

FX Viewpoint Flash

Currencies
Global

RMB: Higher US tariffs on Chinese strategic products

- ◆ The US will increase tariffs on a range of strategic goods from China including EVs, solar cells, and lithium-ion batteries
- ◆ Our economists think that the higher duties will have a limited impact on bilateral trade
- ◆ This could be another source of upward pressure for USD-RMB, but probably not the straw that breaks the camel's back

The Biden administration has completed the statutory four-year review of US Section 301 tariffs applied against China – which were first introduced by the Trump administration in 2018. As a result of the review, it will retain existing Section 301 tariffs and will raise duties on USD18bn worth of imports from China over 2024-26. Notably, the Biden administration will quadruple existing additional tariffs on Chinese electric vehicles (EVs) to 100%, double duties on semiconductors and certain solar products to 50%, and increase additional tariffs on lithium-ion batteries to 25% (from 7.5%). Additional tariffs on steel and aluminium will increase to 25% (from 0% to 7.5% currently). The first tranche of higher duties is expected to take effect in August and some machinery used in domestic production (namely for solar manufacturing) could be excluded.

China's Ministry of Commerce (MoFCOM) responded to the US actions by stating its "firm opposition" and that "China will take resolute measures to defend its rights and interest" (MoFCOM, 14 May 2024).

In our economists' view, the higher tariffs are unlikely to have a significant impact on overall US-China trade flows, given: (1) most of these goods were already subject to additional duties, (2) the targeted goods comprise just 4% of total US imports from China, (3) it was widely expected that existing Section 301 tariffs would be retained, and (4) the increased duties will be phased in. Our economists also think that this announcement has **limited direct impact on the Chinese economy over the near term**. However, the turn towards more trade protectionist measures suggests that **geopolitical tensions remain elevated** despite an improvement in dialogue channels over the last few quarters

As for USD-RMB, it did not really respond to the tariff announcement. Indeed, USD-RMB did not actually respond much in early 2018, when US tariffs were first suggested for specific products (under Sections 201 and 232). Only when the total value of goods targeted became much larger amid the various rounds of Section 301 tariffs – about USD360bn eventually or around 70% of China's exports to the US (based on 2017 trade data), USD-RMB rose by 13% from 6.35 to 7.20 between 2Q18 and 3Q19. So, **USD-RMB could face upward risk if US tariffs become much wider in scope**.

The Chinese authorities seem to prioritise socio-economic stability, preserving FX reserves and RMB internationalisation. **USD-RMB is likely to remain largely stable, supported by the People's Bank of China's FX policy**, but the challenges are clearly mounting, from equity outflow pressures and FX demand-supply imbalance onshore, to dividend season, among other factors.

The US will raise duties on USD18bn worth of imports from China over the next two years

The tariff announcement will have a limited impact on bilateral trade, in our economists' view

USD-RMB did not really respond to the tariff announcement

USD-RMB is likely to remain largely stable, with the help of FX policy

Disclosure appendix

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