Tariff — blitz

Saving you time

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Last week ended on a gloomy note for financial markets, dragged down by the latest salvo from the Trump administration in the trade war. Investors were initially cheered by the signs of better relations on the negotiating front. But the successive pronouncements by the president have revived fears of a broad lurch in a more protectionist direction.

Trade war worsens

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Donald Trump took his trade strategy to a new level last week, brandishing the threat of higher tariffs with increasing frequency. He announced a 35% tariff on Canadian imports from 1 August. This was followed by a series of letters addressed to 14 countries, warning of duties of as much as 40%. In the firing line are Laos (40%), Cambodia and Thailand (36%), and Bangladesh (35%). Japan, South Korea and South Africa are facing a 25-30% tax on their exports.

The EU initially had a let-off but now faces a 30% tariff on its goods, as does Mexico. Total rates of 15-20% have been floated for other trading partners, as opposed to the 10% suggested to date. At the same time, copper and pharma imports into the US are due to incur duties ranging from 50% to 200% in the long run.

These increased tensions have dashed all hope of a tariff hiatus. Donald Trump has affirmed that the 1 August cut-off date will be final and binding.

The EU is pushing to keep the 10% duty on its exports while negotiating carve-outs for key industries. But the mood of uncertainty is growing, and this is weighing on business sentiment. Signals on the macroeconomic front are mixed. Retail sales in the Eurozone declined in May, but Germany's industrial production bounced back by 1.2% in the same month while inflation was under control at 2%. In France, the Harmonised Index of Consumer Prices (HICP) in June was up 0.4% month-on-month, representing a modest uptick, while the 12-month inflation rate was 0.9%.

Switzerland seems to be heading for a steady tariff arrangement with the US, which is especially important for its pharmaceuticals industry, as a result of an agreement being negotiated.

Differing Fed viewpoints

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Over in the US, Fed minutes reveal a rift in the FOMC. Rate cuts are planned for this year, but no consensus has emerged to take action as early as this month. The resilience of the labour market and the latest unrest on the trade front could prompt the Fed to continue biding its time. Initial jobless claims even came in below expectations, endorsing the prospect of a policy hold in the short term.

In China, consumer prices edged up in June, with inflation reaching 0.1% after several months of decline. While this is an encouraging sign, the upturn remains fragile, as deflation has been entrenched and domestic demand subdued for some time.

Market volatility is set to remain elevated as the 1 August deadline approaches and corporate earnings season gets going. Last week the S&P 500 gave up 0.31%, Nasdaq 0.38% and the SMI 0.29%. The Stoxx Europe 600 put on 1.15%.

Swiss Market Index (SMI)

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The SMI firmed up against a support line at 11885. As momentum is low, we retain our focal point at 11750. The 50-day moving average, at 12127, is acting as resistance.

Key data

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	USD/CHF	EUR/CHF	SMI	EURO STOXX 50	DAX 30	CAC 40	FTSE 100	S&P 500	NASDAQ	NIKKEI	MSCI Emerging Markets
Latest	0.80	0.93	11'937.42	5'383.48	24'255.31	7'829.29	8'941.12	6'259.75	20'585.53	39'569.68	1'229.13
Trend	→	→	→	↑	↑	↑	↑	↑	↑	→	↑
YTD	-12.22%	-0.89%	2.90%	9.96%	21.85%	6.08%	9.40%	6.43%	6.60%	-0.81%	14.29%

(values from the Friday preceding publication)