets, such as government debt. The S&P 500 dropped 2.4 per cent, its worst day since January 3, while the technology-heavy Nasdaq fell 3.4 per cent, its biggest loss since December 4. The FTSE All World index slid 1.9 per cent to its lowest level since March.

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President Donald Trump

we will see more choppiness, with more to the downside than the upside. There is nothing obvious that will change this path.”

The tariff increases announced by Beijing on Monday would hit a wide range of sectors ranging from manufacturing to agriculture and household goods. Shares in Apple fell 5.8 per cent, while Caterpillar was off 4.6 per cent.

“Companies like Apple and Caterpillar have significant revenue exposure outside the US — immediate sell-offs will impact these types of companies,” said Kristina Hooper, chief global markets strategist for Invesco. “It’s not a sector-specific story, it’s more of a large-cap story.”

Investors increased their bets that the market turmoil would lead the Federal Reserve to cut interest rates. The probability of a cut before the end of the year, derived from futures prices, stood at 75 per cent, up from 58 per cent a week ago. The two-year Treasury yield fell almost 8 basis points to 2.19 per cent, its lowest level since February 2018.

Beijing acted after Mr Trump had warned it against further retaliation. “China should not retaliate—will only get worse!,” Mr Trump tweeted before the tariff announcement, saying Beijing would be “hurt very badly” if the commercial conflict continued. “You had a great deal, almost completed, & you backed out!” he wrote.

Following China’s move, Mr Trump said that some retaliation by Beijing was to be expected and confirmed that he would meet with his Chinese counterpart, Xi Jinping, at a G20 summit in Japan next month. “I love the position we’re in,” he told reporters at the White House. “I think it’s working out really well.”

Both the US and China have said conversations between the countries would continue regardless of the escalation, with Steven Mnuchin, the US Treasury secretary, saying that a trip by US officials to Beijing was in the works.

The rising tensions knocked China’s currency and emerging market currencies more broadly. The renminbi was down 1 per cent against the US dollar on offshore markets, having crossed the

The slide continued in Asia on Tuesday, with stock markets in Japan and South Korea hitting four-months lows in early trading as the Topix fell 2.1 per cent and the Kospi dropped 0.8 per cent. Australia’s S&P/ASX 200 shed 1.2 per cent.

“A semblance of reality set in that the likelihood of a fast [trade] deal is diminishing,” said Peter Tchir, chief macro strategist at Academy Securities. “I think

Rmb6.9 level for the first time this year. The MSCI index tracking EM currencies was down 0.6 per cent, its biggest fall of 2019.

“The confrontation has now escalated to a battle of testosterone between two leaders who believe they have much to prove to their constituents. But the longer this exhibition of chest-beating lasts, the greater the odds of a US, if not global, recession,” said Bernard Baumohl of the New Jersey-based Economic Outlook Group.

Beijing said 2,493 items coming from the US would have tariffs increased to 25 per cent from June 1. Those included LNG, agricultural items such as natural honey; compounds such as potassium sulphate, commonly used in fertiliser; and various manufactured products such as LED lightbulbs.

On two other lists of 1,078 and 974 items, tariffs would be raised to 20 per cent and 10 per cent, respectively. Those lists included household goods such as toothpaste and bleach, along with apparel and related manufacturing equipment.

A smaller list of 595 items would not see an increase beyond the present level of 5 per cent. Among those items were chemicals and industrial materials such as formaldehyde and lithium. Electronic and motorised devices such as starters for the engines of cars, planes and boats, and 3D printers would also be spared an increase.

The list of \$300bn in goods subject to possible tariffs that was unveiled by the United States Trade Representative on Monday also includes a wide range of products — from footwear to fire extinguishers. However, the Trump administration said it was excluding rare earth minerals and pharmaceuticals.

USTR said it was seeking public comments on the tariffs through June 17, the date of a hearing on the levies. It added that post-hearing rebuttals could be submitted by June 24, so the tariffs are not expected to be imposed before then. But some business reaction was already scathing.

“This is a self-inflicted wound that will be catastrophic for the nation’s economy,” said Rick Helfenbein, president and chief executive of the American Apparel & Footwear Association.

The latest Chinese tariff increase will not take effect until June 1, and the full impact of the higher US levies will not be felt until then either, allowing negotiators time to craft a deal. Goods from China that were already in transit before last Friday will still be subject to tariffs of 10 per cent, as long as they arrive in the US before June 1.

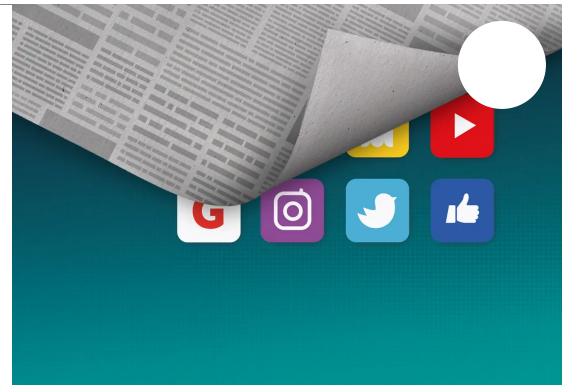
“China is sticking to its strategy of proportionate, measured retaliation against US tariffs. The Chinese government’s message is clear — it wants a resolution of the trade dispute and is willing to make concessions but will not stand down from confrontation if that’s the path Trump chooses,” said Eswar Prasad, a professor of international trade at Cornell University.

*Additional reporting by Pan Kwan Yuk in New York, and Nicolle Liu and Alice Woodhouse in Hong Kong*

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