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Trump Trade War Prompts State Warnings to Bond Investors.

CHICAGO, Aug 27 (Reuters) – U.S. states worried about a negative impact on their finances from escalating trade disputes instigated by President Donald Trump are beginning to caution bond investors.

Washington and Illinois, two of last year's top five export states by dollar value, for the first time warned about potential trade-related consequences in documents for recent bond sales.

Issuers in the $3.8 trillion U.S. municipal bond market have previously disclosed possible financial risks due to other Trump administration policies. Last year, the president's move to repeal the U.S. Affordable Care Act and monetarily punish so-called sanctuary cities for their protection of undocumented immigrants popped up in bond documents from New York City, Oregon and others. here

Now an expanding tariff war with China and Trump's threat to withdraw from the 24-year-old North American Free Trade Agreement between the United States, Mexico and Canada are leading some of the biggest states for exports to issue new alerts to investors.

Washington state cited "international trade policy uncertainty" in a disclosure document for its $502 million general obligation bond sale this week.

"The federal administration and Congressional leaders have attempted, proposed or made major changes to the trade policy, in addition to other actions, which could potentially have detrimental effects on the state's budget," the bond issue's preliminary official statement (POS) said.

The document also noted that Washington is one of the "most trade-intensive" states with $90.4 billion in exports in 2016, largely going to Canada, China and Japan.

"At this point in time, we don't have a lot of concrete information, but we thought it was appropriate to acknowledge it's a concern," Jason Richter, the state's deputy treasurer, said in an interview.

Ahead of a $966 million GO refunding bond sale last week, Illinois also cited for the first time escalating trade wars that could negatively impact the state's agricultural and manufacturing industries and possibly the state's already shaky financial condition.

"Higher tariffs on imports will likely lead to retaliation by trading partners, which could reduce exports," the POS for Illinois' deal said.

While California had previously listed U.S. trade policy changes as being potentially detrimental to its budget, the POS for the state's Sept. 6 sale of $989 million of GO bonds cited changes to international trade relations due to federal policies as a potential recession trigger.

Texas, the top state for exports in 2017 according to the Census Bureau, is monitoring trade

discussions and “should the outcomes have a material impact on our state economy, we’d provide appropriate disclosure,” Kevin Lyons, spokesman for the state’s Comptroller of Public Accounts, said in an email.

The disclosures follow increased vigilance by credit rating agencies.

Iowa, Kansas, Nebraska and North Dakota were cited by Moody’s Investors Service earlier this month as the states most vulnerable to the nation’s trade dispute with China due to their high dependence on agriculture. However, none of those states are big bond issuers.

S&P Global Ratings last month singled out West Coast states like Washington as at risk due to a big export-related labor force and noted that Texas and Louisiana “are particularly exposed as their economic industries are strongly intertwined with global supply chains and ancillary services which support local economies.”

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