Problems Mount as Trade War Escalates

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Early this morning, China announced it would raise the tariff rate on all goods imported from the U.S. from 84% to 125%, effective April 12. The Chinese Commerce Ministry added that China would not respond to any future U.S. increases, saying: "at the current tariff level, there is no market acceptance for U.S. goods exported to China." Today's escalation is in direct response to the Trump administration increasing the import tax on Chinese goods to 145% yesterday.

U.S. soybean farmers will feel the tax pinch as China accounts for half of all soy export revenue. Suddenly unaffordable U.S. prices have prompted Chinese companies to increase purchases of less expensive Brazilian beans. The EU's counter to Trump's reciprocal tax targeted specific imports, *including soy*, which should also encourage European countries to seek alternate sources. The foreign response up to this point has been primarily on goods, but exported U.S. services - technology, software, cloud storage – will be increasingly vulnerable as the trade war persists.

Another unintended consequence is what appears to be a worrisome shift in investor preferences away from U.S. financial assets. Waning demand for long duration treasuries has driven yields on 10-, 20- and 30-year bonds sharply higher this week despite rising recession concerns. This decrease in demand has fueled further weakness in the U.S. dollar, down over -8% this year with half of the decline coming in April.

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Minneapolis Fed President Neel Kashkari told a CNBC audience this morning that the recent drop in U.S. dollar value *adds credibility to the shifting investor preference story.* While the dollar sits at its lowest point in three years, safe haven gold continues to surge, up 23% year-to-date.

Recession concerns have only increased this week as U.S. companies will be reluctant to accept shipments at costs up to 145% more than they thought they'd be paying. Before the 90-day pause in reciprocal tariffs (for all countries but China) was announced, Delta Air Lines said it would not pay the 20% tax on Airbus shipments from Europe. *Paused or canceled shipments could be a rapidly developing story in the coming weeks.*

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Bond prices continued to drop today, pushing yields higher and validating Kashkari's recognition of shifting investor preferences. The administration's proposed tax cuts are expected to increase the already bloated budget deficit, which means attracting foreign buyers will be even more critical as more and more treasury debt is issued.

Market Indications as of 12:13 P.M. Central Time

DOW	Up 386 to 39,980 (HIGH: 45,014)
NASDAQ	Up 211 to 16,598 (HIGH: 20,174)
S&P 500	Up 74 to 5,342 (HIGH: 6,144)
1-Yr T-bill	current yield 4.03%; opening yield 3.95%
2-Yr T-note	current yield 3.92%; opening yield 3.81%
3-Yr T-note	current yield 3.97%; opening yield 3.88%
5-Yr T-note	current yield 4.13%; opening yield 4.07%
10-Yr T-note	current yield 4.47%; opening yield 4.46%
30-Yr T-bond	current yield 4.86%; opening yield 4.93%