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China’s yuan skidded to a more than 5-month low against the U.S. dollar on Tuesday, despite firmer central bank guidance, as sentiment soured in the wake of escalating trade tensions between the world’s two largest economies. Chinese stocks also tumbled on Tuesday with the benchmark Shanghai Composite Index falling about 3 percent in morning trade. U.S. President Donald Trump threatened on Monday to impose a 10 percent tariff on $200 billion of Chinese goods, raising the stakes in the tit-for-tat trade war with Beijing.

“Tariffs could conceivably push policymakers to lean towards a slightly weaker yuan, other things (being) equal,” economists at Goldman Sachs said in a note. Prior to market opening on Tuesday, the People’s Bank of China set the midpoint rate at 6.4235 per dollar, 71 pips or 0.1 percent firmer than the previous fix 6.4306. But the firmer guidance failed to lift the spot rate. The spot market opened at 6.4450 per dollar and weakened to a low of 6.4490 at one point, the weakest since Jan. 15. As of midday, the onshore spot rate as changing hands at 6.4464, 94 pips weaker than the previous late session close and 0.36 percent softer than the midpoint. The offshore yuan was trading 0.02 percent weaker than its onshore spot at 6.4480 per dollar.

Traders said the onshore yuan was catching up with losses in its offshore counterpart, which fell to a low of 6.4660 in early Asian trade, weighed down by the dispute between the United States and China. “It seems the trade war is back again,” said a Shanghai-based trader at a foreign bank. “Weak economic data, and PBOC’s holding market rates unchanged after the U.S. Federal Reserve’s rate hike decision were all negative to the yuan, leading it to depreciate,” the trader added.

May activity indicators all grew less than expected, suggesting further weakness ahead if Beijing perseveres with its crackdown on pollution, questionable local government spending and off-balance sheet “shadow” financing. Earlier on Tuesday, the PBOC surprisingly lent 200 billion yuan ($31.03 billion) to financial institutions via its medium-term lending facility (MLF), highlighting concerns over liquidity and the potential economic drag from a trade war with the United States. No MLF loans were maturing on Tuesday, whereas recent operations had come on days when MLFs were due to mature.

The Thomson Reuters/HKEX Global CNH index, which tracks the offshore yuan against a basket of currencies on a daily basis, stood at 98.25, weaker than the previous day’s 98.35. The global dollar index fell to 94.55 from the previous close of 94.801. Offshore one-year non-deliverable forwards contracts (NDFs), considered the best available proxy for forward-looking market expectations of the yuan’s value, traded at 6.5495, 1.92 percent weaker than the midpoint.