Trump’s ‘sledgehammer’ tariff reversal - our reaction

'The current situation is not only chaotic, it’s crazy', so says ING's Carsten Brzeski. Here's our team's reaction to Trump's 90-day reprieve for those countries which haven't 'retaliated' against his 'higher reciprocal' tariffs. China's tariff rate, though, is whacked up to 125%

President Donald Trump in the Oval Office on Monday

Carsten Brzeski: 'Caution is warranted'

US President Trump has decided on a 90-day reprieve for the "higher reciprocal tariffs" for countries that have not "retaliated" against his announcements from last week. That is, all countries except China. This means every country is now at the "universal" tariff rate of 10% for the next 90 days. China, though, because it put tariffs on US-made products entering China to 84%, will now receive a 125% tariff.

Apparently, this shift wasn't because of the financial market carnage we have been seeing, but Trump declaring "a victory" - the markets apparently did not understand Trump's policies, according to Treasury Secretary Bessent. We have our own interpretation.

Given that next to Mexico and Canada, the most important trading partners of the US, China and the EU, have not gone into any negotiations, makes this ‘victory’ look like celebrating a big party when your favorite national soccer team just won against San Marino. No offence to San Marino, but you know what I mean.

Earlier today, European member states agreed on a proposal by the European Commission to impose retaliatory measures on US imports from 15 April onwards, with a second set of measures following on 15 May. These measures would mainly target specific products, not entire sectors, with soybeans being the main target. With Donald Trump's announcement to pause US tariffs, the EU is unlikely to implement its own announced measures. While this might bring some short-term relief for European exporters, the harm to confidence will last.

Let's not forget that some 15% of the US's imports come from China, and a big chunk more comes from China via Vietnam, Thailand, Malaysia and other Asian countries, *writes James Knightley.* The announced tariffs on Chinese products could give a total tariff revenue of $835bn. Unless China simply stops exporting. Something European corporates had already announced in recent days. Without exports, there are no tariff revenues.

In all honesty, the current situation is not only chaotic, it's crazy, says Brzeski. We were just about to release our latest Monthly Update with a fresh batch of forecasts, but we will delay publication now. We could make some instant changes to our forecasts, but given the volatility, we prefer giving them some more thought. Extrapolating short-term trends and events into the future has turned out to be a very risky strategy.

For the time being, Trump's announcement has led to a rally on stock markets and will probably continue on Thursday when Asian and European markets open. However, don't forget that we have been here before with announcements and then we get some pauses, only for the originally announced tariff to be reintroduced again. As such caution remains warranted - and remember President Trump does need revenue to fund his promised tax cuts. It would be a surprise if tonight's announcement was really the return of 'common sense'.

Padhraic Garvey: US Treasuries give the pause trade a mild thumbs up

Risk is back on, post the pause news, with material rallies on equity markets (the ones open), and some retightening in credit spreads (high yield 5yr CDX is tighter by a notable 60bp). That makes a whole lot of sense, based on the theory that the general sense of angst has been pared back. Market rates, though, are less excited, which is a reminder that there remains a material elevation of angst. That makes sense too, as the tariff wall remains; it's just been toned down in places, and for just 90 days.

Front-end market rates were initially up by 20bp, but have since been pared back by 5bp. So still up, but not by enough to mark a material change in overall perception. There's even less reaction on the 10yr yield, which now just feels comfortable up in the 4.4% area, it seems. Bonds are essentially telegraphing that the pause is meaningful, but at the same time, not a whole lot has changed. It will, in a sense, if the 90 days become more permanent. But until then, there remains a US bond market that is coming out of this first tariff sortie a tad badly tainted by the whole thing.

Chris Turner: Trump turns the FX market upside down

No sooner than we started to have a clear view of what a global trade war would mean for the global FX market, Trump turned that view on its head. In response to the 90-day pause announcement, the defensive Japanese yen and Swiss franc have been sold heavily (USD/JPY has rallied nearly 3% off its intra-day low), while those EM and commodity-linked currencies in the firing line of a global trade war have come back strongly. Also helping the rotation away from defensive currencies has been a little stability in the US Treasury market, helped in part by a decent 10-year auction.

Whether the pause sticks remains to be seen, and what may also hold back a much larger recovery in commodity and EM currencies is what happens with China. The US and China are currently in a powerplay game of brinkmanship. Until a deal is announced or a big, bilateral meeting confirmed, USD/CNY will now be the focal attention of the FX market. This pause might bring some temporary relief to an FX market suffering from high volatility, and today is starting to show some strains in terms of liquidity. However, second-guessing the President's next move has been a painful process to many, and ultimately we think he will get his way with a broadly weaker dollar, albeit a story for later this year and into 2026.

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