

Our take on Trump's 'Liberation Day' tariffs

US President Donald Trump announced a sweeping new set of tariffs on Wednesday, calling it 'Liberation Day'. Our economists have analysed the implications of these tariffs for the US, Asia and Europe, as well as their impact on FX and rates

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President Trump has announced a swathe of tariffs that he hopes will fund income tax cuts and incentivise manufacturing reshoring. In the long run it may deliver positives for the US economy, but the measures taken mean a painful transition period ahead



Donald Trump's enthusiasm for tariffs is well known. He describes them as "the most beautiful word in the dictionary." He sees them as a tool for achieving multiple objectives: a way of raising tax revenue, a way to incentivise reshoring of manufacturing to the US, and a diplomatic weapon to force a change of behaviours.

The details show a 10% base tariff for everyone, but then clear discrimination amongst countries that have, to a varying degree, been perceived to have cheated America. China gets 34%, Vietnam gets 46%, while the EU gets 20%. There is still some confusion on what Canada and Mexico are facing – it could be 25%, it could be zero. Proxying the top 20 of trade partners (contributing 85% of imports into the US), depending on what happens with Canada and Mexico this works out as being

in an 18.5-26.5% tariff.

For now, we are assuming this equates to around \$600bn of tariffs.

Average tariff on US imports

ING assumption for 2025



Source: Macrobond, ING

Long-term benefits may come, but near-term pain looks certain

Today's actions make the argument for reshoring at least some activity to the US much stronger. However, US manufacturing wages are amongst the highest in the world – the National Association of Manufacturers states that in 2023, manufacturing employees earned an average of \$102,629, including pay and benefits. For China, it is around 25%, and for Korea, it is around 40% of that figure. Even in Germany, it is less than 75% of the US figure. This suggests that it would only make sense to reshore activity related to highly automated, high skill, high value-added production or for products where there is a strong market that consumers are willing to pay a premium for a 'Made in America' label.

Given the costs of moving production to the US many other manufacturers may decide that it is cheaper to keep production facilities where they are and just absorb the tariff within operating costs and perhaps hope that the Administration's attitude softens.

It will also raise substantial tax revenue thanks to a lack of US-made products that producers and consumers can substitute for. This gives President Trump the fiscal headroom to deliver on his promises for extended and expanded tax cuts later this year. As manufacturers reshore, tariff revenue will obviously decline, but the hope is that this will be more than offset by higher payroll and corporation tax receipts.

Nonetheless, the transition period will be painful with squeezed consumer spending power and corporate profits risking a weaker economy for 2025.

Cost pressures inevitably rise

President Trump claimed on multiple occasions that "foreigners will pay" the tariffs, despite the

importing company paying the tax when it arrives at a US port. The Administration's argument goes that if the dollar appreciates by the same amount that the tariff is levied at, they offset. This leaves foreigners paying through a loss of purchasing power via a weaker currency versus the USD.

In an environment where the dollar is weakening, like we're seeing now, this clearly doesn't work. It means sharply higher costs for US importers unless they can convince foreign producers to cut their prices meaningfully, or the dollar will rapidly strengthen once again. If not, the choice will be some combination of smaller profit margins for US companies and passing higher costs onto the US consumer.

US companies could choose to use US-made products instead of importing foreign goods, but this is not going to be possible for everything. The US imported \$3.3tn worth of goods in 2024, yet the total value-added of US manufacturing as measured within the GDP report was just under \$3tn. Therefore, the US manufacturing sector would need to more than double in size to remove the need for any imports. While that suggests huge scope for manufacturing expansion via reshoring, it can't be achieved overnight so price increases through the supply chain are inevitable.

Price hikes of \$1,350 per American look probable

In a worst-case scenario where there is no substitution for US-made products and there is 100% pass-through of the tariff to the consumer, we estimate US price levels will rise by 3.3%.

Total consumer spending was \$19.83tn last year so if the roughly \$600bn of tariff is passed fully through that expenditure would have totaled \$20.49tn, which is 3.3% higher. Another way of thinking about it is that household disposable (after tax) income was \$22.1tn in 2024, so \$600bn of extra taxes is equivalent to 2.7% of disposable income. Spread evenly, that would be close to \$1800 for every American, or \$7200 for a family of four.

We know that when washing machines were subject to a 20% US tariff in 2018, around 60% of the tariff was initially passed onto the consumer based on the numbers published within the consumer price report. However, in 2018, it was on one specific product and importers and retailers may have taken the view that they could afford to absorb some of the cost as they would still be making ample profits on other products. When the tariff is on everything, that will not be as easy, hence why we suspect it is more likely to be a 75% pass-through to the consumer this time around. That would imply price levels more likely rising by around 2.5% or \$1350 of extra cost for every American.

That may just be the start. There is also likely to be upward pressure on some services prices. For example, if cars and car parts and durable goods are more expensive then repair costs go up and vehicle and home insurance costs will rise too to cover future potential payouts.

Tariffs are regressive and will intensify the financial pressure on low-income households

The greater dollar tariff revenue figure will come from higher cost durable goods such as cars, which is likely to mean higher income households pay more than the average person – for example the top 20% of households by income account for 74% of new vehicles and parts [purchases by value](#). For a typical vehicle, tariffs could add an extra \$8000 to the purchase price so one way to mitigate the pain is to wait longer before buying a new vehicle.

However, in general tariffs are a regressive form of taxation with lower income households spending more of their income on goods, which face tariffs - food, energy, clothing, household goods - whereas higher income households spend more on services - travel, recreation etc, which aren't subject to tariffs.

We already know that consumer bifurcation is an important theme in the US. The top 20% of households by income are in great shape - they earn \$200k+, have seen their asset base (property and stocks) surge in value and high interest rates have benefitted them - they typically own their property outright or are locked in at low mortgage rates and can put their cash in money market funds. The bottom 60% are feeling much more stress. They earn \$90k and below (it falls away very quickly with a long tail) and are more likely to be in the 38% of households that rent, the cost of which has shot higher in recent years. They don't have anywhere near as many assets, so haven't benefited from rising property and stock markets and high borrowing costs hurt as they are the people that borrow on credit cards, car loans, etc.

Tariffs are only going to make the bifurcation worse. Financially pressured households will be cutting back spending in some areas to afford higher prices of essentials. It will also likely mean rising consumer loan defaults in an environment where Philadelphia Fed data shows a record high 10.5% of credit card holders are only able to afford the minimum payment on their monthly credit card bill.

US business wary of foreign retribution

It isn't just domestic demand that we are worried about. Foreign governments look set to implement reciprocal tariffs that hurt the price competitiveness of US-made products in those markets. In 2024, the US exported around \$2.1tr of manufactured goods, the largest categories being automotive and parts (\$169bn), civilian aircraft, parts and engines (\$124bn), pharmaceuticals (\$107bn).

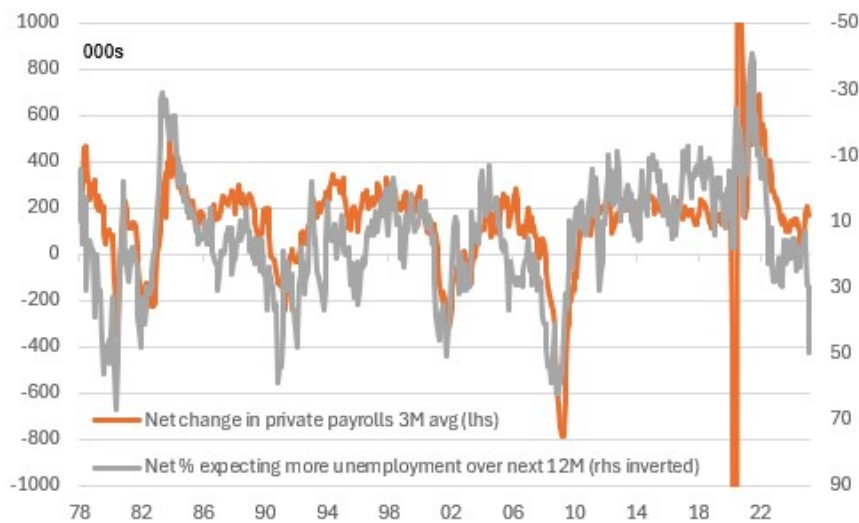
Further complicating the situation are concerns about foreign consumer boycotts tied to both tariffs and President Trump's other policy aspirations, including absorbing Canada and Greenland into the US, withdrawal of support for Ukraine and perceived support for Russia. Importantly, this can be much broader than purely a manufacturing story, such as reports of 70% declines in flight bookings from Canada, which will have knock-on effects for hotels and other service providers.

Tariffs, austerity and fears of job cuts heighten stagflation concerns

It wasn't meant to be this way. The US economy was in a healthy position late last year with output growing at a near 3% rate, unemployment was low, the Federal Reserve had just cut its policy rate 100bp and equity markets were at all-time highs. President Trump's election victory, it was thought, would see him come in and turbo charge the growth story by cutting taxes and slashing regulations.

However, his focus on immigration, austerity and trade protectionism is instead leading to fears of stagflation. The chart below shows the respondents' views on where the jobs market is heading. That does not look a pretty picture and when overlayed with squeezed spending power and tighter profit margins amidst an environment of cooling asset prices, suggests downside risks for growth this year.

Households are increasingly pessimistic regarding job prospects



Source: Macrobond, ING

The Fed will be in a quandary. It will want to support the economy with rate cuts, but uncertainty over how long inflation may persist is likely to lead them to hesitate. We continue to forecast September and December rate cuts with a third in March 2026, but the gloomier near-term outlook for the economy means the risks are skewed to them having to do more this year.

Is Donald Trump for turning?

The key question is, will Donald Trump reverse course if the economic pain becomes too much? The problem is, he has invested so much in tariffs. Correcting perceived unfair trade practices and reshoring US manufacturing was always going to be a long-term goal given the cost and planning involved. His near-term need for the tariff revenues to give him the fiscal room to extend and expand his 2017 tax cuts also suggests he is not going to back down swiftly. Moreover, his team have been willing to acknowledge the risk of near-term pain for longer-term gain.

President Trump will be wary of the electoral calendar, though. Last night's Florida congressional and Wisconsin state Supreme Court election results provided a warning shot, and the more economic pain the country faces, the more likely it is that the Democrats sense that they could regain control of the House of Representatives after next year's mid-term elections. He may well gamble major tax cuts for 2026 will give him the boost he needs to get his party over the line and he can point to re-shoring announcements as "big wins" that allow him to pull back many of the tariffs. However, that will do little to address near-term fears of falling output, rising unemployment, elevated inflation and stressed financial markets.

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Tariffs: Europe's worst economic nightmare just came true

A US 20% reciprocal tariff on the European Union will hurt. It's worsened the eurozone's short-term outlook. Now, so much depends on European governments to push through with their planned fiscal stimulus and reforms to strengthen domestic economies



President Donald Trump holds up a signed executive order on global US tariffs

Wednesday's tariff announcements by Donald Trump should be the final reminder for Europe that the Transatlantic relationship has changed for good. And this doesn't only apply to security and defence policies.

Since the US elections in November, it's been clear that the intended US economic policies were a kind of modern version of beggar-thy-neighbor policies, strengthening the US economy and cannibalising important trading partners. While the intended energy policies and tax cuts have not yet been implemented, today's tariff announcements combined with earlier tariffs on steel, aluminum and automotives will hurt the eurozone economy.

Even if there are no winners in trade wars, some lose more than others. While in recent weeks, the longer-term outlook for Europe had clearly brightened with the European defence initiatives and the German fiscal U-turn, tariffs have just darkened the near-term outlook.

What do we know about the tariffs?

'Liberation Day' turned into 'Tariff Application Day' as President Trump signed an Executive Order introducing reciprocal tariffs on its trading partners. These tariffs are not applied in the pure form of matching the exact tariff differential imposed by other countries on imported goods. Instead, they include 'non-monetary' barriers such as exchange rates, technical standards, and VAT, as outlined in the soon-to-be-released USTR foreign trade barriers report. These 'discounted reciprocal tariffs', as President Trump described, cover roughly half of what the US is charged, according to the US administration. There is no well-defined end to these tariffs; they will become effective on 9 April.

Each country is viewed individually and receives its own tariff rate. During the tariff announcement at the Rose Garden, a billboard highlighted China as the worst trade offender, receiving a 'discounted reciprocal tariff' of 34%. The EU followed with a tariff of 20%, and Vietnam with 46%. It looks as if, at least for now, Canada and Mexico are not subject to today's reciprocal tariffs.

It is not yet clear whether those newly announced tariffs will get stacked on top of already existing tariffs or whether they'll be regarded separately. To put it simply: will a tariff rate of 47.5% be paid for an imported car from Europe or 'just' 27.5%? We're not absolutely sure, but European leaders will be hoping they won't be stacked upon each other and that's certainly what the term sheet suggests.

The EU reaction

The European Union has postponed its initial round of counter tariffs until mid-April. Officials have consistently expressed their preference for negotiation and openness to dialogue. However, the EU has also made it clear that it will retaliate in kind if no solution is found.

The EU's preferred option is a 'negotiated solution' to avoid mutual economic harm. German Finance Minister Jörg Kukies recently called for a free trade area between the US and the EU, effectively reducing tariffs to zero for both sides. While this proposal is admirable, it would likely result in lengthy negotiations. Therefore, offering to buy more goods 'made in the USA' might be a quicker way to reach a deal. However, US President Trump's speech tonight did not really sound as if there is a lot of wiggle room for negotiations.

Not much wiggle room for negotiations

The EU has repeatedly stated that it is ready to take firm countermeasures if necessary to protect EU interests. What would this look like? As an initial step, the EU will reinstate previously suspended tariffs on a range of US goods and apply even higher counter tariffs on products such as agricultural and food items, textiles and apparel, footwear and headgear, furniture and bedding, household appliances and tools, construction and building materials, optical products, precious metals, and lighting. With 13.7% of total Extra-EU trade stemming from the US, this will significantly impact US exporters, especially if other nations retaliate similarly.

In response to the Section 232 tariffs on steel, aluminium, cars, and car parts, the EU can quickly apply retaliatory tariffs without requiring a subsidiarity check by national parliaments. The EU acts

on behalf of its member states through the "Trade Enforcement Regulation," which enables the EU to suspend or withdraw concessions or other obligations under international trade agreements when third countries breach these agreements and affect the EU's commercial interests, allowing the EU to take (immediate) countermeasures.

Looking at more profound and impactful measures against US companies, the EU is considering targeting the services sector. This could involve implementing stricter regulations on Big Tech, or under the Anti-Coercion Instrument (ACI), delaying the issuance of business licenses for US companies, limiting their access to public contracts, restricting intellectual property rights or prohibiting investments in the EU altogether.

Yet, invoking countermeasures under the ACI would need the green light from a 'qualified majority' of 15 out of the 27 member states, representing at least 65% of the bloc's population. Also, any reaction under the ACI would take some eight weeks, and it can't be triggered if Trump's tariffs are not punitive, or their adoption is made conditional on policy changes performed by the EU and its member states.

What it means for Europe's economies

Admittedly, a lot is still unclear, and fully quantifying the impact of such a tariff tsunami, which actually brings back tariff levels of the 1930s, is almost impossible. The 20% blanket tariffs could shave off 0.3pp of eurozone GDP growth over the next two years when only focusing on the direct and indirect trade impact. Interestingly, eurozone exports to the US had increased materially ahead of tariff announcements, and the most immediate effect will be the reversal of frontloading as tariffs take effect.

But there is more to it than the direct impact. Think of the secondary effects on confidence these tariffs will already have on European consumers and businesses. Holding back consumption and investments looks likely. This would keep economic growth in the eurozone at a snail's pace.

Earlier on Wednesday, Bloomberg reported on a possible support package from the European Commission, accompanying countermeasures to the US, that could help alleviate the impact for the sectors that would be hit hardest. If this were to be the case, it would naturally limit the short-term impact of the tariff shock, but the question remains how long it can limit the fallout of demand.

We're reducing our eurozone GDP growth forecast

The also-mentioned reforms and boosts to competitiveness would take longer to take effect and materially improve the fate of vulnerable sectors. While the devil is in the details with plans like this, structural improvements to the eurozone economy couldn't come at a better time. For now, we are reducing our eurozone GDP growth forecast to 0.6% YoY, from 0.7% YoY, for 2025, and to 1.0%, from 1.4%, for 2026

Gauging the impact on inflation is as complicated as it will also depend on the EU's reaction. Assuming some retaliation by the EU, inflation in Europe will also increase. However, at the same time, US tariffs could add to already high inventory levels and low capacity utilization, being the

right recipe for disinflation once companies try to destock. At the same time, other countries hit by US tariffs, think China, might also try to increase exports to Europe by lowering prices. As counterintuitive as it might sound, in the longer run, a fully fledged trade war is likely to be disinflationary for Europe. But in the short term, all eyes are on the Commission's countermeasures to gauge the impact on inflation properly. The first countermeasures will take effect mid-April, but those are relatively small as they retaliate against steel and aluminium tariffs. As the Commission has not yet announced countermeasures to today's announcements, the jury is still out on how the overall impact on eurozone prices plays out.

Regarding the European Central Bank, the latest comments by ECB officials stress that there still seems to be a significant group supporting a pause at the next meeting, which will be held in two weeks. Monthly inflation and services inflation are still not where they should be, and many officials are still stressing that the job is just not done.

However, the call for a pause was stronger a few weeks ago when fiscal stimulus expectations brightened the outlook for eurozone growth (and inflation). With tonight's negative trade and confidence shock and little prospect of quick negotiations, the chances that the ECB will want to push the policy interest rate further into neutral territory in two weeks have clearly increased.

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Trump's reciprocal tariff surprise will prompt stronger China response

Higher-than-expected US tariffs will drag on Chinese growth and inflation this year. China has been quite measured in its reaction to the first two rounds of tariffs. But a sharp 34% tariff escalation risks a stronger response both in terms of domestic stimulus and potential retaliation

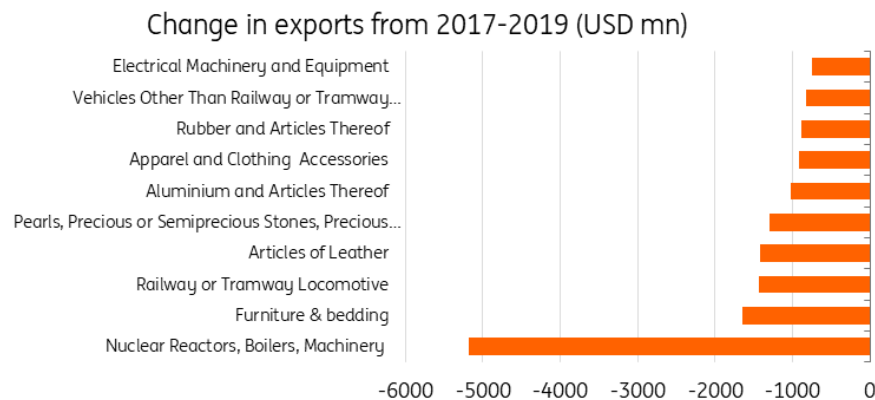


Source: Shutterstock

Latest round of escalation brings tariffs on China close to Trump's campaign trail promises

President Trump imposed a 34% reciprocal tariff on China, which is reportedly on top of an earlier 20%, bringing the tariff rate to 54%. This brings us close to the "worst case scenario" of 60% tariffs Trump threatened on the campaign trail, with certain products such as electric vehicles seeing even higher tariffs. With this abrupt move, the odds of a stronger retaliation from China have risen.

Hardest hit sectors in the first trade war



Rapid escalation of tariffs risks bigger hit to growth this year

Last year, China's trade surplus with the US accounted for around 2% of GDP. We have been forecasting a drag between 0.4-0.8ppt on 2025 growth, assuming an eventual escalation of tariffs to 60%. We are maintaining our scenario for now. However, this faster-than-anticipated escalation likely puts the impact toward the higher end of that band.

It should be noted that the calculus for China is different from many other countries seeing tariffs for the first time.

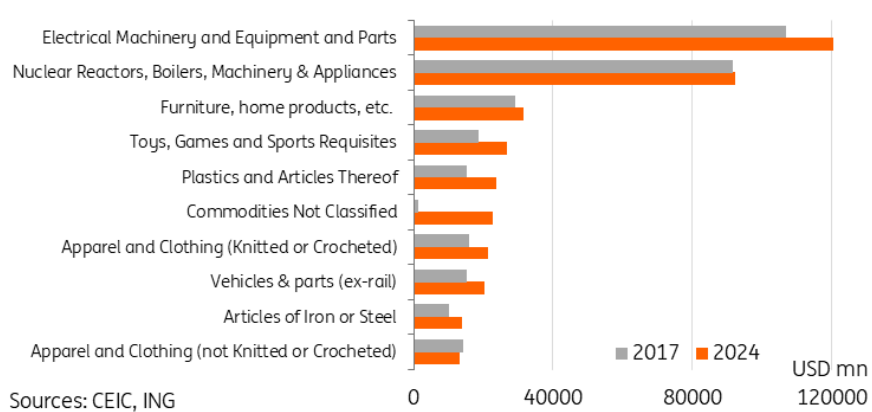
- Many of China's most price-sensitive exports to the US with international competition were already gradually phased out in the first trade war.
- With numerous other economies also being hit with tariffs, this actually ends up reducing the availability and attractiveness of substitution products for China's exports. However, it also impacts China's re-export channels.
- Impacts could change depending on whether or not the US ends up closing the de minimis trade exception, where imports with a value of under USD 800 are exempt from tariffs. This currently provides an avenue for e-commerce companies to make direct sales to US end consumers without the tariff impact.
- The extent of retaliation remains unclear, which will play a role in how the bilateral trade balance actually develops.

We have the experience of the first trade war to draw upon. Studying China's top export categories to the US during the first trade war gives a good picture of how things might develop this time. Price-sensitive categories with more substitution products, such as furniture and apparel, were hardest hit. The same with potentially sensitive exports in the nuclear reactors, boilers, and machinery categories.

However, China's largest export category to the US, electrical machinery, equipment and parts, was not heavily impacted in the first trade war. Many specific exports have limited-to-no alternative suppliers. As such, tariffs could ultimately be borne by US importers. Furthermore, most categories recovered and surpassed previous export levels after an initial shock.

A drop in external demand has been well expected in China since Trump's election victory. Amid strong external headwinds, the success or failure of China meeting its "around 5%" growth goal this year is dependent on whether measures to boost domestic demand are successful.

China's biggest exports categories to the US in 2024



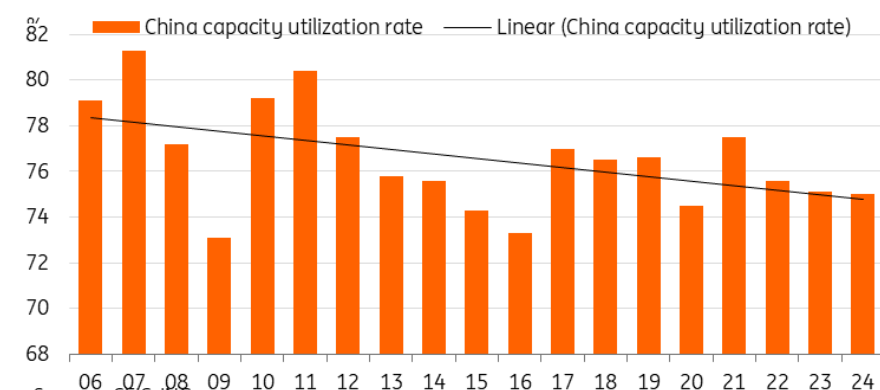
Deflationary pressures and overcapacity concerns could worsen

China has been struggling with inflation persistently below target for the past few years, prompting the official target to be lowered from 3% to 2% this year. Even considering the lower target, it looks unlikely to be reached this year.

Tariffs will likely add to deflationary pressure, as products which once could've been sold in the US market will now need to be re-directed elsewhere -- or absorbed by domestic demand.

Ultimately, tariff barriers seem likely to exacerbate overcapacity issues. China's capacity utilisation rate has trended downward for three straight years, settling at 75% at the end of 2024. Worsening overcapacity could lead to further price competition and thus deflation. Eventually, further industry consolidation seems likely. Risks to our inflation forecast, currently set at 0.7% year on year for 2025, are looking skewed to the downside.

Overcapacity concerns could further add to downward price pressures

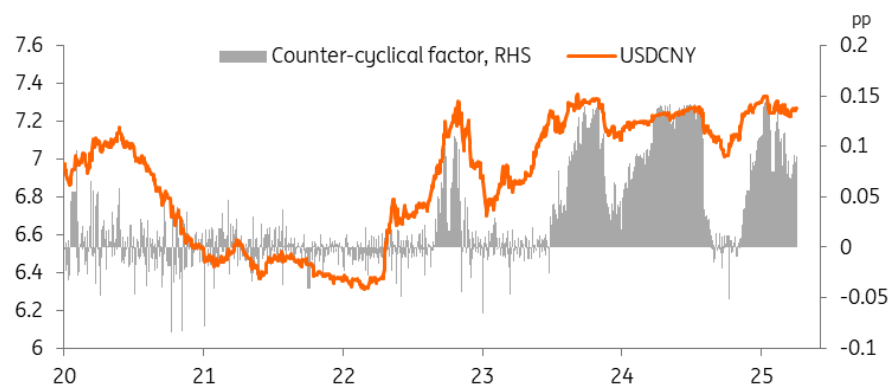


Tariffs could prompt PBOC easing, but don't expect significant CNY devaluation

Amid deflationary pressure and the potential hit to growth, the People's Bank of China (PBOC) could be incentivized to ease policy for the first time this year. This follows earlier vows to ease within a suitable timing window. We're looking for 30bp of rate cuts and 100bp of reserve requirement ratio (RRR) cuts this year with room for more. Given last year's experience, we think it's likely that rate and RRR cuts could be bundled together for better effect.

For the CNY, the latest round of tariffs will likely add further depreciation pressure in the near term as investors digest tariff impacts – and the odds of PBOC policy easing increase. However, it will do little to change our baseline scenario. We don't expect the PBOC to intentionally devalue the CNY to offset tariffs. This means the currency stabilisation objective remains in place, leading to the USDCNY remaining a low-volatility currency. Our expected fluctuation band remains at 7.00-7.40 for the year.

We expect the PBOC to continue to hold the line this year on the CNY



Sources: Refinitiv, CEIC, ING

Tariffs will accelerate recent decoupling trends

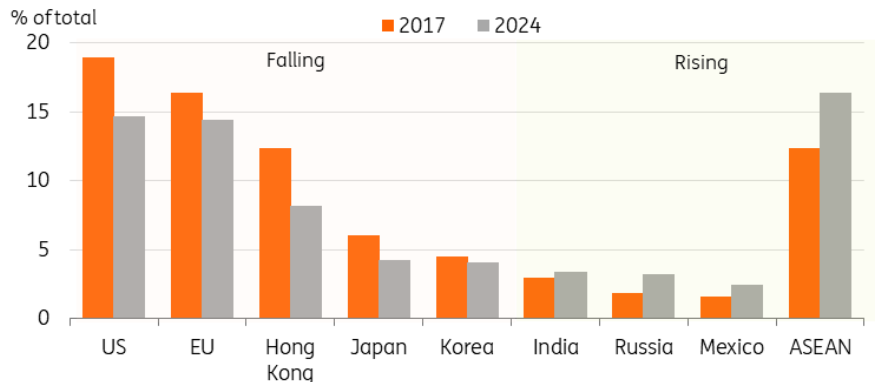
The escalation of tariffs represents a significant accelerator of recent trends. Amid all the talk of the US de-risking China, it's important to note that China has been gradually de-risking the US market as well. The proportion of China's total exports to the US has fallen from around 19% in 2017 to 14.6% in 2024. While the US is still obviously a very important market, fewer firms are now existentially dependent on US suppliers or consumers compared to before the first trade war.

Long-term trends of tech self-sufficiency are likely to remain in place due to tariffs, sanctions and other international barriers -- but also because of China's long-term strategic transition to a more innovation-driven economy.

Tariffs will probably not be too effective in addressing long-term trade imbalances between the US and China. At this stage, China simply has comparative advantages in many manufacturing categories. While the US can close off its borders, China's retaliation can also cut off US exports to China. A big barrier to rebalancing trade is that the US puts export controls on products for which China would actually like to ramp up imports, namely its hi-tech exports. Due to strategic

competition issues, this doesn't look likely.

De-risking could prompt a stronger retaliation this time around



The path forward narrows

The key question moving forward is how countries will respond -- whether or not they will carry out negotiations or push back with stronger retaliation.

Treasury Secretary Scott Bessent earlier indicated that this round of tariffs was expected to represent a cap on levies as long as there is no retaliation. And that countries will be able to take measures to reduce tariffs. This seems to imply there will be room to mitigate the damage in the coming weeks and months.

We wrote back in January that [the path to avoid a more destructive US-China trade war is a narrow one](#) and the latest measures will only further narrow this path.

Moving forward, the next key date for China could be 5 April, when Trump's moratorium on the TikTok ban in the US expires. While Trump could ostensibly extend this deadline further, there will certainly be some pressure to close a deal. Trump previously mentioned the possibility of lowering tariffs as a sweetener to get a TikTok deal done. However, given the latest round of escalations -- and concerns over the Panama Canal -- it remains uncertain if China will even approve such a deal.

In our view, repeated escalations make the prospects of a grand bargain increasingly unlikely. China's response to the latest measures will shed much light on how policymakers in China feel about the prospects of such a deal.

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Asia takes big tariffs hit: Vietnam, Thailand most affected, while exemptions ease impact for India, Singapore

President Trump's punitive tariffs hit Asia, with largest levies on Vietnam and smaller textile exporters. The largest economies in the region, such as India, Japan, and South Korea, fared better. Overall, downside risks to growth and inflation could accelerate monetary policy easing and add to depreciation pressures on currencies



President Donald Trump holds up a signed executive order on global US tariffs

APAC hit by tariffs in the range of 10-49%

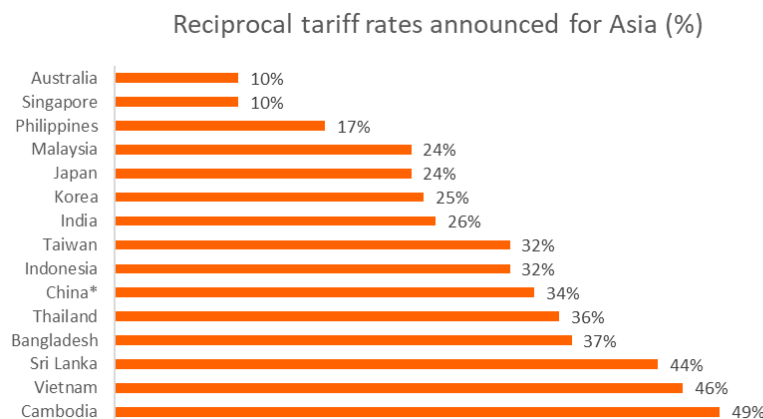
US President Trump announced a blanket tariff of 10% on US imports, though most APAC countries are being hit with an additional 10% or more on top of that rate. The largest tariffs seem targeted at countries exporting lower-value-added items like footwear, furniture, garments, and textiles. Vietnam, which after China has the largest trade deficit with the US, faces a 46% tariff. Cambodia got hit with a 49% tax, while Sri Lanka got 44% and Bangladesh got 37%.

The largest economies in the region, such as India, Japan, and South Korea, are relatively better off

with tariffs in the 24-26% range. Additionally, their key manufacturing sectors with substantial exports to the US, like pharmaceuticals and semiconductors, benefit from tariff exemptions.

Thailand and Taiwan face relatively higher tariffs due to their larger trade surpluses with the US. In contrast, Australia and Singapore have relatively low tariffs at 10%, reflecting their smaller bilateral trade deficits with the US.

Large tariffs hit Asia



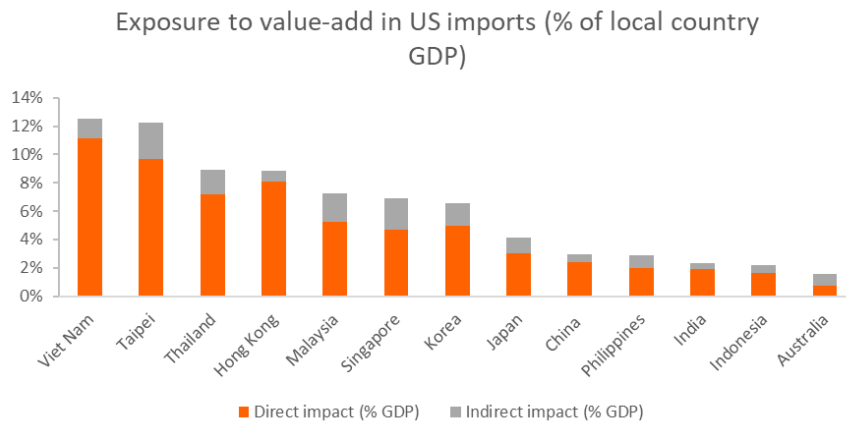
Tariffs will impact Vietnam GDP the most, followed by Thailand

Hefty tariffs especially on Vietnam and Thailand pose significant growth challenges. That's not just because of direct exposure to US imports, but also indirect hits via exports to the US through other countries. In the chart below, we stack up the value-add by each Asian country in terms of its own exports to the US (direct impact). We then add to it the value-add by each Asian country in the rest of the world's exports to the US (indirect impact).

Vietnam and Taiwan stand out with the highest total exposure to US imports -- and with large direct exposure. However, semiconductors are exempted from tariffs, which should reduce the blow on Taiwan. Semiconductors aside, Taiwan's export growth has been quite heavily concentrated in the US. The tariffs will threaten to dampen that growth (see [link](#)).

For Vietnam, with total exposure to US imports of 12% of GDP, a 46% tariff rate -- ceteris paribus and assuming demand elasticity of 1 -- would put 5.5% of Vietnam's GDP at risk. Similarly, Thailand's exposure of 9% of GDP, with a tariff rate of 36%, risks 3% of GDP being impacted in the medium term.

Vietnam and Taiwan stand out with highest exposure to US imports



Source: OECD, CEIC,

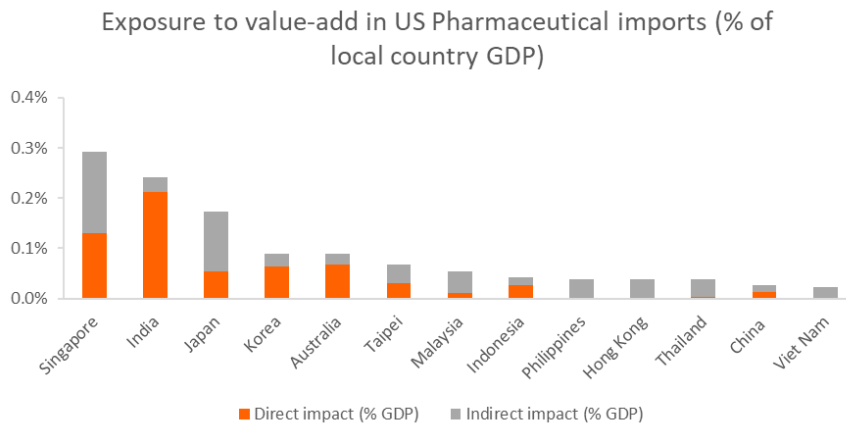
*our estimates as of 2024 using country shares for value-add in exports to US in 2020

Exemptions on Pharma and Semiconductors (for now) should reduce the blow for India, Singapore and Japan

Although Singapore has significant high value-added exposure to US imports, two factors could mitigate the impact: 1) a relatively low tariff rate of 10% on Singapore's direct exports and 2) pharmaceutical exports to the US. They account for 0.3% of GDP and remain exempt from tariffs, lessening the blow. However, the most notable concern is Singapore's indirect exposure to the US, where the impact is likely to be more pronounced.

Similarly, India benefits from exemptions on pharmaceuticals. The US is India's largest export market for pharmaceuticals and a full-blown tariff hit would've been detrimental. As we discussed here: [Advanced talks with US lower risk of high reciprocal tariffs on India](#). While Korea and Japan also benefit from exemptions on semiconductors and Pharma, these latter economies will still face significant challenges from the already announced 25% tariffs on automobiles and auto parts.

India and Singapore benefit from exemptions on pharmaceuticals



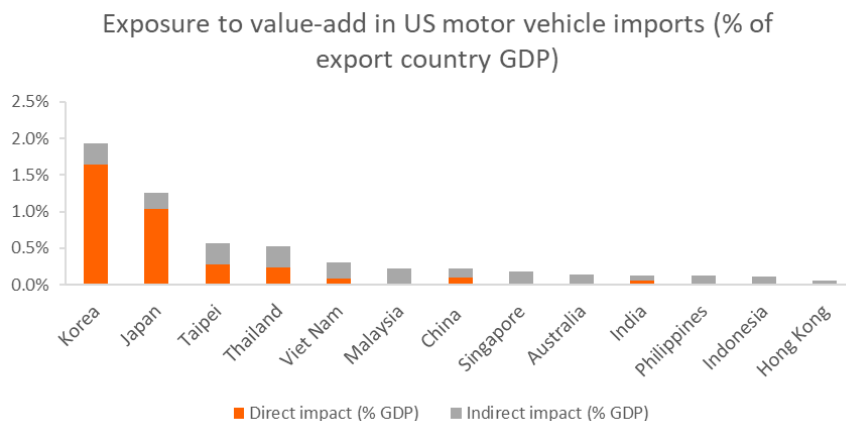
Source: OECD, CEIC

*our estimates as of 2024 using country shares for value-add in exports to US in 2020

Vietnam and Thailand also stand out in their relatively higher exposure to US in the auto sector

Thailand is a major auto manufacturing hub in ASEAN. It's already suffering a sharp downturn amid rising competition from Chinese electric vehicles (EVs) and weak domestic demand. This puts the sector at further risk. In terms of overall Asia exposure to US auto imports, Korea stands to lose the most with value-add exposure at 1.9% of GDP, followed by Japan at 1.3%.

Already announced tariffs on Auto sector to hit Asia as well



Source: OECD, CEIC

*our estimates as of 2024 using country shares for value-add in exports to US in 2020

Room for negotiations with US, which could lower the hit to growth

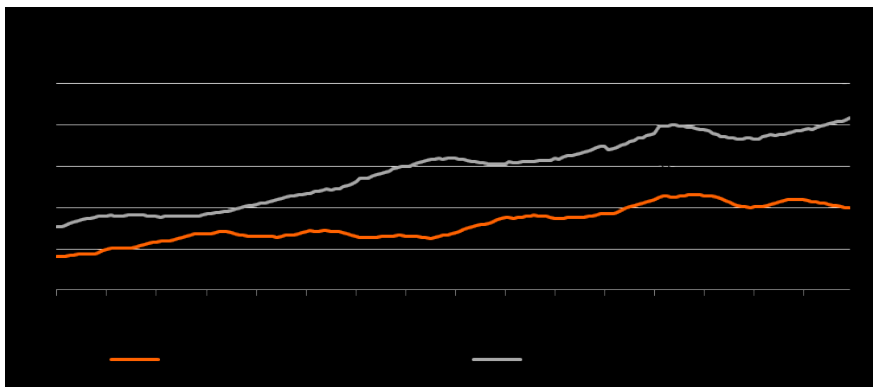
Retaliatory tariffs from Association of Southeast Asian Nations (ASEAN) members and India look unlikely. But uncertainty remains as countries continue to negotiate. Economies such as Vietnam made last-minute efforts to avoid tariffs. Unfortunately, they were unsuccessful in escaping sweeping tariffs. Vietnam is likely to continue negotiating with the US by making further concessions, such as lowering import duties on a range of goods, including cars, liquefied gas, and some agricultural products.

China overcapacity increases the risk of lower inflation for the region

Inflationary pressures in Asia are at their lowest in three years, with most countries seeing headline consumer price index (CPI) readings within central banks' target range. High tariffs on China are exacerbating its industrial overcapacity, which poses a significant threat to both domestic and external demand, particularly for ASEAN countries.

China's dominance and overcapacity in clean energy sectors like EVs, solar panels, and batteries, is now extending to a wider set of industries. These include steel, petrochemicals, semiconductors, and other low-value-added sectors like footwear, furniture, garments, and textiles. It's not only impacting ASEAN economies directly by displacing local production for some final goods, but also indirectly by displacing exports to the rest of the world. Reduced demand for goods should keep inflation well contained in Asia.

Rapid acceleration in ASEAN's imports from China



Risk of faster monetary policy easing as growth concerns deepen

Downside risks to growth, low inflation, and pressures coming from China's manufacturing overcapacity risk displacing ASEAN exports. All this suggests further monetary policy easing in Asia is coming. We already have additional rate cuts in our 2025 forecast profile for Korea (75bps) Indonesia (50bps), Philippines (75bps), India (75bps), Singapore (slope reduction), and Australia (75bps). However, tariff war escalation could mean that the rate cuts come in faster than our expectations. The aim would be to proactively ward off downward growth pressures. One country

where the scope for rate cuts might increase is Thailand, where headline CPI is likely to slip into negative territory in the second quarter. The relatively large impact tariffs have on growth could further shift the central bank's stance in favour of rate cuts.

Asia inflation likely to fall further, monetary easing to continue



Source: CEIC

Implications for FX

Asian currencies generally appreciated modestly against the USD in the first quarter of 2025, except for the HKD, TWD, and IDR. This was largely influenced by the Europe re-rating story. Consequently, we believe the market underestimated the tariff risks, which are proving worse than anticipated. For the CNY, the latest round of tariffs will likely add to downward pressures in the near term. But we don't expect significant devaluation pressures on the CNY, as the People's Bank of China (PBoC) remains firm on its currency stability objective (see [here](#) for details).

Asian currencies may face increased depreciation pressure as markets turn risk-averse, affecting foreign institutional investor (FII) inflows. Delayed investment decisions could impact foreign direct investment (FDI) inflows into the region, while exporters may devalue their currencies to stay price-competitive.

More specifically, the tariff announcements have further reinforced our view for a weaker Thai Baht vs. USD, one based on weaker external and fiscal balances and a cautious view on growth. Vietnamese Dong (VND) fell to an all-time low of 25803 vs the USD and the upside pressure on USD/VND is likely to continue. INR, PHP and SGD are likely to outperform the region in the near-term given the relatively lesser blow from tariffs, while KRW should continue to underperform in second quarter of 2015, when sentiment will likely be at its worst (see [here](#) for details).

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FX Daily: Without domestic support, dollar is left a little naked

The 2.5% drop in CNH/JPY overnight probably best encapsulates the fallout from Liberation Day. True to his promise, Donald Trump heavily tariffed those countries he felt responsible for the US goods deficit – most notably Asia. But without providing fresh support measures to the US economy, US equities are being marked sharply lower, helping the yen



⬇️ USD: Blowback to US growth prospects dominates

The trade-weighted DXY has broken to a new low for the year as investors continue to fear what these new reciprocal tariffs mean for US confidence and activity. This uncertainty has been a key factor driving US equities lower this year and prompting both a dovish re-pricing of the Fed cycle and a weaker dollar. At the time of writing, S&P 500 June index futures are marked to decline around 3% – and this follows a 3% drop in benchmark equity indices across Asia.

Our colleagues have delivered their first views on the announced tariffs [here](#), with an in-depth focus on the US [here](#). An early take on the impact on rates and FX markets can also be found [here](#). At the heart of the story is Donald Trump delivering on his promise to restructure the global trading system. His incentives are clearly laid out in his [Executive Order](#). In reality, the outcome is about as bad as it could be. [China tariffs are virtually now at 60%](#), EU tariffs are at 20% and there's a

baseline universal tariff of 10%. Given that these tariffs are being presented at 'discounted rates', there is also the potential for them to be increased in the event of retaliation. The jeopardy of a global trade war remains, and hence we're seeing no relief rally in risk assets on the view that all the bad news is out the way and things are as bad as they can get.

Instead, a pair like CNH/JPY best characterises the mood in FX markets. Asian trading nations are being hit hard with tariffs since the bloc comprises around 60% of the US annual goods deficit. The offshore USD/CNH is sharply higher, although we expect authorities will continue to hold the line in the onshore USD/CNY. Expect an increased focus on the daily PBoC fixings in USD/CNY. Any near-term fixing over 7.20 would trigger another leg lower in Asian FX on the (in our view mistaken) fear that Chinese authorities might tolerate a weaker renminbi after all.

But away from Asia, the dollar is being sold against the big, liquid defensive currencies of the Japanese yen and Swiss franc and, to a lesser degree, the euro. Here, the blowback of US tariffs onto the US domestic economy leaves the dollar naked. US rates continue to be marked lower, and not until we get some surprisingly good news from the US on tax cuts or deregulation may the dollar start to find some support. Indeed, the dollar sell-off could prove a little problematic for Washington in that it had expectations that the dollar would rally on tariffs to provide insulation to the US consumer from higher import prices. And again, this is unlike 2017/18, where a major tax cut went through before tariffs were announced.

With pessimism growing about US domestic demand, expect investors to continue using short USD/JPY positions to express this view. 147.00 is pretty strong support, but heavy US equity losses today could drag it back to the 145 area.

For today's session, look out for the weekly jobs initial claims data and then ISM Services. We should also be on the potential lookout for European retaliation in the services sector, since the US runs a large surplus with Europe in this area.

DXY has nearly retraced 75% of the Trump rally since October. Softer risk assets can drag it towards the 102.00 area today.

Chris Turner

EUR: Rallying, but few reasons to be cheerful

EUR/USD is net around 0.9% higher after the trade announcement. We don't really buy into the story that the worst is out of the way for Europe now. The main buying point for the euro is that it's a big, liquid alternative to the dollar – and that the dollar's troubles (weaker US consumption) are greater than the euro's.

We also think that some medium-term factors are in place in that Washington does want a weaker dollar and that some major investor communities such as FX reserve managers will be looking to reduce the dollar share in their FX portfolio. Also, a lot of the language in Trump's [Executive Order](#) is very similar to that used in [Stephen Miran's Mar-a-Lago accord paper](#) – espousing the need for a weaker dollar in the longer term.

While a global trade war in theory is a euro-negative, the soft underbelly of the US economy is the dominant factor for EUR/USD right now. A much sharper sell-off in US equities, dragging US rates even lower, adds another nail in the coffin of US exceptionalism and could send EUR/USD over 1.10.

Major medium-term resistance sits in the 1.11/12 area. It's hard to call a major break of that unless US activity craters.

For the time being, however, expect EUR/USD to trade off the US equity story, where memories will be stirred of protectionism causing major sell-offs.

Chris Turner

CEE: Trade-open region ready for impact

Yesterday's announcement of US tariffs set off a full risk-off mode for EM currencies and of course the CEE region cannot avoid the hit. Given the trade nature of the shock, HUF and CZK should be the main ones exposed given the open nature of the economy. However, given the dovish National Bank of Poland shift and today's press conference, we believe the PLN may underperform the CZK in this environment.

In the rates space, HUF and PLN have more room for dovish pricing in our view, and we also think that ultimately trade wars for CEE are not as negative as they first appear. However, in the short term, the negative shock is clear for the entire region, and we can discuss further implications later. The CEE's links to global trade and the potential implications are covered in our [CEEMEA Outlook Directional Economics](#) published yesterday.

March inflation in Turkey will be released this morning. Any further decline is important news for markets that disinflation is still on track despite the FX sell-off in March. We believe the first impact may only be seen in April inflation, but even so, a better number today may help restore some investor confidence.

In Poland, yesterday's decision by the National Bank of Poland came as no surprise, and rates remained unchanged at 5.75%. However, the statement suggested that sentiment within the council is shifting in a dovish direction and the NBP now sees the possibility of lower inflation than previously expected. We will see the governor's press conference today, however he is likely to remain on the hawkish side. On the other hand, unless we hear some new hawkish arguments, this should be a dovish signal for the market. Moreover, given the weaker economic numbers, we believe that hawkish rhetoric should not affect the markets too much.

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Rates Spark: Trump's bitter liberation

The biggest market impact from Trump's tariff announcement was felt by US assets, but it also led to a decline in eurozone equities and a rise in Bund futures. Looking ahead, we remain cautious about the fragile risk sentiment and adopt a tactical bullish stance on 10-year Bunds. The short end of the euro swap curve is more anchored



Trump shows an executive order on 'reciprocal tariffs' at the Rose Garden of the White House in Washington D.C.

Markets clearly not pleased and rates impact is complex

Markets did not like the list of tariffs Trump presented yesterday, and the numbers [appear worse](#) than feared. The S&P 500 futures are down more than 2% from Wednesday's open and the UST 10Y yield came down from 4.20% to just above 4%. European markets saw the STOXX futures down 2.5% this morning, while the 10Y Bund future points to a 9bp drop in yields.

Looking ahead, the potential [impact on eurozone](#) growth is clearly negative, but the impact on inflation is more ambiguous, adding complexity to the rates outlook. Whilst the reduced growth outlook is a negative, the inflation impact will partly depend on the EU's reaction in terms of reciprocating the US tariffs. Proportional counter-tariffs would warrant more upside inflation risks in the near term.

We think markets will predominantly focus on the growth impact for now, warranting downward pressure on euro rates. Even if Trump decides to reduce the eventual percentages as negotiations

take shape, the uncertainty and confidence shock are enough to weigh on the economy with immediate effect. Inflation, on the other hand, is difficult to quantify and will take more time to show up in the data.

The back end of the curve is where the action will be

The potential inflationary impact, however, prevents the short end of the euro curve from dipping lower. Markets have been rangebound to an ECB landing between 1.75% and 2% for six months now and are unlikely to break higher or lower for the time being. Markets may see the ECB moving towards 2% sooner, which would require two more 25bp cuts, and could be reached as soon as June. We expect less confidence for the pricing of a third consecutive cut.

Most action may, therefore, be at the back end of the curve, which is more sensitive to the shifts in risk sentiment. As we expected, the announcement leaves many questions unanswered, and thus a return in risk appetite will have to wait. We think Bunds can outperform swaps from current levels as investors seek safe assets to hedge their portfolio risk.

From a structural perspective, we still see room for euro rates to end higher by the end of this year. The EU spending plans support the growth outlook, which means the ECB won't have to cut into supportive territory. Meanwhile, supply pressures keep yields supported from the back end of the curve.

Global risk sentiment still has potential to worsen

The [biggest market impact was still in the US](#), although it's easy to see the risk-off sentiment spreading more globally. China may play an important role in this, given that tariffs surged and are now close to the 60% Trump threatened. The previous retaliatory reaction from China was relatively muted and of a more symbolic nature, but we think the next [response will be stronger](#). Increasing tensions between the two would be a recipe for more volatility.

Risk sentiment in the eurozone is also being challenged, but measures like credit spreads and implied volatilities don't look stretched when looked over a longer horizon. An intensification of the trade wars can therefore still move markets significantly. If, for example, an escalating tit-for-tat strategy between the EU and China follows, then a global flight to quality could very well see flows towards safe havens, including USTs and Bunds.

Today's events and market views

Markets will likely need the day to absorb the tariff news. In terms of data, the European morning will see Spanish and Italian PMIs, but markets will likely not place too much emphasis on these unless a significant undershoot amplifies the downbeat risk sentiment. The same can be said for the eurozone aggregate PPI numbers. More attention will likely be paid to the US ISM services indices later in the day. The headline index is expected to nudge down from 53.5 to 52.9. A lower number than consensus would add to the recent series of weaker US data readings and would weigh on UST yields.

From the European Central Bank, we have Isabel Schnabel speaking at an OECD event, but it's not sure whether she will provide any comments on Trump's announcements. In addition, we'll receive the minutes from the March meeting, which may tell us more about the inclination towards another cut in April.

Meanwhile, Spain will auction 3y, 6y and 14y SPGBs together with a 6y SPGBi for a total of €7.25bn. From France, we have 9y, 10y and 31y OATs for €12bn. The UK has scheduled a 15y gilt auction totalling £3.25bn.

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Tariffs on, risk off: credit set to leak

Trump's tariffs will lead to more volatility and risk off in credit. With the technical picture weakening, there is less to be positive about



Trump announcing his tariff plan in the Rose Garden of the White House, 2 April 2025

Tariffs and technicals

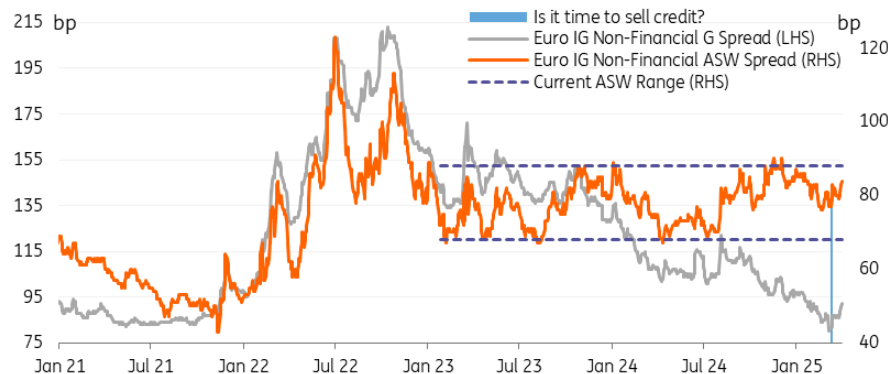
Spreads are widening further and are expected to experience increased volatility due to [the announced tariffs](#). The risk-off sentiment is likely to persist, leading to a slowdown in primary market activity during the upcoming volatile sessions. Within the credit space, many corporates and sectors will feel the pinch, looking more at the [macro/rates environment](#) and its focus on the negative impact on eurozone growth. Spreads have already opened up wider as sellers dominate. The iTraxx main has widened by 3bp this morning, now over 10bp wider compared to a couple of weeks ago.

The technical picture is shifting more negatively with outflows, high CSPP redemptions and potentially higher supply (via more Reverse Yankee supply and tariffs absorbing margins, weakening fundamentals), all adding pressure on spreads. And with a lesser dominant demand from yield to soften the blow.

Technical strength is showing signs of weakening, with another week of negative flows from mutual funds and ETFs. The changing rates environment, where the short end is unlikely to see further reductions and the long end is expected to rise, is diminishing the appeal of yield in credit. This is particularly concerning as the bund/rate component of the yield in credit is over 80%.

EUR IG non-financials spread developments and range

The blue indicates when we published the recent piece ['Where's the credit?'](#) where we suggested it may be time to sell credit



USD has already underperformed EUR

USD credit was a notable underperformer throughout March, with significant widening versus EUR credit. Although USD credit was coming from a very tight and rich place, it still looks a touch on the expensive side, in our opinion. The yield play may still be favourable in USD as rates could be set for some lowering, as detailed in the report [Market reaction to Liberation day - this is just the beginning](#), but further widening is likely on the cards for USD credit longer term.

Regardless, this recent widening of USD spreads versus EUR does offer a larger potential cost-saving advantage for US issuers to come to the EUR market with Reverse Yankee bonds, particularly considering how low the cross currency basis swap is. The supply pressure on EUR credit adds another piece to the deteriorating technical puzzle.

Short end preferred and plenty to avoid

A conservative positioning is advisable, as higher beta and lower-rated debt are poised to underperform from these compressed levels. We also prefer shorter maturities on the curve, anticipating further steepening. Last week, only the 0-4 year maturity bucket saw inflows. We expect higher beta and lower-rated debt to underperform on the long end, with more underperformance likely as curves remain flat.

Within European corporates, consumer, pharma, technology, and industrials sectors have the largest exposure in terms of revenues from the US. Similarly, corporates from the Netherlands, Germany, France and Spain see the most exposure of US revenues. Italy is also noteworthy, considering the large manufacturing sectors that will be impacted.

The sectors that are going to feel the pinch the most and see credit underperformance are:

- Autos
- Pharmaceuticals
- Food & Bev
- Airlines
- Chemicals
- Steel & Aluminium

- Manufacturing and other Industrials.

Whilst these tariffs offer more volatility and underperformance of certain segments in the coming sessions, in the medium term we expect spreads will continue a slow leakage wider. ASW spreads could temporarily even pierce the wide end of the range.

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