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Trump's 50% tariff threat to the EU: deal or detonation?

Trump's latest threat to impose a 50% tariff on EU goods by 1 June has reignited fears of a transatlantic trade war. The EU's revised offer is on the table, but talks remain fragile. A €95bn retaliation package looms – yet, as with China, a weekend deal remains possible in this high-stakes game of brinkmanship

EU's trade offers meet 50% tariff threat

Despite the EU's efforts to secure a deal by delaying its countermeasures for 90 days until 14 July, and by offering more than only cosmetic deal proposals, the US administration seems to be dissatisfied. The EU has offered a €50 billion trade deal that includes LNG purchases and soybeans to reduce the trade deficit, proposing 0% tariffs on cars and industrial goods, or revising its proposal by offering strategic cooperation in energy, artificial intelligence, and digital infrastructure and commitments to international labour rights, environmental standards, and economic security. It remains unclear what the US administration actually expects in order to still strike a deal, other than the earlier contemplated unilateral reduction of EU tariffs.

What do the facts say?

While average tariffs between the US and the EU are similar, sectoral differences are indeed stark. Take, for example, higher EU tariffs on cars (10% vs. 2.5% in the US) and food. But the US has its own steep barriers. Light-trucks have long faced a 25% tariff rate, compared to 10% in the EU. Regarding the trade balance, the EU enjoyed a €198.2bn surplus with the US in 2024. Yet, when looking at services, the US runs a €109bn surplus (as of 2023), with notable IT service exports, led by dominant American tech companies, charges for intellectual property and financial services.

Is a deal still possible?

Despite the aggressive rhetoric, Trump's tariff threats are often a prelude to negotiation as with China's weekend deal at the beginning of May (which in fact was more a delay than a real deal). However, it has always been clear that the US administration's stance on the EU will be different than with most other trading partners. Comments like 'the EU is nastier than China' have characterised the US administration's approach so far. And while it is hard to see what the US administration's endgame could be, the EU's approach is clear. It follows a two-pronged strategy: signal openness to a deal while preparing for escalation. While the EU is slower to act, it has prepared a couple of retaliatory tariff measures which are currently scheduled to enter into force on 14 July. And if talks truly collapse, expect the EU to reach for its heaviest artillery, such as tighter regulations on US tech firms, delaying licenses or restricting public procurement access and limiting IP rights and investment flows under the Anti-Coercion Instrument (ACI).

Volatility reloaded

A relatively calm week comes to an abrupt and disappointing close, serving as a stark reminder that we remain far from any 'beautiful trade deals' or return to normality.

Volatility is back. And just to be sure, if fully implemented, 50% US tariffs on European products would shave off some 0.6ppt of GDP growth and bring the eurozone economy close to recession territory. Needless to say, it would also increase stagflationary pressures in the US again.

At the current juncture, it doesn't make sense to speculate on the outcome of these trade tensions. Anything is possible, from a potential agreement to further escalation. We maintain our long-held view that, in time, the economic toll of an escalating trade war on the US will become too severe to sustain elevated tariffs indefinitely. After a brief lull, brace yourself for the next turbulent chapter.

European markets adjust

Even though the 50% tariff may be just be a temporary threat, European equity markets quickly traded lower on the news. The Euro Stoxx 50 index is off close to 3% at the time of writing, with the auto sector off 4-5%. Two-year EUR swap rates are some 6bp lower as the market prices in an extra 10bp to this year's European Central Bank easing cycle – now priced at a further 62bp of cuts for the year.

EUR/USD briefly traded 0.6% lower on the news, but has bounced back a little – presumably on doubts about whether these 50% tariffs ever see the light of day. Today's developments have also seen EUR/JPY come lower on the view that the yen, rather than the euro will prove the prime beneficiary of any dollar outflows this summer. And EUR/GBP has traded to the lowest levels since early April now that the UK has a trade deal.

Today's events are certainly a reminder to investors not to be too complacent over the tariff story this summer. Both June and July could be rocky for markets – and could keep traded FX volatility high – as Washington pressures the EU and the rest of the world into trade deals.

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