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

Escalating Trade Wars

		Scenario Outline US trade policy & response of major trading partners	Economic Impact Implications for US & RoW economic growth	Financial Market Implications: Global Risk Sentiment	Financial Market Implications: US Dollar & Global FX markets
Cold Trade Conflict	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	Small economic gain for US (and equivalent loss for trading partners) as no retaliation sees some US import substitution	**Nervous Goldilocks** Risk sentiment stable but threat of trade war keeps investors cautious	US protectionist policies to address trade deficit implicitly leads to **weak USD expectations** being embedded into markets
Cold Trade Conflict	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	US economic loss given trade partner retaliation. Beijing retaliatory tariffs buffers any damage to the Chinese economy	**Stagflation Risks** Inflation-linked assets bid, while global equities see knee-jerk dip lower	**Asia FX** sensitive to US-China trade wars; **AUD** a proxy sell for escalation; **CNY** stays firm as a way to defuse trade tensions
Global Trade War	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	EZ economy hit now as Trump targets EU car imports. Protected US auto sector partly eases US GDP hit in Scenario 2	**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 Trade War	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	Significant damage to US economy. Loss to RoW is lower as trade between other countries remains at lower tariffs	**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