

# Keep an Eye on These Assets in China Tariff Saga

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- Equities affected include industrials, consumer goods
  - Currency depreciation, U.S. treasuries could be in focus
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The Trump trade's turning into the tariff tumble.

U.S. equity markets sank the most since Feb. 8 and investors sought out havens in Treasuries and gold futures after the U.S. unveiled \$50 billion of tariffs against China <https://www.bloomberg.com/politics/articles/2018-03-21/u-s-planning-action-against-china-over-ip-in-very-near-future> , honing in on more than 100 types of Chinese goods.

Here's how the angst over a trade war is playing out in markets.

## Aircraft and Industrials

Boeing Co., Caterpillar Inc. and 3M Co. sank at least 3.2 percent as of 12:15 p.m. in New York, the biggest drops in a Dow Jones Industrial Average that is off 480 points. The broader S&P 500 industrials sector declined 2.1 percent.

China has threatened aircraft makers before. In 2016, the Communist Party newspaper said <https://www.bloomberg.com/news/articles/2016-12-16/boeing-says-china-plane-orders-support-150-000-u-s-jobs-a-year> its orders from Boeing could be replaced with Europe's Airbus. Just a year before the statement, President Xi Jinping gave the Chicago, Illinois-based company a \$38 billion order during a plant visit.

## Can't Keep Flight



## Financials

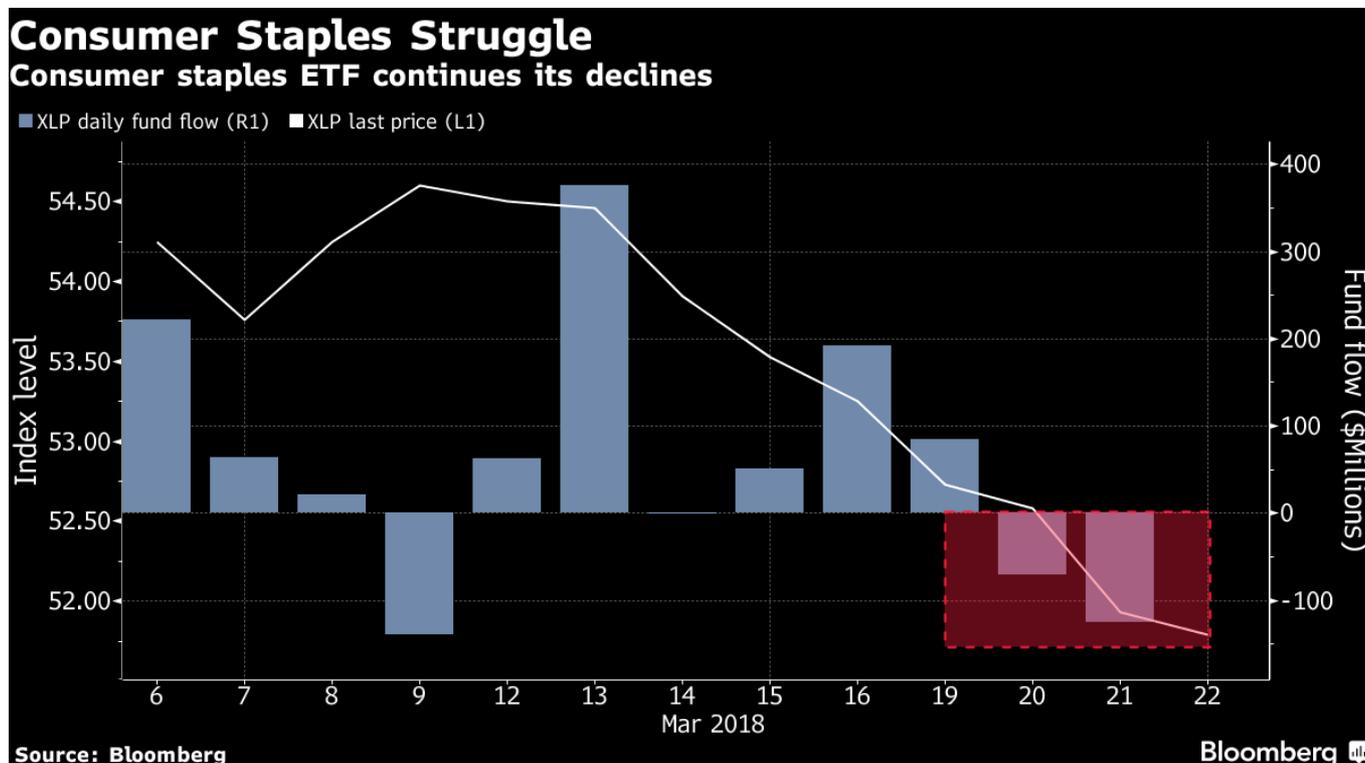
Financial firms led declines in the S&P 500 Index, though it's not clear whether the weakness was related to the decline in Treasury yields or the impact of trade anxiety. JPMorgan Chase & Co. lost 2.4 percent.

## Consumer Goods

According to Claude Barfield, a resident scholar at the American Enterprise Institute, China's method of retaliation could mirror the European Union response: restrictions on consumer companies based in the home states of key Congressional leaders.

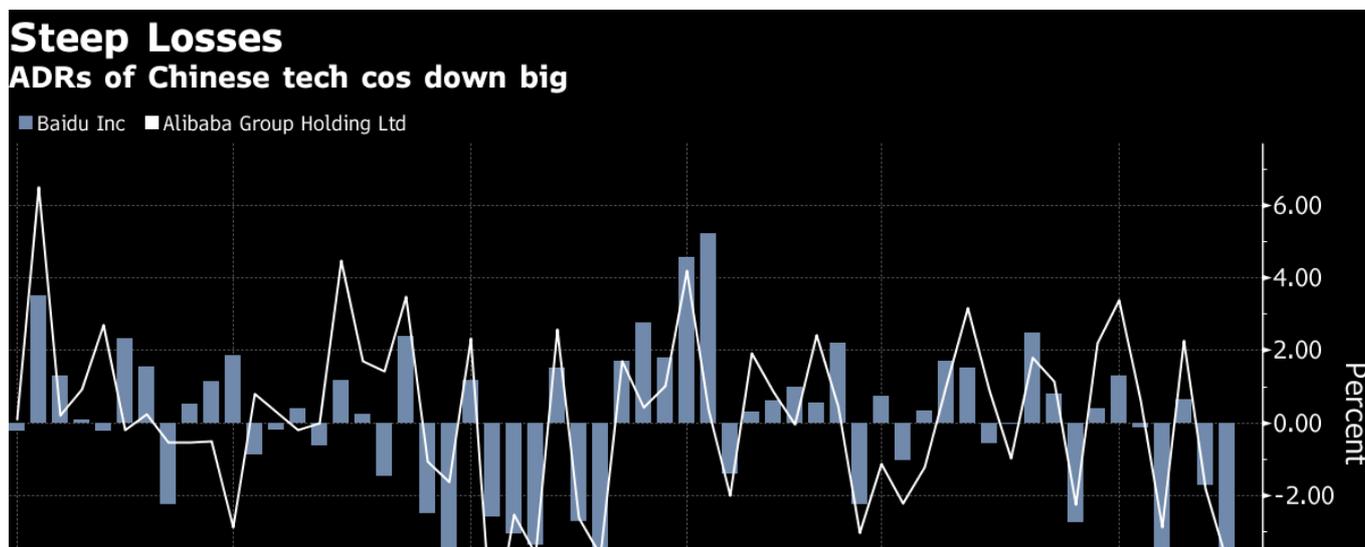
That includes Wisconsin's Harley Davidson and California's Levi Strauss & Co. The apparel maker, along with 24 other retail companies, recently [sent a letter](https://fonteva-customer-media.s3.amazonaws.com/00D61000000dOrPEAU/psDunXQF_RILA%20301%20Letter.pdf) to the president expressing concern "about the negative impact" over "remedial actions" in the trade act, warning that prices for clothing, shoes and electronics could rise.

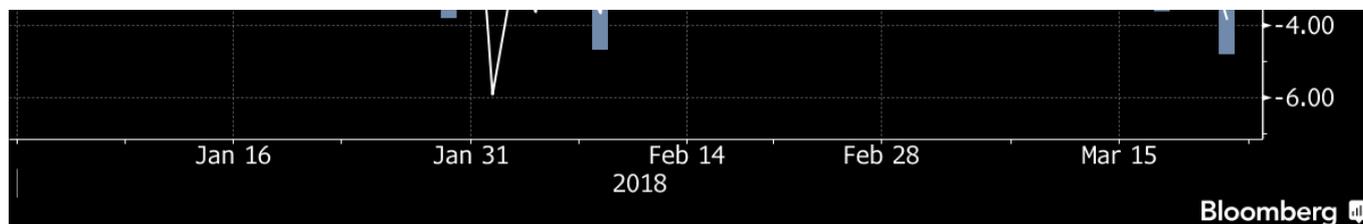
Harley lost 0.6 percent and the Consumer Staples Select Sector SPDR Fund, ticker XLP, is headed for an eighth straight slide. The fund has seen two days of outflows



## Chinese ADRs

U.S.-listed shares of Chinese companies are getting slammed Thursday. The Guggenheim China Technology exchange-traded fund down nearly 5 percent, on track for its worst daily loss since 2015. The American depositary receipts for Baidu Inc. and Alibaba Group Holding Ltd. show both behemoths under substantial pressure.





## Agriculture

China's Global Times -- which has links to the ruling Communist Party -- on Tuesday accused the U.S. of "dumping" soybeans

<https://www.bloomberg.com/politics/articles/2018-03-21/china-newspaper-calls-for-curbs-against-u-s-soybean-dumping> , raising concern that the crop will be among the first items China targets. A smaller than anticipated Argentinian soybean yield in the face of a relentless drought <https://www.bloomberg.com/news/articles/2018-03-21/unrelenting-drought-means-suffering-isn-t-over-for-argentine-soy> , however, may nonetheless force China to keeping buying American. Front-month soybean futures are little changed ahead on Thursday.



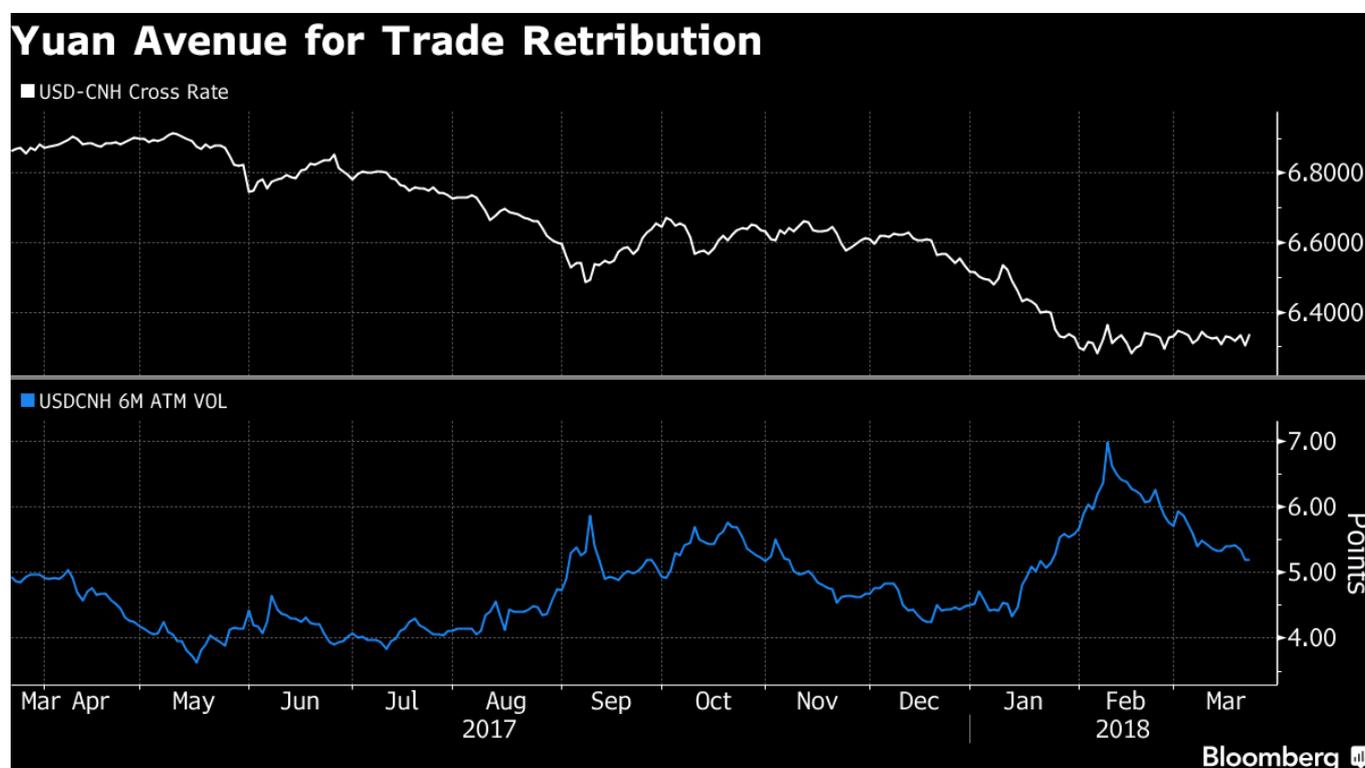
"Punitive tariffs on certain Chinese products" from Washington could dent U.S. soybean shipments, Commerzbank analysts including Carsten Fritsch wrote in a note to clients. "China has already announced retaliatory measures, which could also affect the agricultural sector."

China may also take aim at industries and states that employ President Trump's supporters <http://www.bloomberg.com/graphics/2016-election-results/> -- including the

nation's agricultural heartland. U.S. companies make up more than half of the \$880 million VanEck Vectors Agribusiness ETF, ticker MOO. Monsanto Co., Zoetis Inc., Deere & Co. and Archer-Daniels-Midland Co. make up four of the fund's top five allocations. It's down 1.3 percent.

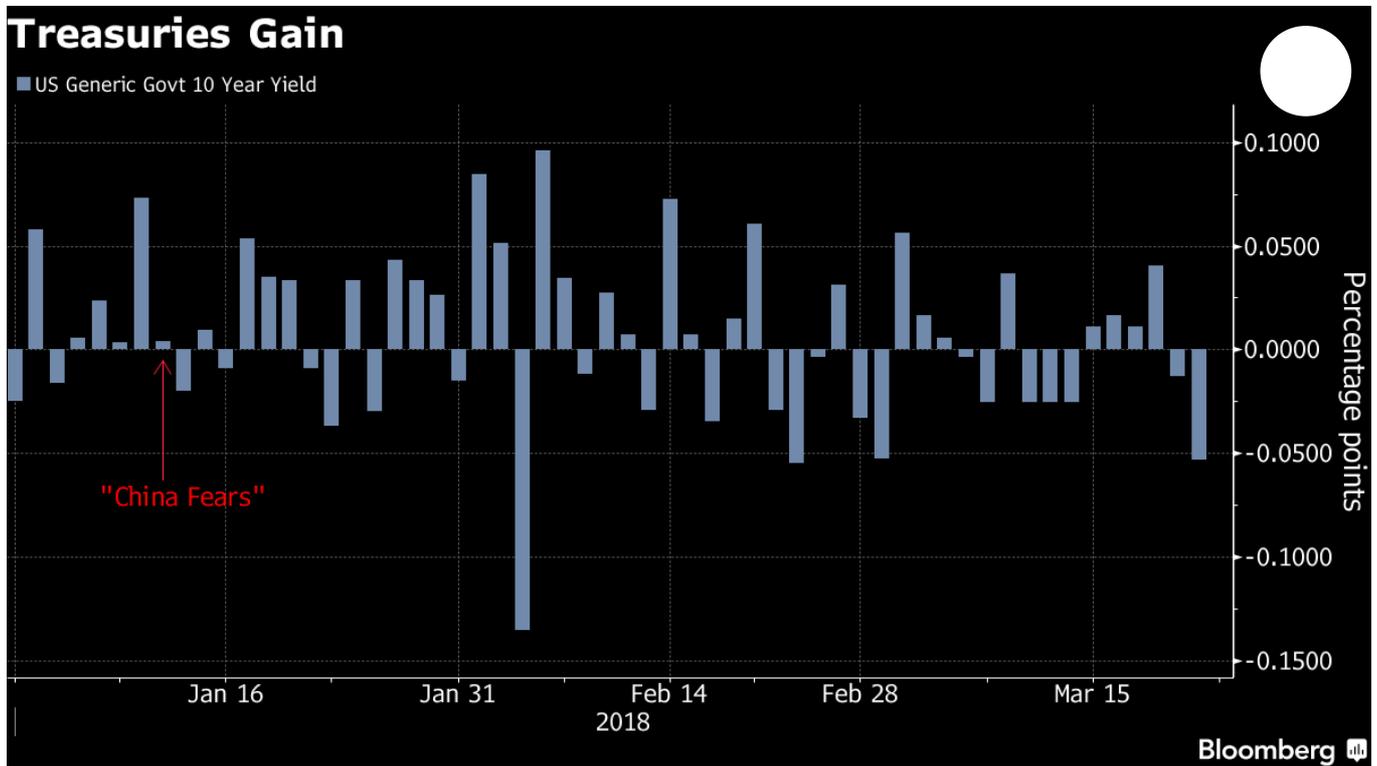
## Means of Foreign Exchange

Currency depreciation could be one channel through which authorities in Beijing aim to increase the competitiveness of their products. The dollar is up about 0.5 percent relative to the Chinese offshore yuan Thursday, but well within its year-to-date range. Six-month implied volatility for the pair is well off its 2018 high, but also above levels that prevailed during most of the previous calendar year.



## Treasuries in China

U.S. sovereign debt will also be in focus. China's holdings of American bonds, notes and bills have already dipped to a six-month low <<https://www.bloomberg.com/news/articles/2018-03-15/china-s-holdings-of-u-s-treasuries-drop-to-six-month-low>> as of January. In early January, U.S. debt sold off following a Bloomberg report <<https://www.bloomberg.com/news/articles/2018-01-10/china-officials-are-said-to-view-treasuries-as-less-attractive>> that senior Chinese government officials had recommended slowing or stopping purchases of Treasuries -- but such fears proved overblown, with the 10-year yield ultimately ending the day relatively unchanged. Bonds aren't showing jitters on Thursday, either, with the 10-year note gaining.



Still, it remains to be seen just how thorough Trump's tariffs will be and if China will indeed retaliate, pushing us to the brink of a potential trade war.

"If trade concerns go away or are alleviated, that's good for stocks because we weathered this trade concern," Tom Essaye, founder of "The Sevens Report," said by phone. "If we don't have to worry about trade, we can focus on economic data, the Fed and inflation, and the market has a good handle on that."

— *With assistance by Steve Matthews, Andrew Mayeda, and Alan Bjerga*

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