上海商業銀行
SHANGHAI COMMERCIAL BANK
Since 1950

Instant Thoughts

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The Long Goodbye

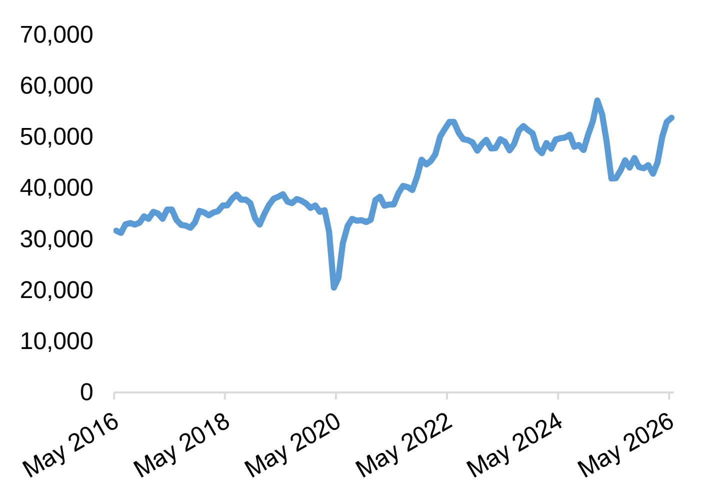
- **Effective from 19 August 2026, about US$20 billion in Canadian exports will be subject to a 50% punitive tariff. Dairy, alcohol, and motor vehicles sit firmly in the crosshair of the Trumpland.**
- **A rebuild of the tariff wall could result in a potential 3.8% depreciation pressure on the loonie.**
- **Trump won't be able to waltz his way through the legal challenges however.**
- **"Good laws derive from evil habits," Roman writer Macrobius notes. Germany and Brazil could be the next targets on the hit list.**

While most of the market watchers have grown tired of Trumpian tariff wars a long time ago, the bellicose U.S. president can't resist brandishing this weaponry with newfound enthusiasm.

Once a frozen turf and geopolitical backwater, Canada is now a diplomatic theatre. Just as the Supreme Court ruled Trump's "liberation day" tariffs illegal, the White House moved quickly to impost Section 338 of the Tariff Act of 1930 and levy a 50% tariff on selected Canadian goods. Effective from 19 August 2026, about US$20 billion in Canadian exports will be subject to the punitive tariff. Dairy, alcohol, and motor vehicles sit firmly in the crosshairs of the Trumpland.

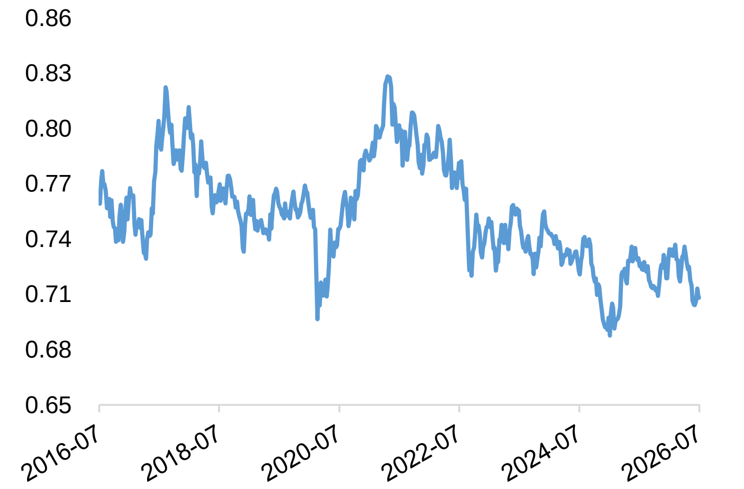
This is not our first time to face the intrusion from this unforgiving world, however. Applying a 50% tariff rate on 3% of total Canadian exports adds 1.5 percentage points to Canada's effective tariff rate. With an exchange rate elasticity of exports of 0.4, a rebuild of the tariff wall could result in a potential 3.8% depreciation pressure on the loonie. A damaging outcome, but not a treacherous force that the government will struggle to rein in.

Exhibit 1:Canadian Exports to the U.S. (CAD mn)



Source: Statistics Canada, Shanghai Commercial Bank

Exhibit 2: CAD/USD



Source: Bloomberg, Shanghai Commercial Bank

And even this 3.8% depreciation ought to be considered as a worst-case scenario. The power authorized by Section 338, with no prior record of ever being invoked, is likely to be challenged judicially. Unlike Section 232 and Section 301, Section 338 gives Trump enormous latitude in deciding how, when and against whom the tariff is imposed without formal investigations, reviews, and hearings by the International Trade Commission. The only hurdle to clear is that the President "find as a fact" another country has discriminated against U.S. commerce. Ambiguous as designed, Trump won't be able to waltz his way through the legal challenges.

In the near term, we still face grave limits. "Good laws derive from evil habits," Roman writer Macrobius notes. Germany and Brazil could be the next targets on the hit list. It leaves few breadcrumbs for the doves.

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