### ING's Trade War Scenarios – Transitioning from a Cold Trade Conflict to a Global Trade War

#### Scenario Outline
**US trade policy & response of major trading partners**

1. **Trump’s Lone Trade Attack**
   - No retaliation by major trade partners
   - **US import tariffs on steel (25%) & aluminium (10%); NAFTA, EU, Brazil, Australia, Korea & Argentina exempt**
   - **US impose $60bn tariff package on China** invoking Section 301 by citing alleged theft of intellectual property

2. **‘Tit-for-Tat’ Trade Battle**
   - Proportional retaliation by trade partners
   - **Countries affected by aluminium & steel tariffs retaliate proportionally**
   - **China retaliates proportionally to US tariffs (with anti-trade measures)**
   - **US does not react** to retaliations

3. **US escalates reciprocal tariffs**
   - Trump’s ‘reciprocal’ tariff warpath widens
   - **US broaden protectionist measures to other countries & sectors (eg, 25% import tax on EU cars); EU retaliate with proportional countermeasures**
   - **US reacts to China’s retaliation** with 20% blanket tax on Chinese imports

4. **All-Out Trade War**
   - US adopts a no holds barred policy stance
   - **Trump pulls out of WTO and throws world trading system into disorder**
   - **US impose 20% tariff on all imports**
   - **Trading partners also retaliate** with 20% tariff on all imports from the US

#### Economic Impact
**Implications for US & RoW economic growth**

- Small economic gain for US (and equivalent loss for trading partners) as no retaliation sees some US import substitution
- US economic loss given trade partner retaliation. Beijing retaliatory tariffs buffers any damage to the Chinese economy

#### Financial Market Implications
**Global Risk Sentiment**

- **Nervous Goldilocks**
  - Risk sentiment stable but threat of trade war keeps investors cautious

- **Stagflation Risks**
  - Inflation-linked assets bid, while global equities see knee-jerk dip lower

**US Dollar & Global FX markets**

- US protectionist policies to address trade deficit implicitly leads to **weak USD expectations** being embedded into markets
- **Asia FX** sensitive to US-China trade wars; **AUD** a proxy sell for escalation; **CNY** stays firm as a way to defuse trade tensions

**High Risk Aversion**
- Escalation sees elevated risk aversion & sharper sell-off in risky assets
- **USD** trades lower versus **JPY & EUR** given large US net foreign liability position & greater scope for dovish Fed re-pricing

**Global Downturn**
- Sustained move lower in global equities & flight-to-safety in US debt
- **EM FX** underperforms (ZAR, RUB & BRL) most sensitive to increases in global risk aversion; FX of SOEs* vulnerable