

# FINANCIAL REVIEW

## Trump officials dangle fresh hope on China tariffs as new imposts loom

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Washington | Trump administration trade negotiators are seeking a fresh round of talks with Chinese counterparts to head off the threat of tariffs being slapped on another \$US 200 billion (\$279 billion) in goods.

Prices across trade-sensitive sectors and firms rallied sharply on Wednesday amid a report that top US officials led by Treasury secretary Steven Mnuchin have sent an invitation to China's Vice-Premier Liu He, proposing another meeting, either in Washington or Beijing. Analysts speculate that Mr Mnuchin is looking for a genuine exit to the dispute.

The Australia dollar rallied almost three quarters of a cent to US71.1¢. In local afternoon trade it was up further, to US71.9¢, after strong job numbers.

Signs of fresh efforts to resolve the deepening trade dispute come amid an ever growing chorus of complaints from businesses across both economies. They say the dispute is affecting confidence, that it is disrupting supply chains and that it will drive up costs for consumers. There say it threatens to spill add to a broader drag on global trade.

"We still think a trade deal with China is months and months away, and relations between the two countries could remain rocky," said Greg Valliere at Horizon Investments. Waldo Swiegers A key deadline passed last Thursday for submissions from companies and citizens on the additional US tariffs which would follow the imposition of levies on \$US50 billion of Chinese imports earlier in the year.

Trade expert Inu Manak, a visiting scholar at the Cato Institute, told *The Australian Financial Review* the latest move appears to be something of a final attempt to show that the Trump administration tried everything reasonable to prevent the next round of tariffs.

"You need a reason to impose tariffs to begin with," she said, but added that it seems "entirely likely" the imposts will still go ahead.

"The administration is marching toward that, and that should be of concern to a lot of China's trading partners because it will have a ripple effect," she said.

The latest offer of talks comes just weeks after China sent a delegation of lower-ranked officials to Washington. Those meetings appeared to go nowhere.

Fed governor Lael Brainard said in a speech that she expects the central bank to keep gradually lifting rates as the Trump administration's tax cuts deliver additional "tailwinds to demand". Andrew Herrer

Instead, President Donald Trump has ramped up his rhetorical threats against China, warning last Friday that he was prepared to eventually extend tariffs to another \$US267 billion worth of goods, on top of the \$US200 billion currently under consideration. That would effectively mean tariffs on everything the US imports from China.

'Months and months away'

*The Wall Street Journal* reported that there were signs Chinese officials may be re-considering their rigidity on trade issues, given the damage already wrought by the tariffs on that country. "We still think a trade deal with China is months and months away, and relations between the two countries could remain rocky," said Greg Valliere at Horizon Investments.

"But signs of softening in Beijing may prompt some softening in Washington; there's a view at the White House that the president needs a victory as the GOP faces major losses in the House in this fall's election."

The US Federal Reserve's latest "Beige Book" - which details the central bank's liaisons with businesses - released on Thursday (AEST) was riddled with widespread anxiety about tariffs, even if they are yet to bite in any material manner.

Most regions of the Fed system complained the imposts were driving up input costs, particularly for manufacturers. Farm exporters and retailers were also seeing knock-on effects.

"One contact noted that threats of new tariffs had led to spikes in freight traffic as businesses sought to move goods before the tariffs might take effect," according to the Reserve Bank of Chicago.

A rapid resolution to the trade dispute - unlikely as it appears at this junction - could trigger a major re-calibration on financial markets, which are still trying to work out what the Fed will do with official interest rates in 2019. An increase is fully baked in for this month, and there is speculation another will follow in December.

Analysts said a trade deal would help ease Fed concern that the tariff war may prompt a decline in hiring and investment.

Fed rate path entrenched

Fed governor Lael Brainard told a audience in Detroit on Thursday (AEST) that she expects the central bank to keep gradually lifting rates as the Trump administration's tax cuts deliver additional "tailwinds to demand".

"Over the next year or two, barring unexpected developments, continued gradual increases in the federal funds rate are likely to be appropriate to sustain full employment and inflation near its objective," she said.

US businesses from around the country are banding together to escalate lobbying efforts to persuade President Donald Trump to back down.

More than 80 trade groups have formed a coalition called Americans for Free Trade, which this week launched a campaign called Tariffs Hurt the Heartland to highlight the damaging impact of the tariffs.

"Every sector of the US economy stands to lose in a trade war," said Matthew Shay, president and chief executive officer of the National Retail Federation.

"The stakes couldn't be higher for American families, businesses, farmers and workers threatened by job losses and higher prices as a result of tit-for-tat tariffs."

US needs help to rein in China

Cato's Ms Minak said any move towards dialogue between the US and China was a positive step, but warned many of the issues Washington wants to see resolved, such as intellectual property theft, require the cooperation of other trade partners such as the Europeans.

"There has to be some sort of collaboration with other countries, especially the EU which has had a number of similar issues with China over the years," she said.

"To the extent that we walk back from the cliff would be very helpful because that's what's damaging US consumers and businesses here."