

The Boy Who Cried Tariff

Last week was a textbook case of how desensitisation works in markets. When investors are exposed to a constant stream of threats, our ability to care fades. What once caused panic now barely moves the needle. In fact, what used to be called "the boy who cried wolf" has been rebranded by the financial press as the "TACO Trade"—Trump Always Chickens Out.

Despite the latest wave of tough rhetoric and formal notices sent to over 20 countries, equities barely flinched. The tariff deadline has now been pushed to 1st August. As we move closer, we expect more threats and a likely pick-up in volatility—though probably not as intense as what we saw in April.

One of Trump's latest threats involves slapping 30% tariffs on the EU. Talks had been making progress, but the announcement caught Brussels off guard—prompting the EU to prepare retaliatory measures. European leaders remain divided: some favour diplomacy, while others are pushing for a firmer response, including activating the bloc's so-called "trade bazooka"—a powerful legal tool that allows Brussels to swiftly impose tariffs or service restrictions on countries using trade as a form of coercion.

Impact: European markets opened lower on Monday. However, investors have learned to be cautious about trading on rhetoric or policies that can be easily reversed.

Another unrealistic threat to impose a 200% tariff on pharmaceuticals barely impacted European drugmakers. Trump said he would give pharma companies 12 to 18 months to bring production back to the US before high tariffs are imposed. Analysts claim this timeframe is not feasible and estimate the process could take 4 or 5 years instead.

Impact: Such high tariffs would lead to drug shortages as branded manufacturers would face increased costs for component imports. Meanwhile, generic manufacturers may exit the US market to protect razor-thin margins. Even a 25% tariff could push prices by up to 12.9%.

The announcement of a potential 50% tariff on copper imports sent US copper prices sharply higher, as importers scrambled to lock in supply. Chile, Canada, and Peru—major exporters—warned that the move could damage trade relations and squeeze US manufacturers, especially given America's limited refining capacity.

Impact: Commodity markets tend to react more immediately to tariff threats, since front-loading and stockpiling are more feasible. Elevated copper prices may benefit producers, but they risk squeezing margins for US manufacturers and adding to inflationary pressures.

China's exports outpaced expectations as exporters rushed to ship goods during a temporary tariff truce. However, the rebound may be short-lived as the US tightens scrutiny on countries accused of rerouting Chinese goods.

Impact: The US-China trade truce is fragile, and if new tariffs hit, global supply chains could be disrupted again—particularly in tech and industrial goods.

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