A “big” and “huge” deal for the EU and the US

US President Donald Trump and European Commission President Ursula von der Leyen announce an agreement on a trade deal, bringing 15% tariffs on most European goods exported to the US

The EU and US have agreed in principle on a trade deal in which most EU exports to the US will be subject to a 15% tariff

The US and the EU seem to have sealed a principal agreement on a 15% tariff on almost all European exports to the US, including on autos and auto parts, pharmaceuticals, and semiconductors, while steel and aluminium tariffs remain at 50%.

There must be something magical about golf. On the weekend that Adam Sandler’s character ‘Happy Gilmore’ returned to the screens, bringing some laughter into global living rooms, a golf course in Scotland brought relief to the global economy. US President Donald Trump and European Commission President Ursula von der Leyen had their first high-level meeting in the current trade negotiations between the US and the EU. According to their statements after the meeting, there is an agreement on a 15% tariff deal on almost all European exports. Also, according to Trump, the EU agreed to purchase $750bn in energy and would invest $600bn on top of existing investments. In addition to the agreement, there was also some convergence in language. While Trump called the deal “the biggest deal ever made”, von der Leyen said, “it's a big deal. It's a huge deal”.

Worst-case scenario avoided, but only a signed deal is a deal

Today's announcement comes after a recent increase in tensions, with the US threatening tariffs of up to 50% and the EU publicly preparing retaliatory measures in the event of no deal by the 1 August deadline. The 15% rate is lower than the 20% rate that Trump imposed, and later paused, on 'Liberation Day', as well as the 30% rate in Trump's Letter to von der Leyen.

The big caveat to today's deal is that there is nothing on paper, yet. The next hours and days will hopefully bring more clarity. Therefore, any assessment has to be taken with more than a pinch of salt. With this disclaimer in mind and at face value, today's agreement brings an end to the uncertainty of recent months. An escalation of the US-EU trade tensions would have been a severe risk for the global economy. This risk now seems to have been avoided. For the EU, today's agreement is probably as good as it could get. In the final stretch of negotiations, Brussels had put forward a 15% tariff proposal, signalling a willingness to compromise. However, the exclusion of key sectors - such as steel, copper and aluminium - reveals that the EU had to further dilute its position to reach consensus, effectively "watering down the wine" to secure a deal. The more uncertain part of the agreement is the investment part. Judging from past experience - and recognising that the European Commission will rely heavily on national governments and private sector engagement to drive actual investment - this element remains uncertain and fragile.

Looking ahead, at face value, today's deal falls in line with our base case scenario of an effective tariff rate on European goods of close to 20%. However, we also know that a trade deal is only done and dusted when everyone has signed it. In the European context, this still means the European Parliament and all national parliaments. More adverse scenarios seem to have been avoided, for now, and this is excellent news, but whether everything will now be "big" and "huge" still remains to be seen. Let's not forget, particularly in trade, only a signed deal is a deal.

Author

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de