



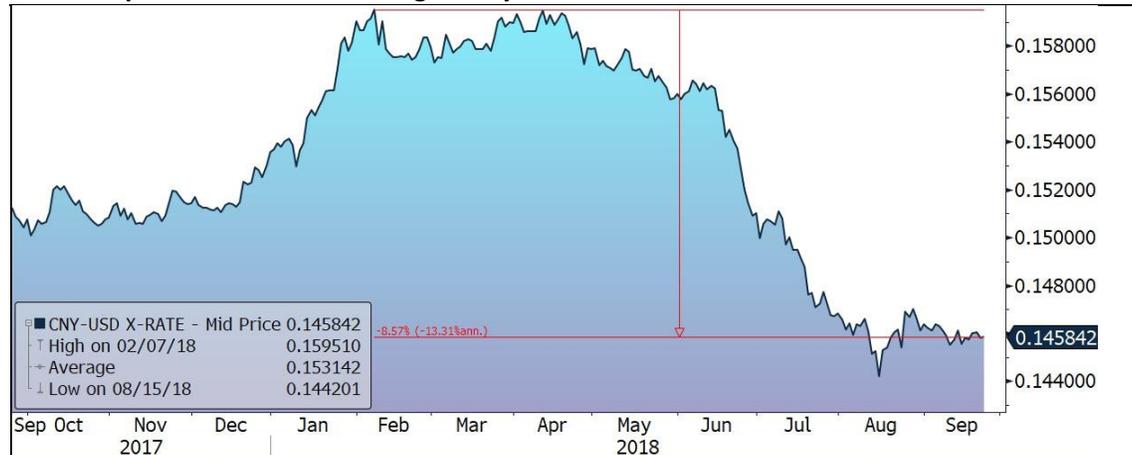
September 24th, 2018

Putting big, scary tariff numbers into context

Well, that escalated quickly

Under Section 301 (unfair trade practices), the US has increased the scope of its tariffs from \$50bn to \$250bn worth of Chinese imports (roughly half of the total imports from China). While the rate on the latest round of tariffs starts at 10%, it is set to rise to 25% in January. All else equal, the total cost of 25% on \$250bn represents about 0.44% of China's GDP. But all else is not equal. Whether by policy or by market forces, China's currency has depreciated by 9% since the February high.

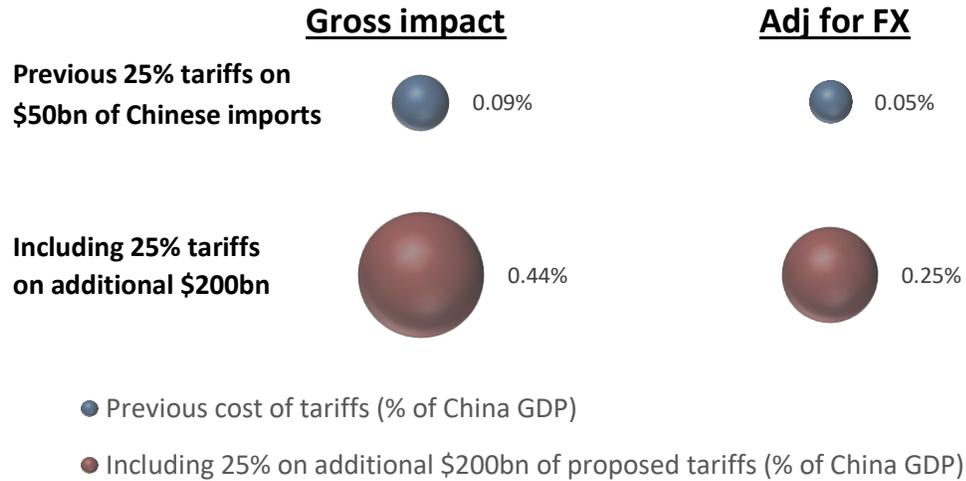
US Dollar per Chinese Yuan exchange rate year-to-date



Source: Bloomberg

As a result, the net cumulative increase in the price of Chinese goods is closer to 14% rather than 25% (more than a 40% haircut). While still significant, the net cost as a percent of China's GDP falls from 0.44% to 0.25%.

Cost of Section 301 tariffs as a % of China GDP



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