Trump tariffs continue to fuel economic turmoil

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The shock waves from US President Trump's tariff war, the chief focus of which is China, are spreading throughout the global economy and its financial system, with the US $29 trillion Treasury bond market very much at the center of the storm.

Trump's 90-day "pause" in the implementation of so-called "reciprocal tariffs" announced on Wednesday was the result of fears—conveyed to him by leading members of his administration, as well as bank chiefs such as Jamie Dimon of JPMorgan—that the bond market was on the brink of a freeze akin to that which took place in March 2020 at the start of the pandemic.

But the "pause" has not halted the turmoil in the US Treasury market, where government debt is bought and sold, but is continuing.

Yesterday, the yield on the 10-year Treasury bond rose during the day by 0.19 percentage points to 4.58 percent before falling back to 4.48 percent after Boston Fed President Susan Collins told the *Financial Times* the US central bank "would absolutely be prepared" to use its financial power to stabilize the market should that be necessary.

The Fed, she said, "does have tools to address concerns about market functioning or liquidity should they arise" but insisted that the central bank was not seeing liquidity problems overall and that the market was continuing to "function well."

She was hardly likely to have said anything else because even the slightest hint that the Fed was seeing growing problems would almost certainly have set off a panic, such is the fragility of the financial system.

Collins' remarks, which would certainly have been cleared by Fed Chair Jerome Powell and were most likely instigated by him, also had the effect of producing an uptick on Wall Street after selling had resumed on Thursday.

Overall, the yield on 10-year bonds rose by 0.5 percentage points during the week, the result of the selling of US government debt, bringing down their price. (Bond prices and yields move in opposite directions.)

In a market where moves of small fractions of a percentage point can be significant, a shift of half a percentage is a big one and was the largest rise since 2001, according to Bloomberg.

As numerous comments have made clear, it is an expression of the growing lack of confidence in the US financial system, particularly internationally, which threatens to have major effects because around one-third of US debt is foreign-owned, with Japan and China being the two biggest holders.

Peter Tchir, in charge of macro strategy at Academy Securities, an international investment bank, told the *Financial Times*:

> There is real pressure across the globe to sell Treasuries and corporate bonds if you are a foreign holder. There is a real global concern that they don't know where Trump is going.

An unnamed European bank executive told the FT:

> We are concerned because the movements you see point to something else other than a normal sell-off. They point to a complete loss of faith in the strongest bond market in the world.

Despite Collins' claims that liquidity is not a problem, analysts at JPMorgan have said so-called market depth—that is, its ability to absorb large trades without shifting significantly, a measure of liquidity—worsened this week.

Comments by leading financial executives, reported by the *Wall Street Journal*, indicate the growing concerns about the stability of financial markets and the US economy.

Both Dimon and Larry Fink, the head of BlackRock, the world's largest hedge fund with $11.6 trillion worth of assets under management, said the present turbulence was unlike anything they had seen before.

"This is different," Dimon said. "It's a significant change we've never seen in our lives."

Fink said the economy was "at risk," adding, "The sweeping tariff announcements went further than I could have imagined in my 49 years in finance."

In response to the latest Trump measures, which have lifted the US tariff rates against China to 145 percent—125 percent in "reciprocal tariffs" plus retaliation hikes, on top of a previous 20 percent impost—Beijing announced yesterday it was raising its tariffs on US goods to 125 percent.

The finance ministry said there would be no further increases, and it would ignore whatever the US did thereafter

> given that at the current tariff level there is no market acceptance for US goods exported to China... The US's imposition of abnormally high tariffs on China seriously violates international economic and trade rules, basic economic laws, and common sense, and is completely unilateral bullying and coercion.

The tariff war is often described in the so-called mainstream media as a "tit-for-tat" conflict. Such characterizations completely ignore the seriousness of the situation. In the space of just 10 days, under conditions where every country on the planet is intimately connected to a system of international trade and finance, the world's number one and number two economies are effectively walled off from each other.

History points to the consequences. In the 1930s, when the world market collapsed, there arose rival trade and currency blocs and deep economic conflicts that played a role in creating the conditions for war. There are now signs that such developments are getting underway.

Warning that the world is "undergoing accelerated changes unseen in a century, with overlapping risks and challenges," China's President Xi Jinping is trying to reach out across the world to develop a common front against the US.

Many countries, however, are wary of such a development because they fear their markets will be flooded by Chinese goods excluded from the US under conditions where growth in the Chinese economy is slowing, and it has become increasingly dependent on exports to reach official growth targets. The European Union, one of the key areas with which China would like to have closer collaboration, has already raised its own tariffs against it.

To try to counter these fears, Beijing is issuing verbal assurances that the domestic market will be boosted to take up the slack.

For their part, countries hit by Trump's "reciprocal tariffs," ranging from 30 percent to almost 50 percent, especially in Southeast Asia, are fearful of what may be demanded in any negotiations with the US during the 90-day "pause" and what might come after.

Trump has made it clear that the talks will go beyond the issue of tariffs per se. The Fact Sheet issued on April 2 set out that tariffs could be reduced but only if countries aligned themselves with the US not only on economic matters but also on its "national security"—code words for China—as well.

The fears gripping countries around the world, reeling from the historic shock delivered to them as they try to put in place arrangements that are less dependent on the US, were summed up by Singapore Foreign Minister Vivian Balakrishhnan.

As preparations are being made for talks in the Malaysian capital, Kuala Lumpur, in May to try to devise an agreement between the Association of Southeast Asian Nations and Middle East Gulf nations, he said: "This is the end of an era."

> The architect, the master planner, the developer of the rules-based system of economic integration has decided that it now needs to engage in a full-scale demolition of the same system that it created.