

BANKING ON KNOWLEDGE

Rising trade divergences emerge as Fed meeting looms



By Dr R Seetharaman

The recent G7 communique which had initially agreed on the need for "free, fair, and mutually beneficial trade" and the importance of fighting protectionism did not proceed further on account of differences, mainly arising from rising trade divergences.

Even prior to this main meeting, at the G7 finance ministers' and central bank governors' meeting last week, the G7 representatives expressed concerns after Trump administration imposed a 25% import duty on steel and a 10% duty on aluminium imports from three key trading partners – the European Union, Canada and

Mexico – from beginning of this month. IMF chief Christine Lagarde had stated "everybody loses in a protracted trade war; we encourage countries to work constructively together to reduce trade barriers and resolve trade disagreements without resorting to exceptional measures."

In response to the US Action, Mexico swiftly imposed tariffs on US steel imports, as well as some drinks, meat, apples and potatoes, ranging from between 15% and 25%.

The European Commission followed suit, confirming that it would be "rebalancing" import tariffs on US-made products brought into Europe in response to the sanctions, which will impact €2.8bn of US imports into the EU. In comparison, the



sanctions imposed by the US are expected to impact €6.4bn worth of exports from the EU to the US. The remaining rebalancing on trade valued at €3.6bn will take place at a later stage – in three years' time or after a positive finding in WTO dispute settlement if that should come sooner.

Bourbon and American whisky are two of the products already targeted in a lengthy list of imported US goods, which also includes steel, aluminium and cranberry juice from

July 2018. Europe will implement counter-measures against US tariffs on steel and aluminium, German Chancellor Angela Merkel had stated after the G7 meeting.

The Dollar Index and the Eurodollar also could be impacted by the rising trade divergences.

WTI was at \$65.74/barrel and Brent was at \$76.46/barrel by end of last week. The recent rise in oil prices has caused a marked increase in headline inflation rates. The US core personal consumption

expenditure (PCE) Price Index was at 1.8% in 2018. The US economy continued to add jobs in May, with nonfarm payrolls up 223,000 and the unemployment rate falling to an 18-year low of 3.8%.

A combination of increasingly tighter labour conditions and rising inflation puts the Fed in a position to build on their prior interest rate hikes. We need to see how the Fed is going to factor the recent trade divergence escalations.

Earlier, Fed officials saw the US trade rifts with China as a downside risk for the economy, according to minutes of their policy meeting held in March 2018.

■ The author is Group CEO of Doha Bank.