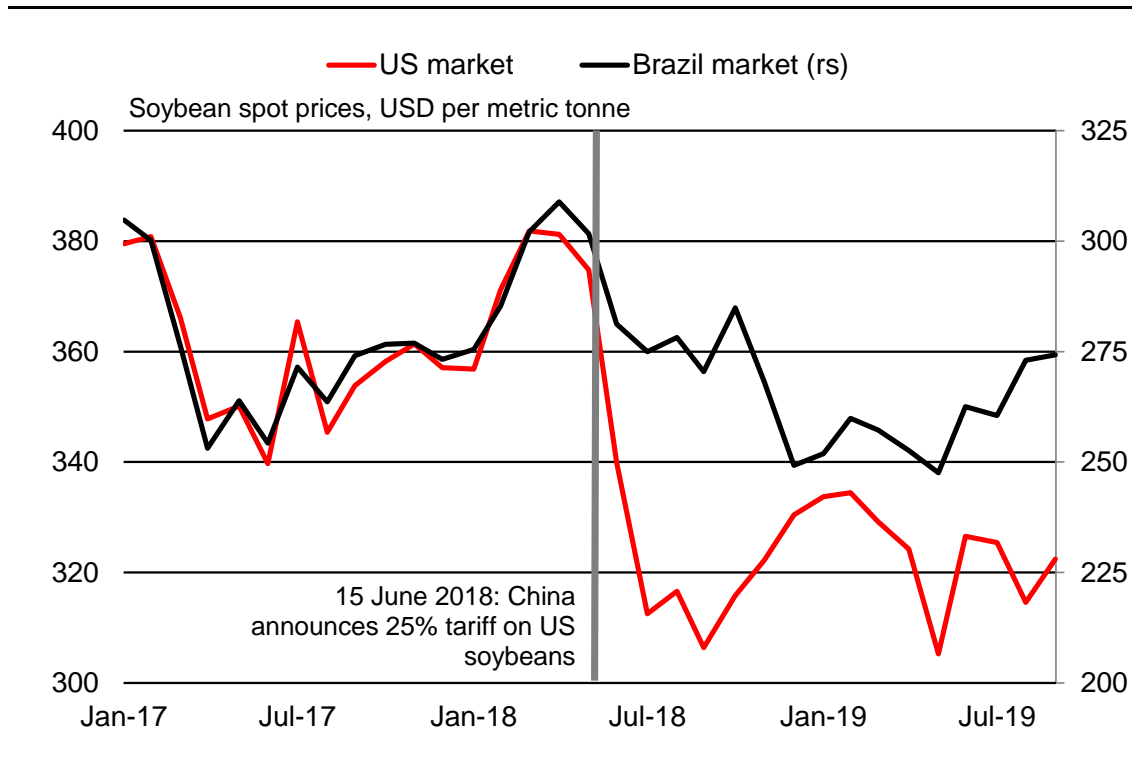


US producers bear most of the cost of retaliatory tariffs



Source: Bloomberg, UniCredit Research

- Our *Chart of the Week* shows that US farmers have been hit hard by retaliatory tariffs imposed by China on US goods, particularly US soybean farmers. The price of soybeans in the US and Brazil typically move in lockstep. However, when China announced a 25% tariff on US soybeans in June 2018, US soybean prices fell more than 20%, while prices in Brazil held up. The large fall in US prices is explained by the fact that (1) China is a large importer of soybeans and has high market power, and (2) China was able to switch supplier of soybeans from the US to Brazil, the second largest producer in the world. Consequently, US soybean producers bore most of the cost of the tariffs, through lower prices (as well as China's imports temporarily falling to zero as it imposed import quantity restrictions), while Chinese importers absorbed only a very small part of the tariff cost.
- Trade talks between the US and China are set to resume next week. The last round of trade talks ended in July without an agreement, which triggered additional tariffs from the US. Last month, in what were largely interpreted to be conciliatory gestures ahead of the upcoming trade talks, it was reported that China gave tariff waivers on US soybeans, with Chinese importers having agreed to buy more US soybeans. Crucially, however, a breakthrough in US-China trade talks seems unlikely, with the two sides still far apart with regard to the most contentious issues, particularly regarding China's subsidies to state-owned enterprises.

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