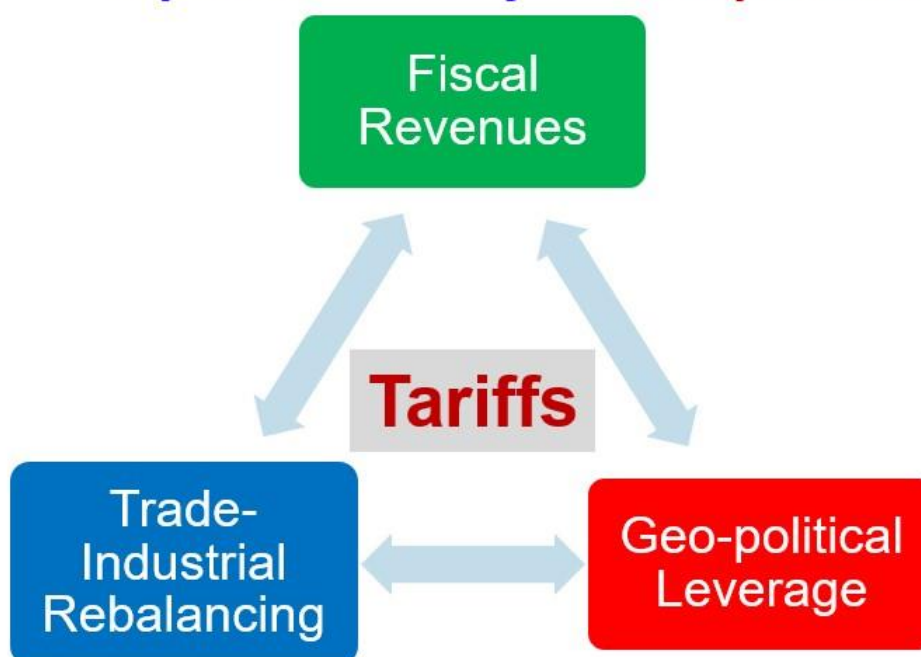


The Impossible Trinity of Trump 2.0 Tariffs

“How puzzling all these changes are! I'm never sure what I'm going to be, from one minute to another.” – Alice's Adventures in Wonderland

The Impossible Trinity of Trump Tariffs



In a Nutshell: Acute tariff uncertainty inevitably results from the **one tariff tool is being exploited for three misaligned, if not conflicting, objectives** – of *trade/industrial rebalancing, geo-political leverage, and fiscal revenues*. For now, the **greater risk is associated with misattributing intent**. Specifically, *discounting tariff threats as mere leverage*. Such ***creeping complacency risks geo-economic miscalculations*** and **inevitably heighten tariff-related uncertainties**. The **emerging reality** though may be **differentiated tariff motives**. Specifically, **China-Asia may be prone to stickier tariffs** from *Trade-Industrial Rebalancing motives* while **Canada and Mexico have greater chance of dial-back** given supply-chain dependencies suggest *leverage objectives*. In which case, **near-term upside USD volatility** remains intact (on lingering trade risks) and **CNH-AXJ complex may potentially be poised to under-perform CAD-MXN basket**.

- The Impossible (Tariff) Trinity: Fact is, **Trump cannot simultaneously achieve all three competing tariff objectives** – *trade/industrial rebalancing, geo-political leverage, and fiscal revenues*.
- One (Tariff) Tool, Many Motives: For the record, Trump's tariff tool is aimed at **three distinctly different motives**. Namely, and in no particular order;
 - Trade/Industrial re-balancing: The first is **obvious motivation to force trade/industrial re-balancing** and ***attendant supply-chain relocation*** (to the US),

- Geopolitical Leverage: Another is, as we have come to witness in the case of Colombia, to **extract for geopolitical leverage**.
- Fiscal Revenues: The last, as Trump has declared, is to raise **fiscal revenues**, and (at least partly) offset revenues forgone from tax cuts.
- Conflicting Objectives: *Trouble is*, there is **misalignment, if not obvious conflict, across these objectives**.
 - **Fiscal revenues** argue for *steady, wide, and steep tariffs*;
 - **Leverage prioritizes non-trade deal-making that entails full flexibility to rescind tariffs** and;
 - **Trade/Industrial rebalancing** demands *strategic nuance involving differentiated tariff that defers to supply-chain feedback risks*.
- Unknown & Unobservable: The thing is, Trump's **tariff motives are unobservable and unknown** at each turn. Especially **with his shoot-from-the-hip approach**.
- Misattribution of Motive: Consequently, there is **significant risk of misattributing intent** (of the tariff threat).
- (Art of the) Deal & Discount(ing Risks): Notably, as Trump's (self-proclaimed) deal-making prowess **mislead markets to discount tariffs threats as a play for "leverage"**.
- But Not All Bluster is a Bluff: The **real danger** with such *creeping complacency about tariffs being subsequently walked back* is that **not all bluster is a bluff**.
- Miscalculation of Risks: And that warns of **potentially sizable demand shock** from **inadvertently miscalculated geo-economic risks**.
- Heightened Tariff Uncertainty: Upshot being, the **inherent conflict entailed in the three objectives of the Trump 2.0s tariffs** inevitably **heighten tariff-related uncertainty**.
 - **FX Implication 1**: *Bouts of upside in the USD from trade-related risks linger, as early relief may prove premature.*
- Recognizing Differentiated Tariff Risks: Crucially, the mix of **Trump 2.0 tariff objectives** may assume a **more pronounced country/bloc-specific emphasis**.
- Trade/Industrial Rebalancing Bent for China-Asia: Conceivably, a **more emphatic Trade-Industrial Rebalancing bent** of stickier tariffs may *apply for China, spilling over into Asia*, given the geo-economic rivalry.
- Leverage Bias for North American: In contrast, **supply-chain dependencies may dictate a greater degree of leverage angle on North American tariffs**, which may be primed for dial-back.
- China Complex-North American Divergence: As a result of which, a more prominent divergence in the tariff threats/resolution between China-Asia complex and North America may emerge.
 - **FX Implication 2**: *In turn, this may favour a basket on CAD-MXN against CNH-AUD-KRW-MYR-THB. Especially if the CAD and MXN fall further relative to the AXJ basket.*

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