BUSINESS NEWS

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# U.S. trade tariffs set to leave Mnuchin in cold at G20 meeting

David Lawder, Luc Cohen

WASHINGTON/BUENOS AIRES (Reuters) - The financial leaders of the world's 20 biggest economies meet in Buenos Aires this weekend for the first time since long-simmering trade tensions burst into the open when China and the United States put tariffs on $34 billion of each other's goods.

U.S. Secretary of the Treasury Steven Mnuchin testifies to the House Financial Services hearing on state of the international financial system on Capitol Hill in Washington, U.S., July 12, 2018. REUTERS/Joshua Roberts

The United States will seek to convince Japan and the European Union to join it in a more aggressive stance against Chinese trade practices at the G20 meeting of finance ministers and central bank presidents, according to a senior U.S. Treasury Department official, who spoke on condition on anonymity.

But those efforts will be complicated by frustration over U.S. steel and aluminum import tariffs on the EU and Canada. Both responded with retaliatory tariffs in an escalating trade conflict that has shaken markets and threatens global growth.

“U.S. trading partners are unlikely to be in a conciliatory mood,” said Eswar Prasad, international trade professor at Cornell University and former head of the International Monetary Fund’s China Division.

“(U.S.) hostile actions against long-standing trading partners and allies has weakened its economic and geopolitical influence.”

At the close of the last G20 meeting in Argentina in March, the financial leaders representing 75 percent of world trade and 85 percent of gross domestic product released a joint statement that rejected protectionism and urged "further dialogue," to little concrete effect.

Since then, the United States and China have slapped tariffs on $34 billion of each other's imports and U.S. President Donald Trump has threatened further tariffs on $200 billion in Chinese goods unless Beijing agrees to change its intellectual property practices and high-technology industrial subsidy plans.

Trump has said the U.S. tariffs aim to close the $335 billion annual U.S. trade deficit with China.

U.S. Treasury Minister Steven Mnuchin has no plans for a bilateral meeting with his Chinese counterpart in Buenos Aires, a U.S official said this week.

## GROWTH CONCERNS

Rising trade tensions have led to concerns within the Japanese government over currency volatility, said a senior Japanese G20 official, who declined to be named. Such volatility could prompt an appreciation in the safe-haven yen and threaten Japanese exports.

Trump's metals tariffs prompted trade partners to retaliate with their own tariffs on U.S. goods ranging from whiskey to motorcycles. The United States has said it will challenge those tariffs at the World Trade Organization.

The EU finance ministers signed a joint text last week that will form their mandate for this weekend's meeting, criticizing "unilateral" U.S. trade actions, Reuters reported. The ministers will stress that trade restrictions "hurt everyone," a German official said.

In a briefing note prepared for the G20 participants, the International Monetary Fund said if all of Trump's threatened tariffs — and equal retaliation — went into effect, the global economy could lose up to 0.5 percent of GDP, or $430 billion, by 2020.

Global growth also may have peaked at 3.9 percent for 2018 and 2019, and downside risks have risen due to the tariff spat, the IMF said.

"While all countries will ultimately be worse off in a trade conflict, the U.S. economy is especially vulnerable," IMF Managing Director Christine Lagarde wrote in a blog post. "Policymakers can use this G20 meeting to move past self-defeating tit-for-tat tariffs."

Trade is not on host country Argentina's published agenda for the July 21-22 ministerial, which focuses on the "future of work" and infrastructure finance. But it will likely be discussed during a slot devoted to risks facing the global economy, much as in March, according to an Argentine official involved in G20 preparations, who asked not be named.

Reporting by David Lawder and Luc Cohen; Additional reporting by Tetsushi Kajimoto in Tokyo; Editing by Daniel Flynn and Rosalba O'Brien

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BUSINESS NEWS

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# Trump and the U.S. dollar: Actions speak louder than words

Saqib Iqbal Ahmed, James Thorne

NEW YORK (Reuters) - U.S. President Donald Trump may not be happy about the strength of the U.S. dollar, but the greenback’s recent rally may partly be a product of his own making.

FILE PHOTO: Bundles of banknotes of U.S. Dollar are pictured at a currency exchange shop in Ciudad Juarez, Mexico, January 15, 2018. REUTERS/Jose Luis Gonzalez/File Photo

The U.S. dollar has been climbing against major currencies for several months, with the dollar index .DXY up nearly 7.0 percent over the last three months and on Thursday hit a one year high.

The dollar has strengthened since late 2015 as the Federal Reserve began raising interest rates against a background of steady economic growth, slowly rising inflation and the lowest U.S. unemployment rate since the 1960s.

The Fed has raised rates twice this year and is expected to raise rates a couple more times by year end which may attract more foreign into the U.S. dollar with monetary policy remaining loose in Europe and Japan, analysts said.

In a break with the usual practice by U.S. presidents, Trump has been unusually vocal about the dollar, publicly criticizing its strength several times, though analysts question whether his frequent rhetoric will have a lasting impact.

In a CNBC television interview on Thursday and again on Friday, Trump said he was concerned about the potential impact of a stronger dollar on American exports.

He also broke convention by criticizing Federal Reserve policy on raising interest rates, saying it takes away from the United States' "big competitive edge".

## TRUMP'S FISCAL AND TRADE POLICY SUPPORT US DOLLAR

But investors and traders attribute some of the gains to the Trump administration's tax cuts which are widening the fiscal deficit, leading to more government borrowing, and the imposition of import tariffs against China, Europe, Mexico and Canada which may contribute to inflation.

FILE PHOTO: Employees of a foreign exchange trading company work near monitors broadcasting TV news reporting from the summit between the U.S. and North Korea (R) and the Japanese yen's exchange rate against the U.S. dollar and Nikkei share average in Tokyo, Japan, June 12, 2018. REUTERS/Issei Kato - /File Photo

"By running tight monetary policy and loose fiscal policy, Trump has put almost perfect conditions in place for a rally in the dollar," said Karl Schamotta, a strategist at Cambridge

Global Payments in Toronto.

“That attracts dollars to the United States and increases the absorption of capital within the U.S. economy. That is going to boost the dollar in and of it itself.”

The $1.5 trillion tax cut passed by Congress in December last year, and the $1.3 trillion spending bill enacted in March, have pushed forecasts for the fiscal deficit higher.

As a result, by 2020 the U.S. government’s debt levels may be the highest since World War Two, according to the Congressional Budget Office in June.

While the Federal Reserve is raising short term interest rates in the face of consumer price inflation running at 2.9 percent annually in June, longer term bond yields may rise to attract foreign capital to finance the wider fiscal deficit and in turn keep the U.S. dollar strong.

“The Fed is responding to the inputs that have been provided: stronger fiscal stimulus should imply stronger growth,” said Mazen Issa, senior FX strategist TD Securities in New York. “That may lead to additional inflation and tighter labor markets. So in order to keep inflation in check they may need to hike interest rates.”

“For that to change we’d need the Fed to back off its tightening policy or for tightening to begin to happen in Europe and Japan and I don’t see either of those happening,” said Stephen Massocca, Senior Vice President at Wedbush Securities in San Francisco.

But analysts also attribute some of the dollar’s strength to the escalating tensions over trade policy between the United States and many of its key trading partners, with investors betting the dollar will gain at the expense of emerging market currencies which are dependent on commodity exports.

Companies in the U.S. and other countries may find themselves less able to compete globally as import tariffs contribute to rising input costs, higher consumer prices, and lower demand for commodities from emerging markets as a result.

Trump, in the CNBC interview on Friday, said he was ready to impose tariffs on all $500 billion of imported goods from China, potentially further escalating a trade clash.

“A lot of the stuff that he wants versus what is actually being implemented are inconsistent,” said Mazen Issa, senior FX strategist TD Securities, in New York. “That is the way markets work and the economy works. You can’t have your cake and eat it too.”

Even though the dollar does tend to react sharply to Trump’s words in the short term, analysts say there appears to be limited lasting impact and they do not expect that to change.

“I really only see this as a short-term consequence,” said Issa.

The impact on the dollar could be a little more lasting if Trump makes it a point to attack the dollar’s strength repeatedly.

“If it becomes a more constant drumbeat, it’s probably something that is going to weigh on dollar more significantly,” said Shaun Osborne, chief FX strategist at Scotia Capital in Toronto.

Trump’s remarks about the greenback also struck some as ironic, given his strong words accusing the European Union and China of manipulating their respective currencies.

“It’s like, pot, meet kettle,” said Schamotta.

Reporting by Saqib Iqbal Ahmed and James Thorne; Additional reporting by Stephen Culp; editing by Megan Davies and Clive McKeef

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