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# Instant Thoughts

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## Calmness Can Be Deceiving

- The midnight deadlines of slapping tariffs on Mexico and Canada were punted.
- Like *The Godfather*, the sequel could be more exciting than the original. Trump has certainly taken notes from observing the run-out-the-clock strategies adopted by U.S. trading partners in his first term. More days of tariff whiplash are expected.
- In 2018, it took 3-4 months for the yuan to fully price in the trade war. Similarly, it took about three months for prices of washing machine to rise as U.S. retailers depleted their preemptive inventories.
- Odds are, the moves we see now are only the beginning.

The midnight deadlines of slapping tariffs on Mexico and Canada were punted, as Mexico's President and Canada's Prime Minister managed to secure a deal with Trump after vowing to deploy thousands of troops to stop the flow of drugs and migrants.

### Exhibit 1: Impact of Tariffs on U.S. Inflation

	Import Share	Impact on Effective Tariff Rate	Impact on Core PCE
25% tariff on Mexico imported goods	15.4%	3.9%	0.39%
25% tariff on Canada imported goods	13.6%	3.4%	0.34%
10% tariff on China imported goods	13.9%	1.4%	0.14%
<b>Total</b>	<b>42.9%</b>	<b>8.6%</b>	<b>0.86%</b>

Source: World Bank, CEIC, Shanghai Commercial Bank



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Is Trump done with wielding the tariff rod? The tariffs are “100% about a drug war”, called NEC Director Kevin Hassett and trade adviser Peter Navarro. That can’t be farther from the truth. On other occasions, Trump betrayed his true intention: “They (Mexican) have to balance out their trade, No. 1.” Trump has certainly taken notes from observing the run-out-the-clock strategies adopted by U.S. trading partners in his first term. There’s the reason why he resumes the “maximum pressure” approach on day one.

All relationships are transactional in his eyes. In his memoir, he said “The final key to the way I promote is bravado. I play to people’s fantasies. That’s why a little hyperbole never hurts.” Like *The Godfather*, the sequel could be more exciting than the original. All of which is to say, more days of tariff whiplash are expected.

Perhaps, disheartened stockholders are the only constituency that gets Trump to turn tail. So far, markets seemed to see Trump’s ire as more impulsive than permanent. We beg to differ. In 2018, it took 3-4 months for the yuan to fully price in the trade war. Similarly, it took about three months for prices of washing machine to rise as U.S. retailers depleted their preemptive inventories. Odds are, the moves we see now are only the beginning.



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