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Global markets reel as US-China trade war escalates
Beijing to raise levies on $60bn in US goods in defiance of warnings from Donald Trump

Don Weinland in Beijing, James Politi in Washington, Joe Rennison in New York and Richard Henderson in London

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The US-China trade war escalated sharply on Monday as Beijing said it would raise tariffs on $60bn in American goods, defying warnings from Donald Trump and sparking a global market sell-off.

China's ministry of finance said it was increasing levies on goods ranging from liquefied natural gas to frozen spinach and toothpaste, in "response to US unilateralism and trade protectionism" — its characterisation of the Trump administration's move last Friday to increase tariffs on $200bn in Chinese imports to 25 per cent.

The Trump administration was expected to retaliate later on Monday by unveiling details of a plan to hit a further $300bn in Chinese imports with 25 per cent tariffs — a move signalled last week after trade talks between US and Chinese negotiators in Washington failed to produce an agreement.

"China should not retaliate-will only get worse!," Mr Trump tweeted before the Chinese announcement, warning Beijing that it would be "hurt very badly" if the commercial conflict continued. "You had a great deal, almost completed, & you backed out!" he wrote.

Stocks fell in response as investors fled to safer assets, including government debt. All US market indices were down, with the S&P 500 off 2.3 per cent, and the technology-heavy Nasdaq 3.2 per cent lower by midday in New York. Global stocks fell to the lowest level since March, with the FTSE All World index losing 1.8 per cent, its biggest one-day drop since December.

The tariff increases announced by Beijing on Monday would hit sectors ranging from heavy manufacturing and industry to agriculture and household goods. Shares in Apple were down 6 per cent at midday, while Caterpillar was off 5 per cent.

“Companies like Apple and Caterpillar have significant revenue exposure outside the US — immediate sell-offs will impact these types of companies,” said Kristina Hooper, chief global markets strategist for Invesco. “It’s not a sector-specific story, it’s more of a large-cap story.”

Market expectations grew that the Federal Reserve would respond by cutting interest rates. The probability of a cut before the end of the year, derived from futures prices, stood at 74 per cent, up from 58 per cent a week ago. The two-year Treasury yield fell almost 9 basis points to 2.18 per cent, its lowest level since February 2018.

The rising tensions knocked China’s currency and emerging market currencies more broadly. The renminbi was down 0.9 per cent against the US dollar on offshore markets, having crossed the Rmb6.9 level for the first time this year. The MSCI index tracking EM currencies was down 0.7 per cent, putting it on course for its biggest fall of 2019.

“The confrontation has now escalated to a battle of testosterone between two leaders who believe they have much to prove to their constituents. But the longer this exhibition of chest-beating lasts, the greater the odds of a US, if not global, recession,” said **Bernard Baumohl of the New Jersey-based Economic Outlook Group.**

Beijing said 2,493 items coming from the US would have tariffs increased to 25 per cent from June 1. Those included LNG, agricultural items such as natural honey; compounds such as potassium sulphate, commonly used in fertiliser; and various manufactured products such as LED lightbulbs.

On two other lists of 1,078 and 974 items, tariffs would be raised to 20 per cent and 10 per cent, respectively. Those lists included many household goods such as toothpaste and bleach, along with many types of apparel and related manufacturing equipment, such as men’s swimming outfits and machinery that makes shoes.

A smaller list of 595 items would not see an increase beyond the present level of 5 per cent. Among those items were chemicals and industrial materials such as formaldehyde and lithium. Electronic and motorised devices such as starters for the engines of cars, planes and boats, and 3D printers would also be spared an increase.

“China is sticking to its strategy of proportionate, measured retaliation against US tariffs. The Chinese government’s message is clear — it wants a resolution of the trade dispute and is willing to make concessions but will not stand down from confrontation if that’s the path Trump chooses,” said Eswar Prasad, a professor of international trade at Cornell University.

The White House and US trade representative declined to comment on China's retaliation. Both countries have said that conversations between the countries would continue regardless of the escalation, and the US said a summit between Mr Trump and Mr Xi was possible at the G20 world leaders gathering in Japan next month.

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