Investment Event

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US imposes steel and aluminium tariffs on EU, Canada and Mexico

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US levies tariffs on steel and aluminium

US Commerce Secretary Wilbur Ross has announced that President Trump has decided not to extend the temporary exemptions on steel and aluminium tariffs for the European Union, Canada and Mexico. The tariffs are 25% on steel imports and 10% on aluminium imports, and will take effect from 1 June 2018.

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Our views

Our core asset class views are unchanged. We remain overweight global equities amid still robust global economic growth. However, a failure to negotiate between the US and its major trading partners presents a risk to the outlook

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So what next…

Ross has stated he is looking forward to “continued negotiations” with Canada, Mexico and the EU and that there is potential “flexibility” in the future. US President Trump has the power to remove or amend the tariffs, or replace them with quotas, for example.

So far, the EU has been willing to negotiate the US-EU trade relationship, including granting easier market access to the US, but so far have said they will not do this alongside the imposition of tariffs. For Canada and Mexico, these measures remain linked to the broader, ongoing negotiations around the future of NAFTA.

The EU, Canada and Mexico count among the largest exporters of steel and aluminium to the US. However, these tariffs are likely to have a negligible economic impact. For example, in the case of the EU, steel and aluminium exports account for only around 2% of total exports to the US.

Although the EU have said they will retaliate on steel and aluminium imports from the US, they have stated tariffs on other goods would not be introduced until March 2021. This limits the risk of a broader trade war affecting a more economically significant portion of trade flows.

Germany’s economy minister has also signalled a greater willingness to engage in talks to diffuse the situation. Any eventual concessions made by the EU could see the US soften its position, for example by opting for a tariff rate quota system, where any exports above a certain level have the tariffs applied to them. If this quota is set high enough, the bulk of EU exports may be unaffected. In this case, the EU is unlikely to retaliate.

Meanwhile, retaliatory measures by Canada and Mexico are also likely to be limited in size, and can be removed if NAFTA negotiations progress further.

Market considerations

Overall, given these tariffs affect such a small share of trade flows between affected countries, the immediate economic impact is negligible.

Trump’s recent opening of a national security investigation into autos/auto parts imports is potentially more troubling, especially given this constitutes a much larger chunk of world trade.

However, the investigation will take a number of months to conclude. During this time negotiations between the US and its major trading partners could see the US soften its overall stance. There are major incentives for all sides of the table to reach an agreement.

We expect the road to any final resolution is likely to be bumpy. For example, on 20 May the Trump administration said the US-China trade war had been put "on hold", but just days after threatened to push ahead with a 25% tariff on USD50bn worth of Chinese imports.

For the time being, we have not altered our asset class views, which include an overweight stance on global equities amid relatively attractive valuations and still robust global economic growth.

However, the situation requires close monitoring. A lack of progress in ongoing NAFTA negotiations, limited dialogue between the EU and US and a breakdown in talks with China are all risks to the outlook

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