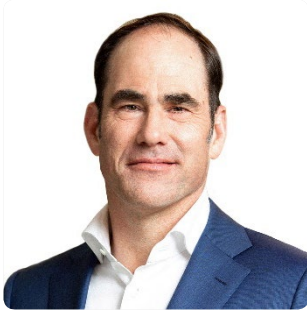


ING Monthly

April 2025

The tariff sledgehammer smashing the global world order





The tariff sledgehammer smashing the global world order

Even though there's some relief, we are witnessing not a gentle reset or subtle changes in economic relationships but rather a wild sledgehammer, writes Carsten Brzeski. It's breaking down the global world order of the last 80 years. It is hard to watch

This is hard to watch

Let me be clear: I love America. I grew up in the American sector of West Berlin, listening to AFN Berlin, getting my first marshmallows in the GI's grocery store on Truman Plaza before it was closed to locals after the La Belle attack, and watching American movies in the Outpost movie theatre. I grew up looking up to the US and Americans, studied US economic history and politics at the JFK Institute of the US-funded Free University of Berlin, and had countless stays in the country. I still listen to US (punk) rock, love their movies and TV series, and enjoy reading US scholars.

To me, the United States has always been the leader of the free world, no matter whether I agree with everything happening there. Above all, the US has always been a friend to me, a friend to Germany, and a friend to Europe.

This is why it is so hard to comprehend and watch how the US is taking a completely new role on the global stage. What we are currently witnessing is not a gentle reset or subtle change in economic relationship but rather a wild sledgehammer, breaking down the global world order of the last 80 years.

A self-inflicted economic shock

Sure, after the rollercoaster ride of the past couple of weeks, the worst-case scenario on tariffs seems to have been avoided. However, let's not forget there are still much higher tariff levels now than we had before 'Liberation Day', they're not as high, for most at the moment, than first revealed. A 10% universal tariff and sectoral charges on steel, aluminium, cars and potentially pharmaceuticals, too, will take their toll on the global economy. Even with the 90-day pause, the current escalation would bring global tariffs back to levels last seen in the early 1930s - the last episode of a global trade war initiated by a US president with the Smoot-Hawley Act. And we know how that ended.

It is general economic wisdom that there are no winners in trade wars, only losers, but some lose more than others. Right now, the impact of the announced tariffs will be clearly inflationary and possibly recessionary in the US. It is highly unlikely that both government revenues will increase, and manufacturing jobs will be brought back to the US.

A lot will depend on the Federal Reserve's willingness to counter and mitigate what I call a self-inflicted economic shock to the economy. And whether or not Donald Trump will eventually deliver the promised tax cuts. In Europe and many other US trading partners, the tariff shock is likely to be recessionary and disinflationary. The impact on an already weak export industry is pretty straightforward. What is more complicated to assess is the more indirect impact through confidence hits for both consumers and corporates.

With other countries trying to sell their products in the EU instead of the US, the risk of a disinflationary shock increases. For the European Central Bank, weaker growth and

disinflation open the door not only to an April rate cut but also to further reductions over the summer.

Europe can no longer hide in America's shadow

Admittedly, and as a big disclaimer to our forecasts this month, there is probably more that we don't know than we do. How long will these tariffs really remain in place? Will we get more exemptions or even a further downscaling of US threats? Will a US recession and further stock market corrections push the Trump Administration to reverse course? How will other countries react, both in terms of retaliation, negotiation and mitigating measures?

After the Art of the Deal, will we perhaps get the Art of the Defeat?

But there is much more to the developments of the last three months. Whether we like it or not, whether we keep our eyes closed or not, or whether we try to make sense of unprecedented economic and political moves or not, the US no longer wants to hold its so-called 'exorbitant privilege.' The international geopolitical world order is changing.

First, it was defence and security; now, it is trade and economics. Just another historical reminder: it was the US that led the initiatives for all post-World War II multilateral institutions such as the IMF, the World Bank, NATO, and the World Trade Organisation (or better yet, its predecessor, the General Agreement on Tariffs and Trade). This created an international geopolitical world order in which one dominant power, the US, dictated the order that other countries followed.

This era seems to be over and looks set to be replaced by unilateral approaches.

The implications for the rest of the world and the global economy are hard to grasp. To bring in some historical comparison, there are two ways to see the current situation: comparable to 1989 or to the pandemic. The fall of the Berlin Wall in the late 80s changed Europe and the world for good. The pandemic was also regarded as a long-lasting structural shift to the global economy, which eventually faded away almost entirely, only a few years later (with a few exemptions, like hybrid working). The jury is still out on how long-lasting the impact of the current episode will be, but my personal view is clear.

For Europe, life in the shadow of the US is at an end. It is now up to Europe's leaders not to lament this development but rather to work on the continent's own 'strategic autonomy' and 'exorbitant privilege'. The way to do this should be more than well-known by now.

I stood on the Berlin Wall in 1989, unaware of the long-term consequences of this historic period. Today, I am fully conscious and aware of when Europe finally decides to write a new chapter.

carsten.brzeski@ing.de

Watch: Carsten on the damage done by Trump's tariff chaos

Historic structural change or wanton destruction? Watch what ING's Carsten Brzeski has to say about Donald Trump's ever-changing tariff moves and what they're doing to American and European economies



carsten.brzeski@ing.de

ING's new forecasts in a nutshell

Higher tariff environment to remain in place at least until the November 2026 mid-term elections, despite recent changes. Further country and/or product exemptions to the reciprocal tariffs are possible, but we suspect the 10% baseline tariff and much higher rates on China will stay in place for the foreseeable future. Ultimately the Trump administration has invested a lot of political capital in reshoring activity to America. The government also desperately needs additional sources of revenue to pay for tax cuts as it seeks to extend the 2017 Tax Cuts and Jobs Act (TCJA). That process isn't going to happen overnight.

The US economy is set to grow by 1.4% this year, down from our previous forecast of 2.1%. We expect US inflation to spike above 4%, and that will pile pressure on US consumers. The tax cut extension, though likely, isn't a fresh stimulus; it simply maintains what is already in place. Any additional tax cuts – not taxing tips and lower corporation tax – if they materialise, won't be felt until 2026 at the earliest. Government spending cuts will also increasingly weigh on growth this year.

Federal Reserve to cut rates four times in 2025. Tariffs could show up in the inflation data within just a couple of months, and Fed officials are visibly concerned about the potential for second-round effects. They are also keeping a keen eye on inflation expectations. We therefore expect the Fed to continue to hold rates in May and June. But thereafter, the activity data is likely to turn more negative, and that's the catalyst for rate cuts to resume in earnest. We expect 125bp of further easing, including a cut in 2026, implying a terminal rate of 3.25%.

Eurozone economy set to grow by just 0.5% in 2025. The direct hit from tariffs on GDP is likely to be less than 0.3%, though heightened uncertainty and the threat of a US slowdown are both clear headwinds. We expect the economy to stagnate through the middle of 2025. Germany's fiscal U-turn and a wider increase in defence spending across Europe will increasingly provide an offset against tariffs, but this may not become visible until 2026.

European Central Bank (ECB) to cut rates to 1.75%. With tariffs dominating the near-term economic story, the ECB will now need to do more of the heavy lifting. We expect three more rate cuts, including one this month, though we also have a rate hike in our forecasts for late 2026.

Tariffs to hit China's GDP by up to 0.8%, and we've revised our 2025 growth forecast down to 4.5%. At these tariff levels, we expect the majority of trade with viable substitution products will effectively be phased out, leaving only products with no viable alternative suppliers. We expect inflation to average 0% this year, given heightened price competition and worsening overcapacity.

US Treasuries to remain under pressure; 10-year yields to peak at 4.75% this quarter. Though the weaker macro backdrop argues for lower rates, several factors are acting in the opposite direction. A "sell America Inc" narrative has emerged for various reasons, potentially linked to selling by foreign players. Rising inflation and a Fed initially hesitant to lower rates further, coupled with concerns about fiscal deficit, provide meaningful reasons for Treasury yields to test the upside further.

EUR/USD to end 2025 at 1.13. The end of US exceptionalism, a more dovish Fed (relative to the ECB) and lower energy prices are all mildly positive for EUR/USD for now.

ING global forecasts

	2024					2025F					2026F				
	1Q24	2Q24	3Q24	4Q24F	2024F	1Q25F	2Q25F	3Q25F	4Q25F	2025F	1Q26F	2Q26F	3Q26F	4Q26F	2026F
United States															
GDP (% QoQ, ann)	1.6	3.0	3.1	2.3	2.8	0.8	1.4	-0.9	0.1	1.4	1.2	1.9	2.2	2.4	1.1
CPI headline (% YoY, avg)	3.2	3.2	2.7	2.7	3.0	2.7	2.7	3.9	4.1	3.4	3.8	3.6	2.4	1.9	2.9
Federal funds (% eop)	5.50	5.50	5.00	4.50	4.50	4.50	4.50	4.00	3.50	3.50	3.25	3.25	3.25	3.25	3.25
3-month SOFR rate (% eop)	5.40	5.40	5.00	4.40	4.40	4.50	4.40	4.00	3.50	3.50	3.30	3.30	3.30	3.30	3.30
10-year interest rate (% eop)	4.25	4.40	3.80	4.60	4.60	4.25	4.75	4.50	4.50	4.50	4.25	4.25	4.00	4.00	4.00
Fiscal balance (% of GDP)					-6.9					-6.7					-6.4
Gross public debt / GDP					99.3					101.4					103.3
Eurozone															
GDP (% QoQ, ann)	1.2	0.7	1.5	0.2	0.7	0.4	0.1	0.1	0.8	0.5	1.2	1.4	1.8	2.1	1.1
CPI headline (% YoY, avg)	2.6	2.5	2.2	2.3	2.4	2.3	2.2	2.1	2.0	2.2	2.1	2.1	2.2	2.2	2.2
ECB Deposit Rate (% eop)	4.00	3.75	3.50	3.00	3.00	2.50	2.00	1.75	1.75	1.75	1.75	1.75	1.75	2.00	2.00
3-month interest rate (% eop)	3.90	3.70	3.25	2.85	2.85	2.40	1.90	1.70	1.70	1.70	1.70	1.80	1.90	2.10	2.10
10-year interest rate (% eop)	2.30	2.60	2.10	2.36	2.36	2.80	2.50	2.60	2.70	2.70	2.80	2.90	3.00	3.10	3.10
Fiscal balance (% of GDP)					-3.3					-3.4					-3.4
Gross public debt/GDP					90.9					90.5					91.4
Japan															
GDP (% QoQ, ann)	-2.1	3.3	1.4	2.2	0.1	0.8	0.4	0.4	0.4	1.1	0.8	0.4	0.8	1.2	0.6
CPI headline (% YoY, avg)	2.5	2.7	2.8	2.9	2.7	3.8	3.4	2.6	2.1	3.0	1.3	1.6	2.1	2.2	1.8
Target rate	0.10	0.10	0.25	0.25	0.25	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00
3-month interest rate (% eop)	0.26	0.30	0.43	0.62	0.62	0.82	0.80	1.00	1.00	1.00	1.10	1.25	1.25	1.45	1.45
10-year interest rate (% eop)	0.73	1.06	0.86	1.10	1.10	1.50	1.30	1.50	1.75	1.75	1.75	1.75	1.75	2.00	2.00
Fiscal balance (% of GDP)					-7					-5					-5
Gross public debt/GDP					251					260					265
China															
GDP (% YoY)	5.3	4.7	4.6	5.4	5.0	5.3	4.5	4.3	4.1	4.5	4.1	4.4	4.3	3.9	4.2
CPI headline (% YoY, avg)	0.0	0.3	0.5	0.2	0.2	-0.1	0.0	0.0	0.2	0.0	1.1	0.8	0.8	1.8	1.1
7-day Reverse Repo Rate (% eop)	1.80	1.80	1.50	1.50	1.50	1.50	1.30	1.20	1.20	1.20	1.20	1.10	1.00	1.00	1.00
3M SHIBOR (% eop)	2.16	1.92	1.84	1.85	1.85	1.91	1.60	1.60	1.50	1.50	1.50	1.45	1.45	1.45	1.45
10-year T-bond yield (% eop)	2.30	2.21	2.20	2.00	2.00	1.70	1.65	1.55	1.65	1.65	1.65	1.70	1.80	1.85	1.85
Fiscal balance (% of GDP)					-5.0					-5.50					-5.5
Public debt (% of GDP, incl. local govt)					121					135					145
United Kingdom															
GDP (% QoQ, ann)	3.7	1.8	0.0	0.4	1.1	1.3	1.8	1.2	1.0	1.1	0.8	1.0	1.0	1.0	1.0
CPI headline (% YoY, avg)	3.5	2.1	2.0	2.5	2.5	2.8	3.3	3.5	3.4	3.2	3.0	2.2	2.3	2.3	2.4
BoE official bank rate (% eop)	5.25	5.25	5.00	4.75	4.75	4.50	4.25	4.00	3.75	3.75	3.50	3.25	3.25	3.25	3.25
3-month interest rate (% eop)	5.25	5.05	4.80	4.55	4.55	4.45	4.20	3.95	3.70	3.70	3.45	3.20	3.20	3.20	3.20
10-year interest rate (% eop)	3.95	4.20	4.00	4.25	4.25	4.68	4.80	4.60	4.60	4.60	4.40	4.40	4.30	4.30	4.30
Fiscal balance (% of GDP)					4.5					3.6					3.4
Public sector net debt (FY, %)					100.1					99.7					100.1
EUR/USD (eop)	1.08	1.08	1.12	1.05	1.05	1.08	1.13	1.11	1.13	1.13	1.12	1.14	1.14	1.15	1.15
USD/JPY (eop)	151	160	143	155	155	150	140	142	140	140	138	138	138	138	138
USD/CNY (eop)	7.22	7.26	7.01	7.25	7.25	7.28	7.30	7.35	7.30	7.30	7.25	7.25	7.20	7.20	7.20
EUR/GBP (eop)	0.86	0.87	0.84	0.83	0.83	0.84	0.86	0.86	0.86	0.86	0.87	0.87	0.88	0.88	0.88
ICE Brent - US\$/bbl (average)	82	85	79	74	80	75	68	70	66	70	65	68	71	68	68
Dutch TTF - EUR/MWh (average)	28	32	36	43	35	47	45	42	44	45	37	30	30	34	33

Source: ING forecasts

For the US, Trump's 'beautiful' tariffs are in the eye of the beholder

James Knightley

Chief International Economist, Americas
james.knightley@ing.com

We've downgraded our outlook for the US as the threat of recession is real unless President Trump backtracks quickly on tariffs or the Fed rapidly cuts interest rates. Neither seems likely in the near term



Beautiful? Donald Trump described this portrait of him as 'truly the worst'.

Trump's tariffs are a tool to achieve three objectives

President Donald Trump sees "beautiful" tariffs as a tool to achieve three objectives:

- 1) A diplomatic weapon to change the behaviour of foreign nations.
- 2) An incentive for manufacturing reshoring to the US.
- 3) A way of raising revenue to fund future tax cuts for households and corporates.

The announcement of a 10% minimum tariff that jumps to 25% for some products and then rises steeply to 145% for the majority of Chinese exports may, over time, reap benefits for the US economy and American workers. In the near term, though, it means the US economy faces a very challenging and likely economically damaging transition period.

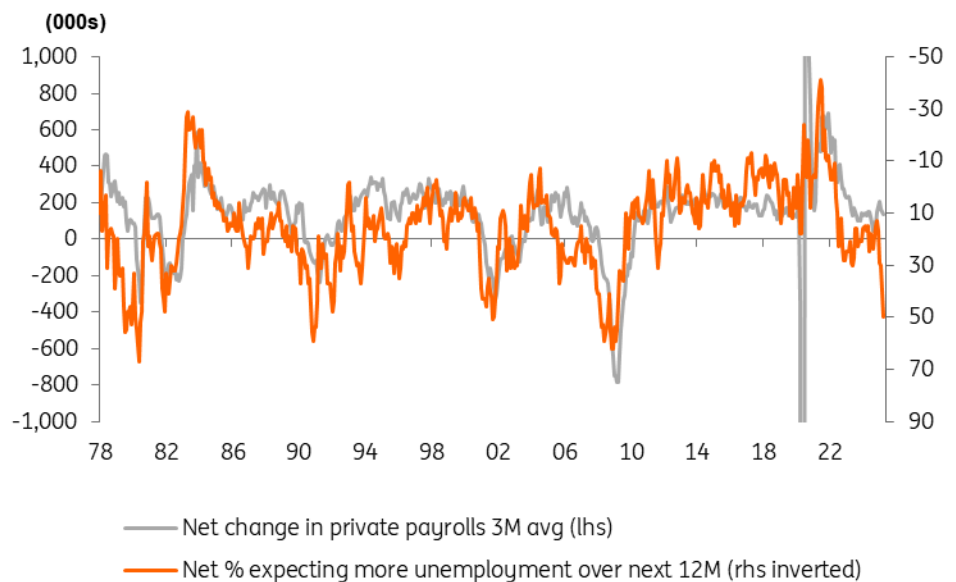
If trade deals are done then there is less scope for broader tax cuts

Financial markets have delivered their verdict, and the steep falls in equity and bond prices and heightened volatility suggest deep unease. Although tariffs have enhanced security at the Mexican and Canadian borders, they have also sparked resentment, leading to retaliatory tariffs and some instances of consumer boycotts against American products and services. For example, there has been a noticeable drop in Canadian flight bookings to the US.

At the same time, labour costs and the costs of constructing a new US plant, including transport and energy logistics, means that outside of high value-added, highly automated sectors, it is questionable how much reshoring will be delivered within the next couple of years. It may be cheaper in many instances to stick with foreign production centres and either absorb the costs within profit margins or pass higher costs on to customers.

With regards to the revenue-raising ability of tariffs, it appears the Administration is looking at around \$600-700bn per year, which may cover the cost of the extension of Trump's 2017 tax cuts that are set to sunset at the end of this year. However, taxpayers are not going to notice any change in their pay packets from this – it merely prevents a 2026 tax rise. Any additional tax cuts – not taxing tips and lower corporation tax (likely achievable) plus not taxing social security and overtime pay (less likely) – will not be felt until 2026 at the earliest. Of course, if deals are done and tariffs are scaled back, then there will be less fiscal headroom to deliver broader tax cuts.

Households are worried about spending power, stock market falls and the risk of losing their job



Source: Macrobond, ING

Growth headwinds intensify on multiple fronts

The concern over tariffs has led to a pre-emptive surge in auto, electronic and other big-ticket item sales in late March and early April, but the concern for upcoming months is that US consumers now face three major headwinds:

- The erosion of spending power as goods prices jump (and by extension, some services, such as insurance and repair).
- A rapidly cooling jobs market (ISM employment metrics contracting, Federal government lay-offs, quits rates pointing to wage growth slowing to 3%).
- Falling equity markets and bond prices will involve negative wealth effects that predominantly deter higher-income households from spending.

So far, investment is holding up and should do enough to prevent a negative first-quarter GDP print, but the heightened economic uncertainty and falling equity prices mean businesses are likely to be reluctant to put money to work, so we expect that to cool noticeably. At the same time, government spending is set to slow markedly thanks to the cuts instigated by the Department of Government Efficiency (DOGE).

Net trade will be a big drag on first-quarter GDP growth due to companies ramping up imports to get ahead of tariffs. In the second quarter, that will be less of a story, but reciprocal tariffs and consumer boycotts of US products remain a threat to export growth subsequently. Putting this together, we now look for full-year 2025 growth of 1.4% and 2026 growth of 1.1%, down from our previous forecasts of 2.1% and 1.6%, respectively.

Significant rate cuts from the summer

As for inflation, goods prices will inevitably increase, and we expect headline inflation to rise above 4%. We will also see some service prices rise too, such as insurance, but the shelter components, which account for 35% of the inflation basket by weight and more than 40% for core inflation, will come under downward pressure later in the year.

Rising unemployment and hurting household finances mean landlords won't be able to keep pushing rents up 5%. The Cleveland Fed's measure of national new rent agreements is already falling in year-on-year terms, and given the transmission mechanism, we think the Fed will become increasingly comfortable with the view that inflation will be back towards 2% by the end of 2026.

Fed Chair Jerome Powell has already indicated that he sees the threat of more persistent inflation and weaker growth ahead, but having delivered 100bp of rate cuts already, and with little sign of financial system stress, the Federal Reserve is prepared to "wait and see." We think the Fed will start cutting meaningfully from the third quarter and expect 125bp of cuts.

China holds strong as trade war crescendos

Lynn Song

Chief Economist, Greater China
lynn.song@asia.ing.com

With Donald Trump set to implement a 145% (and counting!) tariff and China ready to 'fight to the end,' tariffs have spiralled to the endgame, becoming a test of endurance. China will be relying on stimulating domestic demand to help offset the shock and achieve 'around 5%' growth again



China's President Xi Jinping at last month's National People's Congress in Beijing

Sharp tariff escalations quickly send Trade War 2.0 into full swing

President Trump shocked markets on 2 April with a stronger-than-anticipated "Liberation Day" tariff hike, which sparked a series of back-and-forth escalations and retaliations.

As of the time of writing, Chinese exports to the US are now subject to 145% tariffs, while US exports to China are subject to 125% tariffs. At these tariff levels, we expect the majority of trade with viable substitution products will effectively be phased out, leaving only products with no viable alternative suppliers. Further tariff escalations are more likely to hurt the importing country at this point, and China has indicated that it would be ignoring further US tariff hikes. We have seen that China has indeed shifted toward non-tariff responses in tightening export controls and reducing Hollywood imports, and these sorts of non-tariff barriers could be the focus of any further escalation.

There are fears of a hard decoupling and an end to bilateral dialogue, but both sides have signalled that they are open to talk, only on their terms and from a position of strength. Our view is that this has become [a test of endurance](#). Whoever blinks first will likely come to the negotiating table in a weaker position. It's yet to be seen if the carveout of smartphones, computers, and semiconductor exports (which accounted for over a fifth of Chinese exports to the US in 2024) from the broad-based country tariffs will ultimately play out as "blinking first."

We expect talks to resume at the working level, though a top-level dialogue could remain elusive until a framework for a deal is broadly in place. A lack of clarity on what the Trump administration actually wants beyond narrowing the trade deficit and reshoring manufacturing acts as an impediment to negotiations.

As always, the tariff impact will be very difficult to gauge amid so many moving pieces. The faster-than-expected escalation, though, pushes the implications for growth toward

the higher end of our 0.4-0.8pp range in terms of GDP impact. It's still uncertain how tariffs will affect the substitution effect for exports or China's own re-exports – a pause in tariffs on the rest of the world should keep re-export channels open at least through the second quarter. Early anecdotal reports indicate a sharp slowdown of orders and shipments, but official data could take another few weeks to trickle out.

Many Chinese exporters and US importers are likely in wait-and-see mode as well, given the front-loading of imports in previous months and the volatility of tariff news over the past several weeks. However, after inventories are cleaned out, a key question of who will ultimately bear the burden of the tariffs will be put to the test. As we saw in the first trade war, many Chinese exports to the US ended up quite sticky despite tariffs. There were no viable alternatives from other countries. The tariff hike to 145% will soon give us a conclusive look at just how much of trade ultimately cannot be substituted.

Policymakers signal confidence but have a huge task ahead of them

Chinese policymakers have been busy over the past month. The Two Sessions set this year's growth target at "around 5%" again, signalling confidence in growth stability despite tough external conditions. It also raised various fiscal targets, implying stronger policy support. Soon after, they announced a [special action plan](#) to boost consumption. President Xi said the government is intent on "fully unleashing" domestic demand. The early policy focus is on the equipment renewal scheme, as well as the trade-in policy to support domestic demand.

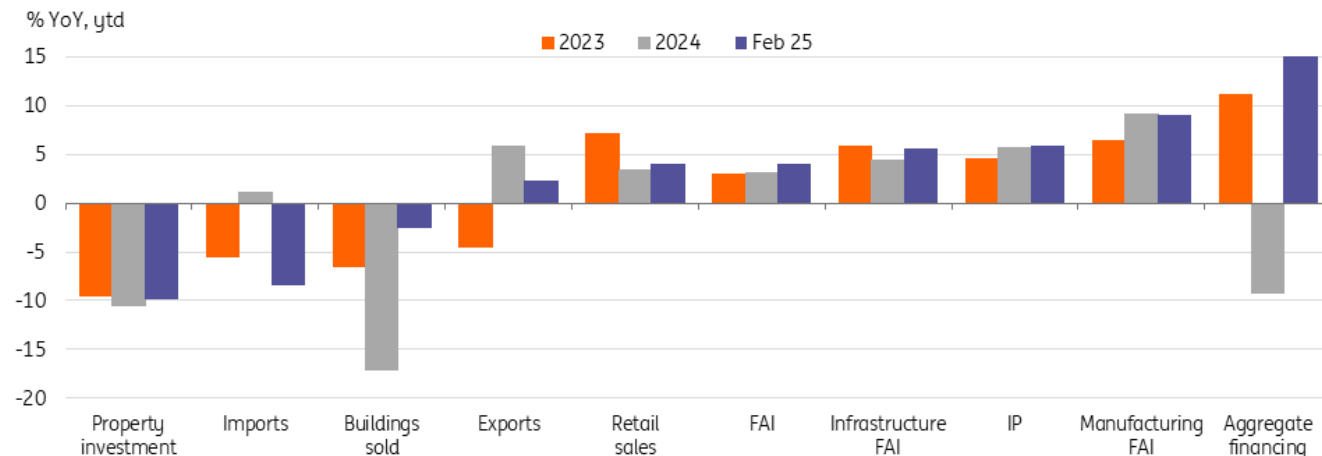
That workload isn't going to slacken any time soon; the People's Bank of China (PBoC) signalled it would further ease policy at a suitable time.

We think that the time has come and expect an interest rate cut and or a Reserve Requirement Ratio (RRR) reduction to be unveiled in the coming weeks. These moves could be bundled together to maximise the market impact of easing. Fiscal policy may take longer to roll out given the complexities involved, but any early announcements on significant measures to shore up growth would be a welcome surprise.

We've also had hints of additional policy steps which are being held in reserve if necessary. A successful effort to revitalise domestic demand would support Chinese industry and also help fill some of the void in global trade.

As Trade War 2.0 erupts, policymakers have maintained calm for now. In the near term, maintaining market stability and supporting vulnerable exporters will likely be high on the agenda.

China's 5% growth objective will likely hinge on domestic demand



Source: CEIC, ING

Economy had been holding up well in 1Q but stronger headwinds are ahead

Surprisingly, a strong March brought export growth up to 5.8% year-on-year in the first quarter of the year, only down a hair from 5.9% in 2024. Assuming there is no quick reversal of tariffs, we expect the drag on exports to become more apparent in the second quarter.

We are revising downwards our 2025 GDP forecast by 0.2pp to 4.5%. We are also revising down our forecast for consumer price index (CPI) inflation to 0.0% (from 0.7%). This reflects heightened price competition and worsening overcapacity amid tariff shocks.

China's hard economic data from the first two months of the year generally beat cautious market expectations. Manufacturing and consumption both outperformed. Amid heightened uncertainties this year, trade-in policy beneficiaries – namely automobiles, home appliances, home renovation and decoration materials, and consumer electronics – will likely outperform.

Overall, the success or failure to achieve this year's growth objective will depend on the speed and effectiveness of China's policy response.

Padhraic Garvey

Head of Global Debt and Rates Strategy/
Regional Head of Research, Americas
padhraic.garvey@ing.com

Rates: US Treasuries have become a 'pain trade'

It's been a remarkable week for US Treasuries. Rarely, if ever, have we had Treasuries being sold amid a massive fire sale of risk assets. The fact that yields have been forced higher heightens the tariff pain as there's nowhere to hide. This is where we think we are, but there are huge uncertainties ahead. It's, naturally, complicated



US Treasury yields have shot higher when, really, they shouldn't

US Treasury yields have marched higher again – what's going on?

The impact of tariffs was the discount for a recession and more rate cuts, typically deemed a good rationale to buy bonds. It still is, and could be in months to come. But for now, we've gone the other way. Treasury bond prices have been bullied lower in the past few days, and yields have shot higher, not what would typically be expected on the build of a material recession risk.

So what's driving this? Here's how we see it.

First, the troubling notion of 'sell America Inc.' The narrative here centres on frustrated players selling Treasuries for various reasons. It's tough to get a gauge on this, and by the way, it does not have to be selling by foreigners; it can also be from domestics. Its genesis could be political (e.g. talk of selling by Chinese players), but that can quickly evolve into a relative value play where Treasuries are anticipated to fall in price, so more sellers emerge, deepening the problem.

Second, while the recession risk argues for lower market rates, other key macro factors point in the other direction. The biggest two are price rise risks coming from the tariffs, and a fear that the fiscal deficit is not being addressed. This morphs into an inflation risk and a supply pressure risk. These have been lurking in the weeds for quite some time but remain meaningful reasons for Treasury yields to test the upside.

We sent out an impact piece as the tariff story really broke from 2 April onward. It's here. We noted a bullish impulse on Treasuries on recession risks, with a 3.5% 10yr Treasury yield as perfectly possible should we enter a recessionary tendency through the second quarter. But we also noted that 'it's complicated.' We had a prior call for 5% on the 10yr yield. We never took that off the table completely, and we've swung back in

that direction as the central call, likely as a risk by the time we get to the end of the 90-day pause on the tariffs.

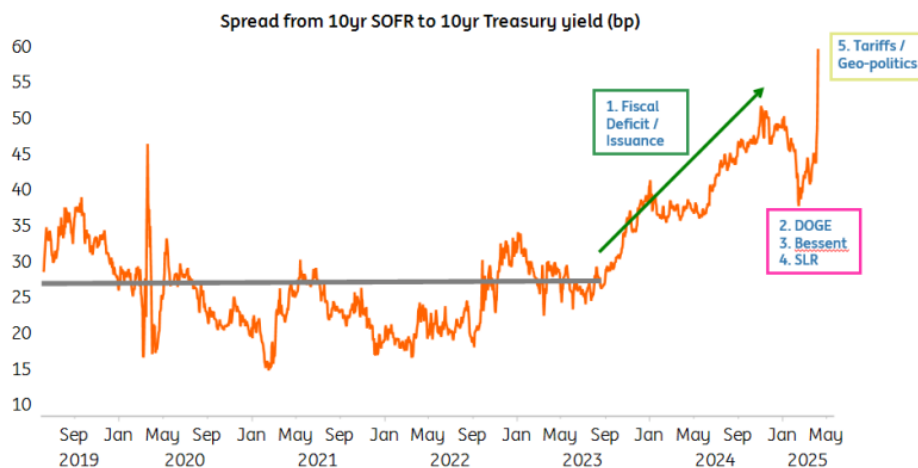
The deeper in the weeds market drivers – there are many to account for

We also need to incorporate background talk of (semi-forced) century bond swaps and/or a user fee (effectively an external holder tax) on Treasuries, which clearly paints a negative underpinning for holders. See more [here](#). As we've noted before, Treasury holders don't want drama; they want simplicity, as a means to seeking haven from 'risk product' when things look bad. The last thing they want is complications. The infamous Mar-a-Lago report is one where such aforementioned complications were heralded as at least up for discussion.

As a timely market barometer, last week's US 3yr auction 'tailed' badly, by almost 2.5bp. Effectively coming at a yield concession of that size to the secondary market. The important thing about the 3yr is it's a maturity that global central banks tend to lap up, and they tend to like short dates. There is an echo here of the aforementioned accord. Hard to say whether this was a driver, but either way, the demand was very poor for what is a classic flight-to-safety area of the curve.

Spread from 10yr SOFR (risk free rate) to the 10yr Treasury yield

The 10yr 'swap spread'



Source: Macrobond, ING estimates

We also note that the US 10yr swap spread has shot out to 60bp (chart above). That's a material cheapening in Treasuries versus the SOFR risk-free rate curve. This is quite unusual during a classic flight to safety, as in that case Treasuries would richen in a relative sense. That, in fact, is what has happened in Europe, as the 10yr German Bund spread has fallen relative to the ESTR curve (tightening the swap spread). The fact that Treasuries have seen the opposite occur paints a negative picture of the outright selling of Treasuries. Eurozone core bonds have behaved more like classic safety play, resulting in wider spreads to the US. Expect this theme to persist in the coming few months.

Back to the US, margin calls on the part of highly leveraged players have been a point of discussion on the market. The idea here is that many vanilla players use futures to express their exposure to Treasuries. Many hedge funds capture a resulting premium in the spread from futures to cash Treasuries, and in doing so, end up funding leveraged Treasury longs on repo. Should Treasury prices fall by enough, margin calls can require liquidations, amplifying the effect on the Treasury market. The bottom line is that it is likely not a catalyst but certainly an underlying factor.

The system is holding up even with yields up, but there are limits

Clearly, there are potential wild extremes in play here. If we were to slip into recession, there is a path there for yields to revert lower. But the here and now is painting Treasuries as a tainted product, and that's not comfortable territory. And not for the Trump administration that had championed previous falls in Treasury yields as something to cling to as a positive offset from the tariffs narrative that was hurting risk assets. Well, no more, it seems. Treasuries are proving to be a pain trade too.

The big question now is whether the Federal Reserve comes to the rescue. This will only happen should there be material pressure on the system. So far, the system is functioning. Liquidity is down but tolerable. Likely, things would have to worsen before the Fed comes in. If they did, it would be through an intra-meeting rate cut. There has been talk of the Fed coming in to buy Treasuries. Again, the rationale for doing so is still not quite there. We feel there would be a tolerance to 5% on the 10yr before the Fed might feel obliged to do something. But this is a fast-moving space.

Chris Turner

Global Head of Markets and Regional
Head of Research, UK & CEE
chris.turner@ing.com

FX: Ranking currencies in a new world order

The ramifications of a global trade war are broadly negative for emerging and commodity-linked currencies. Liquid reserve currencies backed by large surpluses are likely to outperform. And we are now starting to see some independent dollar weakness coming through as a risk premium is demanded of US assets



The global trade war is a negative for emerging and commodity-linked currencies, while the Japanese yen and Swiss franc should outperform

Picking out the dominant themes

The clear takeaway from recent events is that global growth will be lower. First and foremost, this is a shock to emerging currencies. In effect, recent events reverse the emerging market boom witnessed in the 2000s after China entered the WTO in 2001.

Second, it looks as though outside of the US, the Rest of the World will be more worried by disinflationary trends, and interest rates will be coming lower. The baggage of 'exceptionally' high interest rates in the likes of the US, UK, Norway and Australia are now a liability to local currencies as deeper easing cycles are priced.

And for the immediate quarter ahead, defensive currencies should continue to perform well if US markets continue to lead global equities lower. A defensive currency needs properties of not only good liquidity but also the backing of a large current account surplus or net investment surplus if the dominant fear is one of a global repatriation of funds. The yen and Swiss franc score strongly here, but the 4% US current account deficit now discounts the dollar from the safe-haven trade – unless that is, we have a dollar funding crisis.

EUR/USD: Building the baseline

Immediately after 'reciprocal' tariffs were announced, and intermittently since, there have been periods when the dollar was sold across the board on the emerging 'sell America' narrative.

The case is certainly building for medium to long-term investors to be raising their FX hedge ratios on US investments. We can see this in the FX options market, where the one-year EUR/USD risk reversal skew – typically the domain of corporates – has recently

switched to show a substantial demand for euro calls over euro puts. And in terms of positioning, Chicago futures data suggest there is room for asset managers to increase their net euro long positions even if the more speculative leverage fund community is reasonably long on euros already.

Equally, we suspect the currency preferences of FX reserve managers will come under scrutiny this year – especially if we hear more about this [Mar-a-Lago accord](#). There is a real possibility we will see a meaningful reduction in the dollar shares in their portfolios. And away from gold, the liquidity of its bond markets makes the euro a likely choice if dollar holdings are to be cut.

But looking at the macro, the dominant factors for EUR/USD this year should be: the end of US exceptionalism, the Fed versus ECB easing dynamic and lower energy prices. All of these look mildly positive for EUR/USD now.

In terms of a quarterly profile, and because the second quarter should be a difficult one for risk assets, we have EUR/USD trading towards the top-end of a 1.10-1.15 range by the end of June. Rate spreads do not justify such a high level, but we are thinking that some of the most extreme measures of risk premium – occasionally worth 5-6% in EUR/USD – can continue to dominate in the second quarter.

While EUR/USD could correct lower if conditions settle later in the year, those forces should be offset by a Fed ready to start easing in the third quarter. We therefore think EUR/USD could be holding those gains by year-end. It could also trade into a 1.15-1.20 range, particularly in the latter half of 2026, as fiscal stimulus starts to support eurozone growth and the ECB prepares to hike by the end of the year.

The renewed pressure on global central banks

James Knightley

Chief International Economist, Americas
james.knightley@ing.com

Carsten Brzeski

Global Head of Macro and Chief Economist, Eurozone, Germany, Austria
carsten.brzeski@ing.de

James Smith

Economist, Developed Markets
james.smith@ing.com

Min Joo Kang

Senior Economist, South Korea and Japan
min.joo.kang@asia.ing.com

Both the US Fed and the European Central Bank are set to do more rather than less over the coming months, given the financial and economic turmoil around the globe



These are serious times for the Fed Chair, Jerome Powell

Federal Reserve

President Trump's tariffs will undoubtedly put up prices of imported goods, and there will be higher service prices too, such as repair and insurance of those goods. However, the hit to growth from tariffs via business uncertainty and the squeeze on consumer spending power, at a time when the government is implementing sweeping spending cuts, means that unemployment is likely to rise by more than the Fed had previously expected. Chair Jerome Powell's recent speech acknowledged these risks but suggested policymakers will "wait and see" the effects of tariffs before adjusting policy. Remember, too, that the Fed has already delivered 100bp of cuts since September.

This leads us to conclude that although asset prices are falling, in the absence of financial system stress there is little inclination for a knee-jerk reaction from the Fed despite pressure from the president to cut rates. We expect it to acquiesce in the second half of the year as economic weakness and lower shelter costs, which make up 40% of the CPI by weight, become apparent. We look for 125bp of cuts from the third quarter onward, either starting with 25bp at the July FOMC or, perhaps more likely, a 50bp move in September, similar to the central bank's action in 2024. We believe the risks are currently skewed towards the bank implementing more cuts over time rather than fewer.

European Central Bank

The euphoria after the German fiscal U-turn and strong European intentions to spend more on security and defence has disappeared for now. Instead, US tariffs on the EU and many other countries have brought back growth concerns for the eurozone, at least in the nearer term. The strengthening of the euro as well as the drop in energy prices has added to the disinflationary forces the current trade tensions will have for the eurozone. As a result, the ECB, which looked hesitant to decide between a pause and a next rate

cut only a few weeks ago, will have to continue its current easing cycle at its April meeting.

The 90-day pause in the ongoing trade saga will do little to change the need for an April rate cut. Unless trade tensions are reversed or European governments decide on mitigating measures for the eurozone economy, we expect the ECB to continue cutting rates to the lower bound of neutral rate estimates. With another rate cut at the June and September meetings, the deposit rate should end the year at 1.75%.

Bank of England

Since the tariff announcement, an extra rate cut has been priced into the Bank of England curve over the next couple of years. Though the UK is less directly impacted by Trump's tariffs, the threat of a US downturn has acted as a leveller for the likes of the UK. Until recently, investors in the UK had been anticipating a less aggressive easing approach.

For now, though, the Bank is trading cautiously. Headline inflation is set to approach 4% later this year and policymakers are visibly concerned about this translating into even stickier services inflation, which is stuck around 5%. Our view is that this should be closer to 4% by the summer, on account of less aggressive annual price hikes in April. We're sticking to our view that the Bank will cut rates every quarter until Bank Rate hits 3.25% in 2026.

Bank of Japan

We have dropped our call for a Bank of Japan hike in May amid tariff concerns and growth slowdown in the current quarter. We believe that the frontloading of Japanese vehicles and machinery should help boost GDP in the first quarter, followed by weaker growth in the second quarter. Safe-haven seeking has pushed the USD/JPY below the 145 level, which may ease some of the inflationary pressures.

Governor Kazuo Ueda recently highlighted the downside risks of growth rather than inflation concerns. However, inflation is expected to remain above 3% for a while on the back of solid wage growth. Furthermore, a dovish signal on monetary policy could lead to a weakening of the JPY, which should be heavily criticised by Trump. As a result, the BoJ is likely to stick to its path of policy normalisation in guidance. We expect a hike in July if Japan and the US reach an agreement on trade during the 90-day negotiation period.

Navigating the new tariff landscape

Inga Fechner

Senior Economist, Germany, Global Trade
inga.fechner@ing.de

The 2 April 'liberation day' aftermath has been nothing short of chaotic. We've seen new tariffs and a 90-day pause, as well as reductions and exceptions. For now, we maintain our world trade growth profile of 2.5% year-on year given that the US only accounts for 13% of global exports – but ongoing uncertainty could still slump global trade



Qingdao port, China. The country has been quick off the mark in announcing its retaliatory measures against Trump's latest trade war tactics

April trade chaos: 90-day pause and tariff adjustments

Since 2 April, the 90-day pause and reciprocal tariff reduction to 10% for all countries except China, as well as the immense tariff hike of an additional 125% rate for Chinese goods, has changed the tariff picture once again. The recent tariff elimination (0% for all countries except China, which faces a 20% rate) for several electronics such as smartphones, computers, hard drives, processors or semiconductors retroactively for 5 April has also complicated the tariff profile for goods entering the US.

Overall, the recent developments are welcome news, but it's important to remember that countries are still facing significant trade challenges:

- 10% increase across the board for nearly all countries compared to a couple of weeks ago
- 25% tariffs on cars and potentially on car parts by 3 May (at the latest)
- 25% tariffs on steel and aluminium
- Ongoing Section 232 investigations into copper and lumber, with pharmaceuticals, and potentially also semiconductors still under scrutiny
- Canada and Mexico still face a 25% tariff on goods that are not covered under the USMCA trade pact, while energy and potash imports from these countries continue to be subject to a 10% tariff
- 25% secondary tariffs on third countries importing Venezuelan oil and an ongoing Section 301 investigation into the Chinese shipbuilding sector

So, even if the worst-case scenario from 'liberation day' has been avoided for now, we are nowhere near trade normality. Trade tensions could easily escalate again.

What does it mean for global trade?

US accounts for 13% of global exports, but consumer hesitation might slump global trade

Despite the current perception that global trade revolves solely around the US, it's important to remember that only about 13% of total global exports are directed there. This means that while the US plays a significant role, it is not the sole focus of global trade. With certain products being exempt from tariffs altogether, not all goods flows into the US are impacted by higher tariffs. The recent tariff exemptions for electronics exclude at least some 12% of all US imports from additional tariff hikes.

Except for China, many trade partners have refrained from engaging in tit-for-tat trade escalations. We anticipate ongoing front-loading into the US, extending from the first quarter and into the second, to maximise shipments before the 90-day pause ends. Mexico and Vietnam could still [serve as "plus one" countries](#), acting as intermediaries for China's trade with the US and vice versa, given the lower tariff rates.

Still, the prevailing uncertainty and market turmoil could cause consumers worldwide to hesitate in purchasing goods, potentially leading to a significant downturn in global trade. With the US having just entered a global trade war with all its trading partners, it is simply too early to get hold of the whole picture just yet.

How long are tariffs here to stay?

The immense stock and especially bond market reaction has led to a reduction of extremely high tariff rates and the exemption for some product and sector-specific tariffs. While this has prompted negotiations from all sides, we do not believe that tariffs will be slashed altogether. Despite the potential for a positive outcome from these negotiations, we also think that the 10% universal tariffs will stay in place during US President Donald Trump's full term in office; these don't have too much of an impact on goods flows but still provide a reliable source of revenue for the US budget.

25% steel and aluminium tariffs, car and car parts tariffs will also remain, and we could see pharma, semiconductor, copper and lumber tariffs being imposed in the second or third quarter alongside higher fees for Chinese-operated ships in the second half of the year. The open question is whether reciprocal tariffs will return – or in China's case, be reduced. This will highly depend on the state of the US economy over the coming quarters. If our expected scenario of stagflation in the US materialises, it is hard to see the current trade tension continuing beyond year-end.

Eurozone recovery facing serious headwinds

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg,
Eurozone
peter.vandenhoute@ing.com

The trade war is dashing hopes for a robust eurozone recovery, with GDP expected to stagnate over the next two quarters. Inflationary pressures are likely to ease in the second half, and that will provide the European Central Bank ample opportunity to implement three additional 25bp rate cuts this year



Expect three more rate cuts from the ECB this year

Ever-changing moods

When it comes to the challenge of predicting the eurozone's growth outlook, Crowded House's classic "Four Seasons in One Day" comes to mind – it perfectly sums up the constant state of flux we're seeing in the economic environment at the moment.

Germany's fiscal U-turn and the promise of increased defence spending across Europe had raised hopes for accelerated growth starting next year. This optimism was reflected in improved confidence indicators, particularly in the expectations component. However, the announcement of blanket US import tariffs of 20% on the European Union, with even higher rates for specific sectors, drastically altered the mood. To be sure, on the back of the ensuing financial market turmoil, President Trump decided on a 90-day delay for the "reciprocal" tariffs, but in the meantime the "standard" tariff of 10% has been introduced for European goods and the higher tariffs for specific sectors, like cars, still stand. Things can, of course, shift quickly – but if the tariffs remain in place this year, the impact will be sizeable.

Economy coming to a standstill

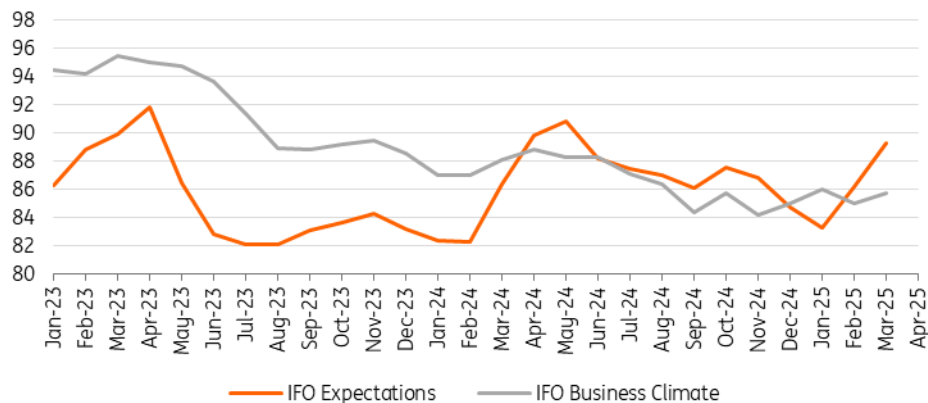
The composite PMI rose for the third consecutive month in March, driven by increased sales. This may have been temporarily influenced by US companies replenishing stocks in anticipation of higher import tariffs. Consequently, growth in the first quarter was likely positive, with the eurocoin indicator – a measure of the underlying growth trend – reaching its highest level since 2022 in the first quarter.

However, recent tariff announcements have altered the landscape. We estimate the direct negative impact on exports to be between 0.1% and 0.3% of GDP, consistent with earlier estimates from the European Central Bank. The ongoing uncertainty is also expected to negatively affect business investments, and consumers are likely to become

more cautious due to international tensions. There may be a small negative wealth effect on consumption (-0.1% to -0.2%) due to tanking stock markets.

Overall, we now expect the economy to stagnate in the second and third quarters of this year, resulting in 0.5% GDP growth for the year. With Germany's planned expansionary budget, improvement is still likely in 2026, but due to a weaker carry-over effect, we have also reduced next year's growth forecast to 1.1% (down from 1.4%). It is important to note that these forecasts are highly uncertain as the trade situation may swiftly change again.

The improvement in German business sentiment was mainly due to expectations



Source: LSEG Datastream

Trade war is rather deflationary

Eurozone HICP inflation fell to 2.2% in March, with core inflation at 2.4%. The decline was welcomed by financial markets, but the month-on-month figures didn't show much deceleration in services prices. The late Easter could also push services inflation up again in April.

Even so, we think the unfolding trade war is more likely to have a deflationary rather than an inflationary impact on the eurozone. Even if the European Commission retaliates with tariffs on US imports, it is important to remember that these only account for a tenth of total imports. Meanwhile, energy prices have already fallen due to expectations of a global economic slowdown. What's more, with China facing much steeper US import tariffs, it is likely to redirect some of its excess capacity to Europe, exerting downward pressure on prices. These factors, along with weaker growth in the eurozone, are likely to keep inflation in check in the second half of the year.

Forecast for terminal ECB rate lowered to 1.75% (again)

The ECB, which was less dovish during the March meeting, is likely to change its tone again in April if Trump's tariff plans remain in place. Following the announcement of Germany's fiscal plans, concerns rose of an increase in medium-term inflation, prompting us to raise the terminal ECB interest rate to 2.25%. However, the short-term recessionary risk may now necessitate a temporarily more accommodative policy, bringing us back to our call from the pre-fiscal stimulus era. We now anticipate two 25bp rate cuts in the second quarter and a final one in the third quarter.

Tariffs are just the latest reason to expect UK tax rises this year

James Smith

Economist, Developed Markets
james.smith@ing.com

The UK is less susceptible to US tariffs than the rest of Europe, but with the public finances operating under fine margins, a more protectionist and weaker global economy sets up a difficult set of choices for the Treasury



British PM Keir Starmer and Chancellor Rachel Reeves earlier this week

Tariffs aren't a big problem in isolation, but a weaker global economy is a bigger challenge

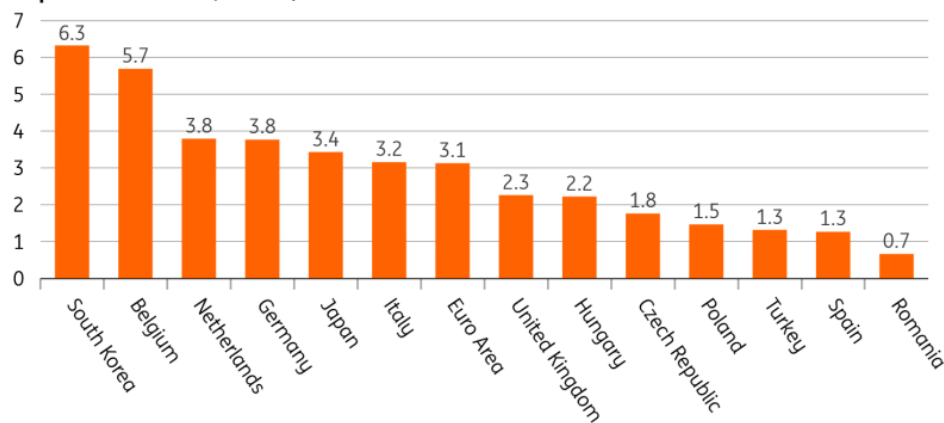
Two things can be true at once: the UK economy is less susceptible to US President Donald Trump's tariffs than the eurozone, and tariffs also make it harder for the UK Chancellor to avoid further tax rises later this year.

On the former, Britain's exports to the US account for a little over 2% of GDP, compared to roughly 3% in the eurozone and almost 4% in Germany. Outside of the car and pharmaceutical industry, the hit from 10% reciprocal tariffs looks pretty marginal on overall GDP. That impact would increase should the UK retaliate, but for now, that's looking less likely.

Britain's government is favouring diplomacy and is touting a narrow, services-focused trade deal with the US as a possible means of negotiating a more favourable baseline tariff. Whether that's sufficient to gain an exemption is less clear, given our house view that the President needs sustained tariffs to generate tax revenue. And the UK's scope to offer broader concessions is limited by its more pressing desire to negotiate closer ties with the European Union. Closer alignment to US agricultural rules, for example, would make that task harder.

The UK is less exposed to US trade

Exports to the US (% GDP)



Source: Macrobond (Based on IMF data), ING calculations

Tariffs make tax hikes look even more inevitable

Where tariffs become a bigger problem for the UK economy is if the US or the eurozone enters recession. Neither is our base case, but the point is that any change in global demand will be more pivotal than the direct hit from American tariffs. Elevated uncertainty, not helped by the recent chopping-and-changing on the tariffs themselves, doesn't help either.

The much bigger question domestically, however, is whether April's substantial tax rise on employers feeds through into higher redundancies. So far that's not happened, and in the absence of a material weakening in the jobs market, it's worth remembering that the government is also increasing real-terms spending dramatically this year. That's still a decent tailwind for activity, and for that reason, we've made only small downward revisions to our 2025 and 2026 UK growth numbers.

For the Chancellor though, the key focus right now is convincing the independent Office for Budget Responsibility to further upgrade its medium-term growth forecasts. That's the key to getting more money under the fiscal rules. And the issue is that these forecasts already look pretty optimistic and are vulnerable to downward revisions at the Autumn budget.

The Treasury will receive a small windfall courtesy of lower Bank of England expectations, which helps lower debt interest projections, though that's counterbalanced by the rise in gilt yields since the OBR's most recent projections. It's a reminder that Britain's public finances are operating under increasingly fine margins, and even small forecast revisions can make decisive differences to the Treasury's slim room for manoeuvre.

That gives the Chancellor a headache. Further spending cuts, like those adopted at the recent Spring Statement, look unrealistic. If anything, we think spending plans will end up getting topped up again in the Autumn Budget. It also looks difficult for the government to change its main fiscal rule to give it more breathing space, having already done so last October. For that reason, we think tax rises are becoming increasingly inevitable.

How the CEE's central banks might respond to Trump's tariffs

Frantisek Taborsky
EMEA FX&FI Strategist
frantisek.taborsky@ing.com

The inflation rebound in the CEE region has been more pronounced than in other areas, making it more challenging for central banks to respond to US tariffs. On the other hand, early estimates by officials focus on a negative GDP impact. CEE central banks would likely need to see a bigger shock to change their current mindset



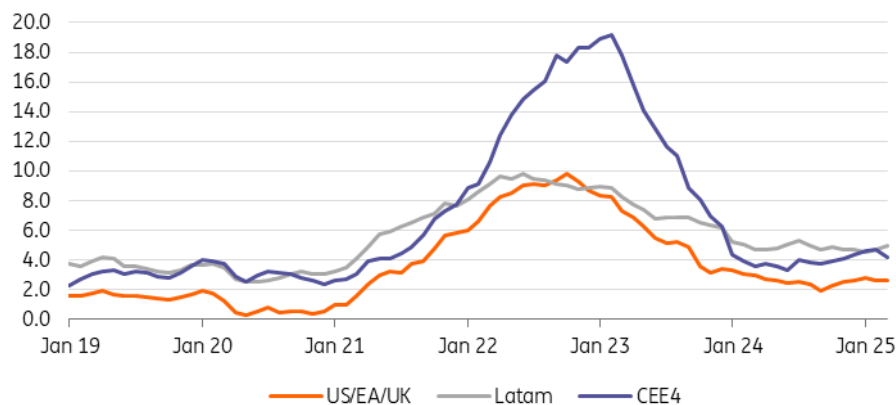
The Czech National Bank has been the only central bank actively cutting rates in the CEE region in recent months

Estimating the impact of US tariffs on the global economy or the largest blocs like the US, EU or China is the big question these days. Another important issue is how central banks will respond. In the CEE region, this issue is even more complicated and finding a solution will take time. Not only do we have to have a global view, but we have to add a local picture. On the one hand, GDP growth was rather disappointing last year – and this year was supposed to be a recovery. However, this year is also falling short, particularly in Hungary and Romania, where sub-2% growth was expected even before the US tariffs. On the other hand, Poland and the Czech Republic are performing well, with continued economic recovery observed in the first quarter.

Inflation in the CEE region continues to be a problem, and although we have seen a rebound everywhere globally, the CEE has been the most pronounced. Paradoxically, in the first quarter, the lower GDP growth countries – Hungary and Romania – had a bigger inflation problem than the higher growth countries – Poland and the Czech Republic. This will complicate the room for manoeuvre for central banks if global growth momentum collapses further.

So far, we haven't heard much from central banks in the CEE region, and understandably, it will take them longer than global central banks to adapt to the new environment. However, the first central bank meetings since the US tariffs are scheduled for the end of the month in Hungary and early May in Poland and the Czech Republic. During these meetings, central bankers will need to present their views and outline the next steps.

Inflation rebound higher in the CEE than elsewhere



Source: Macrobond, ING

Given higher inflation and the fragility of markets, we can say that the global shock is not strong enough to change the minds of the National Bank of Hungary (NBH) and the National Bank of Romania (NBR) right now. That's why we continue to see no cuts in Hungary this year and [50bp in Romania](#) in the second half of the year. In Hungary, [March inflation](#) fell after two months of unexpected rises, presenting a slightly improved outlook, while the NBH calculates a negative impact of US tariffs on GDP in the range of 0.5-0.6 percentage points this year. So, we can't rule out seeing some cuts, but they won't be on the table at the moment. And we would need more escalation to push the NBH to some cuts while the forint acts as a natural block in case of a further sell-off.

The second part of the CEE region is more interesting at the moment. In Poland, we saw a complete [dovish turn in communication](#) at the March meeting, ironically at the same time as the US tariffs announcement. We now expect a 50bp rate cut as early as the next meeting in May and 100bp in total this year, with the possibility of another 50bp if the zloty allows. Poland's Ministry of Finance expects a 0.4pp cut to GDP growth because of the tariffs, which, together with lower-than-expected inflation, would allow the central bank to resume the cutting cycle and help the economy in the new environment.

The Czech National Bank's (CNB's) meeting in early May will likely be the most interesting. The central bank was at the end of the cutting cycle before the US tariff announcement and has been the only central bank actively cutting rates in the CEE region in recent months. Before the US tariffs, it appeared that May may be the last rate cut given the economic recovery, the German fiscal story and [higher-than-expected inflation](#).

However, the Czech Ministry of Finance sees a 0.6-0.7pp cut in GDP growth this year due to the US tariffs. So the question will be whether this is enough reason for the CNB to cut rates further below 3.25-3.50%, which the current board sees as the new neutral rate. For now, we would say no, but the openness to cut rates will be higher even if the trade war story does not escalate further from the current point. But there will still be a local hawkish bias looking at headline inflation above target and strong local fundamentals.

CEE countries could be more resilient to the tariff threat than you might think

Peter Virovacz

Senior Economist, Hungary
peter.virovacz@ing.com

Kinga Havasi

Economic research trainee
kinga.havasi@ing.com

No country escapes the tariff threat, and some Central and Eastern European countries are more exposed than others. But our key message is this: the region may be more resilient than many believe



Looking for new markets: CEE countries were well represented at Tokyo's FoodEx last month

Trade instability: A test of strength in the CEE

A brief look at countries across Central and Eastern Europe which are more exposed to the US tariff story through their vulnerability, and what the mitigating factors could be. Our key message for Central and Eastern Europe: the region might be more resilient to the US tariff threat than you might think

US-EU tariff tensions pose a threat to the export-driven economies of Central and Eastern Europe, but we believe growing Chinese investment and the waning of US exceptionalism present opportunities. EU trade agreements and cash transfers should also help mitigate the impact. If managed effectively, the trade war could ultimately lead to long-term benefits for the region.

Below is a snapshot of our thinking. There's far more detail here: [Directional Economics CEEMEA: Trade instability](#) – a test of strength for a summary on the topic.

In theory, the CEE bloc is very exposed

The global trade landscape has been significantly altered by US President Donald Trump's tariff threats and trade actions. Central and Eastern Europe, despite limited direct trade with the US, appears vulnerable due to its export-led growth, strong manufacturing base and close ties with Germany and the EU. The region needs to find new growth drivers beyond exports and cheap labour.

CEE countries still face long-term challenges such as competitiveness, demographics and energy transition, which complicate their response to external shocks. Despite the uncertainties, the region may be more resilient than expected.

Identifying the relative exposures

Trade openness suggests vulnerability to external shocks, but integration in the global value chain is a more accurate measure. Surprisingly, Germany is the least integrated,

so claims of high vulnerability due to EU and German exposure should be viewed sceptically. The CEE region mainly trades with the EU and has limited direct and indirect exposure to the US, which reduces the macroeconomic impact of new tariffs, while the data suggests that vulnerability isn't straightforward.

There are various estimates of how much tariffs could reduce growth in the euro area. In a worst-case scenario, real GDP could be 3% lower by 2027, reducing annual growth from 3% to 2%. This is significant, but it isn't catastrophic, as economies have shown resilience following shocks such as the Covid pandemic and the war in Ukraine.

Diving into the sectors

The CEE region isn't particularly vulnerable, with sufficient diversification apart from a few outliers. Hungary and the Czech Republic are the most exposed to US demand, while Croatia's pharmaceutical industry is also concentrated on external demand.

Some sectors – such as automobiles and electronics – are sensitive to real business cycles, which makes them less resilient. Hungary could be the most exposed to tariffs in the electrical equipment sector, as it has become a leading industrial producer in recent years. Asian investors dominate this sector, so further tariffs could pose a high risk.

Other channels, such as imported inflation, could be significant. Perceived inflation could rise, reducing consumer confidence and consumption growth. If European companies move production to the US, Western European FDI inflows might decrease. Chinese investors could step in, boosting the economy but also posing challenges for the European Commission and increasing EU-China trade tensions.

Mitigating factors

While the tariff war isn't seen as an existential threat, it will challenge decision-makers at all levels. Let's explore some unique mitigating factors specific to the region.

- **New trade agreements:** Uncertainty is the biggest risk, as it negatively affects companies' investment decisions. However, there are some positive developments. The EU is actively pursuing new trade agreements and renewing old ones. The European Commission has also launched partnerships on critical raw materials to support green and digital transitions, which could help mitigate risks from the US and China.
- **The Chinese FDI story:** Central and Eastern Europe is increasingly attractive to Chinese investors as a gateway to the European market. Chinese FDI in the CEE countries is still low compared to the rest of Europe, indicating growth potential and is likely to remain strategically important, with tier one and two suppliers following upstream companies. Beyond Asian FDI, the flow of capital between the US and Europe should soon become clearer, with the potential for capital to return to Europe due to increased investment opportunities.
- **Side hustles:** CEE countries are negotiating individual deals with the US to mitigate the impact of tariffs, through energy and defence deals, including LNG, nuclear power, F-35 jets, and R&D centers.
- **The EU fund story:** EU funds have helped the CEE region remain resilient during past crises. The Recovery and Resilience Facility (RRF) and REPowerEU have increased available funds, supporting investment and offsetting export losses. However, less than 50% of the planned RRF funds for the CEE-4 countries have been disbursed ahead of the 2026 deadline, although we can see this as an opportunity. The ReArm Europe plan proposes new sources of defence funding.
- **An opportunity for structural changes:** All the above-mentioned factors could provide short-term relief for CEE countries, but long-term resilience requires boosting

Europe's competitiveness, productivity and green transition. Investment in security and defence is key, unlocking potential across sectors. The 2024 Draghi report emphasises closing the innovation gap between the US and China, boosting competitiveness, supporting decarbonisation, and enhancing security. If it reacts quickly enough, this tariff war could serve as a long-overdue wake-up call for Europe and lead to long-term benefits.

How the CIS-4 are navigating global trade tensions

Dmitry Dolgin
Chief Economist, CIS
dmitry.dolgin@ing.de

A look at the implications of US trade wars and tariffs on the CIS-4 economies: Armenia, Azerbaijan, Kazakhstan, Uzbekistan



The National Bank of Kazakhstan held the base rate unchanged on 11 April but pointed at pro-inflationary risks coming from global trade tensions

Armenia, Azerbaijan, Kazakhstan, and Uzbekistan are largely insulated from the direct impact of US trade tariffs but are not immune to secondary effects. While domestic [macro conditions are mostly in decent shape](#), key factors to watch include trade exposure to China and the EU, sensitivities to oil prices, and rising inflationary pressures.

Additionally, a weaker dollar is unlikely to benefit CIS currencies.

Tariffs: watch out for global implications

The direct impact of US tariffs on the CIS should be minimal, given that the US accounts for only 0.5-2.0% of their exports, while commodities make up 50-95% of their exports. Uzbekistan, which derives 40% of its export proceeds from gold (\$3-4 million per \$1/oz), could benefit from high gold prices.

However, trade relationships with the primary targets of US tariffs expose the CIS to potential slowdowns in those economies. From this perspective, Armenia and Uzbekistan, with 10-20% of their exports going to the EU and China, seem less exposed than Azerbaijan and Kazakhstan, which have 50-60% shares.

Cheaper oil: risks for some, opportunities for others

The pressure on energy prices is a critical factor for fuel exporters. Azerbaijan is more dependent on oil, with 52% of fiscal revenues and 88% of exports coming from oil, compared to Kazakhstan's 22% and 55%, respectively. However, Azerbaijan appears more insulated with a breakeven oil price of \$63-64/bbl for its budget and current account, while Kazakhstan needs Brent at \$80/bbl to balance its budget (\$185/bbl net of non-tax proceeds) and \$87/bbl for its current account.

Meanwhile, commodity importers like Armenia could benefit from lower energy prices through reduced import costs.

Central banks are getting more hawkish

Most central banks view current global tensions as pro-inflationary due to supply chain concerns. This adds to existing domestic pressures from generous fiscal policies in Armenia, Azerbaijan, and Kazakhstan, as well as utility tariff hikes in Kazakhstan and Uzbekistan. CIS central banks have been making more hawkish decisions than previously guided. In its most recent decision on 11 of April, [Kazakhstan's central bank maintained the base rate at 16.50%](#) guiding for a prolonged period of high rates amid higher proinflationary risks coming from global trade tensions.

The generally modest size of bank loan portfolios (except for Armenia's 60% of GDP) in the CIS-4 should limit the negative impact of higher rates on domestic activity.

A weaker dollar doesn't help CIS currencies

The foreign exchange outlook for CIS countries is mixed. While a weaker global US dollar might support their currencies, it is unlikely to offset other pressure factors. These include potential capital outflows from smaller countries and reduced export revenues for fuel exporters due to lower oil prices.

Uzbekistan's soum appears the most resilient, bolstered by gold exports and previous depreciation, whereas the Armenian dram seems most vulnerable. Azerbaijan's currency peg remains secure for now, supported by substantial monetary and fiscal buffers amounting to 100% of GDP. In contrast, Kazakhstan's tenge may experience higher volatility due to sensitivities to trade partner currencies, although state FX operations are expected to support the KZT over the next year.

Tariff-induced sell-off hits commodities

Commodity markets are under significant pressure amid tariff threats. Uncertainty over how tense things could get is clouding the demand outlook. We've cut our forecasts

Warren Patterson

Head of Commodities Strategy
warren.patterson@asia.ing.com

Ewa Manthey

Commodities Strategist
ewa.manthey@ing.com



Oil market hit with demand uncertainty and stronger supply

The oil market is under significant pressure amid trade tensions. ICE Brent briefly broke below US\$60/bbl last week, trading at the lowest levels since February 2021. While the Trump administration put a 90-day pause on reciprocal tariffs for most trading partners, the baseline 10% tariff remains, and the tit-for-tat on tariffs between the US and China has escalated. It's unclear where this escalation is going. The uncertainty is generating significant headwinds for global growth and, as a result, oil demand.

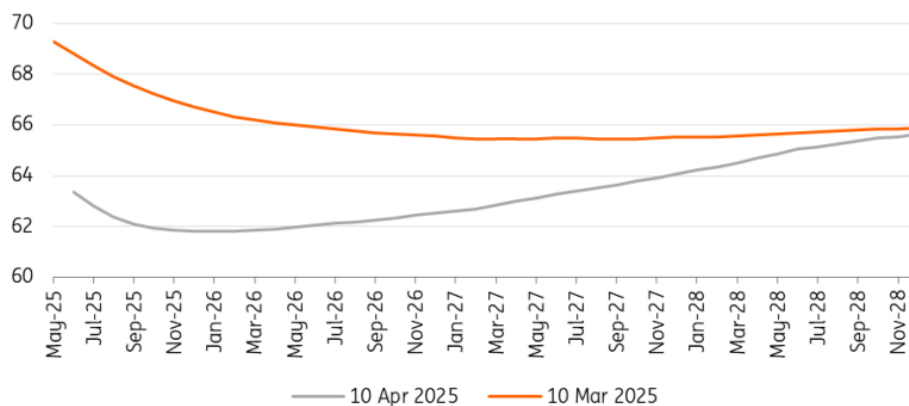
A rather odd decision by OPEC+ to increase supply in May by 411k b/d, more than the 135k b/d planned, hardly helped. OPEC+ tied the surprise increase to a positive market outlook, which we don't agree with given growing demand uncertainties. There are suggestions that OPEC+ increased supply to punish members who've consistently been producing above their targets. Or, possibly, President Trump was more successful than many thought in persuading the Saudis to increase supply. Yet, given the scale of the sell-off, we wouldn't be surprised to see OPEC+ reverse this supply increase. Amid broader demand concerns, it may not be enough to reverse the trend.

For now, stronger OPEC+ supply and downside risks to demand leave the global oil balance more comfortable through the year. We've revised our 2025 Brent forecast down to US\$70/bbl from US\$74/bbl last month. Our fourth quarter 2025 forecast is US\$66/bbl. The environment is very fluid, though. Uncertainty abounds about whether we'll see further revisions as the demand impact of tariffs becomes clearer.

The scale of the decline in oil prices will likely lead to a slowdown in drilling activity in the US. Producers, on average, need a WTI price of US\$65/bbl to profitably drill a new well, according to the Dallas Federal Reserve Energy Survey. So, with West Texas Intermediate (WTI) trading around US\$60/bbl, there's little incentive for US producers. Given falling drilling activity and high decline rates in US shale, it wouldn't take too long for US oil production to start trending lower. So much for "drill, baby, drill".

The tariff story is clearly overshadowing the sanction risks confronting the oil market. Lower prices might embolden the Trump administration to take a more aggressive approach in enforcing sanctions against Iran and Venezuela.

ICE Brent forward curve pointing towards a better supplied market (US\$/bbl)



Source: LSEG, ING Research

European natural gas unable to escape the risk-off move

European natural gas is also getting caught up in the global risk-off trade. The Title Transfer Facility (TTF) has traded down to its lowest level since September 2024. Investment funds will continue to cut net longs in risk assets amid broader market uncertainty.

Demand for natural gas will also be a concern as tariffs pile up, particularly when it comes to industrial demand.

For now, fundamentals in the European gas market remain supportive. The EU finished the 2024/25 heating season with storage at a little under 34% full, well below 58% at the same stage last year and the five-year average of 45%. This leaves Europe with the tough task of hitting the European Commission’s storage target of 90% ahead of next winter. The region will need to see the strongest net injections since 2022. We may need to see more flexibility on these targets, something that member countries are discussing.

Ceasefire talks between Russia and Ukraine appear to have stalled. As such, the prospect of a [restart to some Russian pipeline gas flows](#) to Europe looks even less likely, removing, or at least reducing, some downside risks to prices.

While TTF has been affected by the broader risk-off move, we’re reluctant to revise our forecasts lower for this year. The market is still set to be tight through 2025. We’ll need to see some tangible demand hits before making any aggressive downward revisions in our forecasts. We’re sticking to our EUR44/MWh TTF forecast for 2025.

Metals tumble on global growth fears

Since Trump’s reciprocal tariff announcements, global growth fears have come to dominate the narrative for metals markets. Although all base and precious metals, including gold, were exempted from new levies, there are concerns about a broader hit to the consumption of raw materials. The global trade war is bearish for copper and other industrial metals in the context of slowing global growth.

The impact of tariffs on China – the biggest consumer of metals – is particularly in focus for metals markets. Higher-than-expected US levies are likely to drag on Chinese growth and inflation this year.

With growth in the US likely to slow thanks to tariffs and China already struggling to revive its economy, demand for copper and other industrial metals is likely to weaken.

The question now is whether we'll see more aggressive stimulus from Beijing. If so, this might limit the downside for copper and other industrial metals.

We expect the downtrend in metals to continue, at least in the short-to-medium term. This depends on the scope of US tariffs and how long they're in place. If trade tensions intensify and we see more retaliatory measures, bearish sentiment could increase for industrial metals.

Among precious metals, gold is hitting fresh record highs after Trump's U-turn on tariffs drove investors back to safe-haven assets. Despite the announced 90-day pause in reciprocal tariffs for most trading partners, duties on China were hiked. The possibility of a prolonged US-China trade war remains, and Trump's plans could also change quickly. This likely means more volatility for financial markets, which should continue to support gold. Gold is up by more than 20% so far this year, a record-breaking rally for the precious metal. Given the policy volatility surrounding Trump's White House, we see uncertainty over trade and tariffs continuing to buoy gold prices.

Central bank buying, a bid to diversify reserves amid Trump's unpredictable policies, is also expected to support gold prices.

Developed Markets (QoQ% annualised growth)										
	1Q25F	2Q25F	3Q25F	4Q25F	1Q26F	2Q26F	3Q26F	4Q26F	2025F	2026F
US	0.8	1.4	-0.9	0.1	1.2	1.9	2.2	2.4	1.4	1.1
Japan	0.8	0.4	0.4	0.4	0.8	0.4	0.8	1.2	1.1	0.6
Germany	-0.9	0.2	0.6	1.1	1.2	1.8	2.2	2.4	-0.2	1.4
France	0.3	0.4	0.4	0.4	0.8	1.2	1.2	1.2	0.4	0.8
UK	1.3	1.8	1.2	1.0	0.8	1.0	1.0	1.0	1.1	1.0
Italy	0.7	0.3	0.6	0.8	0.5	1.2	0.9	1.4	0.5	0.8
Canada	2.2	0.5	-1.9	-0.5	1.2	1.8	2.3	2.5	1.3	0.8
Australia	1.6	2.0	2.4	2.8	2.8	2.4	2.4	2.4	1.6	2.6
Eurozone	0.4	0.1	0.1	0.8	1.2	1.4	1.8	2.1	0.5	1.1
Austria	0.0	0.4	0.6	1.2	1.4	1.4	1.6	1.6	-0.3	1.2
Spain	2.2	2.0	2.3	2.5	2.2	1.8	2.0	2.0	2.5	2.1
Netherlands	4.1	0.5	0.1	0.6	0.7	0.9	1.3	1.8	2.1	0.8
Belgium	0.4	0.0	0.8	0.8	1.2	0.8	1.2	1.6	0.6	1.0
Greece	1.4	0.6	0.9	1.9	1.3	2.3	2.1	2.1	1.9	1.8
Portugal	3.0	2.1	2.2	2.2	2.0	2.0	2.5	2.5	2.9	2.2
Switzerland	0.8	0.4	0.8	0.8	1.2	1.6	1.6	1.6	0.9	1.2
Sweden	1.4	1.3	0.9	0.9	1.4	1.1	1.1	1.1	1.7	1.1

Emerging Markets (YoY% growth)										
	1Q25F	2Q25F	3Q25F	4Q25F	1Q26F	2Q26F	3Q26F	4Q26F	2025F	2026F
Bulgaria	3.0	2.8	2.6	2.2	2.3	2.4	2.4	2.3	2.6	2.3
Croatia	4.1	3.4	3.4	2.4	2.2	2.1	2.1	1.8	3.3	2.1
Czech Rep.	2.0	2.2	2.1	2.1	2.3	2.5	2.7	2.8	2.1	2.6
Hungary	0.3	0.5	2.6	4.1	4.7	5.0	4.2	3.2	1.9	4.3
Poland	3.1	2.9	3.5	3.5	4.1	3.4	2.8	3.2	3.2	3.4
Romania	1.0	0.9	1.4	1.3	1.7	2.0	2.4	2.6	1.2	2.2
Turkey	2.3	2.9	3.2	3.5	4.3	4.5	3.5	3.8	3.0	4.0
Serbia	3.0	3.1	3.5	3.4	4.5	4.4	4.1	3.8	3.3	4.2
Azerbaijan	2.0	3.0	2.5	4.5	3.5	3.0	2.5	1.0	3.0	2.5
Kazakhstan	5.4	4.5	4.5	3.5	2.0	3.0	4.0	5.0	4.5	3.5
Russia	2.0	2.5	2.0	1.5	1.0	1.0	0.5	-0.5	2.0	0.5
Ukraine	2.2	3.0	4.0	4.5	4.6	4.3	4.0	4.0	3.3	4.3
China	5.3	4.5	4.3	4.1	4.1	4.4	4.3	3.9	4.5	4.2
India	6.6	6.8	6.9	6.9	7.3	7.3	7.3	7.3	6.8	7.3
Indonesia	5.1	5.1	4.9	5.0	5.0	5.0	5.1	5.1	5.0	5.1
Korea	0.1	0.5	1.0	1.5	1.8	2.0	1.7	1.4	0.8	1.7
Philippines	5.5	6.6	6.3	6.0	6.1	6.1	5.9	5.7	6.1	6.0
Singapore	2.4	2.5	2.6	2.7	2.6	2.8	2.6	2.6	2.6	2.7
Taiwan	3.3	2.5	2.5	2.9	3.5	3.0	3.1	2.7	2.8	3.0

Norway: Forecasts are mainland GDP
 Source: ING estimates

CPI Forecasts (pa)

YoY%	1Q25F	2Q25F	3Q25F	4Q25F	1Q26F	2Q26F	3Q26F	4Q26F	2025F	2026F
US	2.7	2.7	3.9	4.1	3.8	3.6	2.4	1.9	3.4	2.9
Japan	3.8	3.4	2.6	2.1	1.3	1.6	2.1	2.2	3.0	1.8
Germany	2.7	2.4	2.3	2.1	2.1	2.1	2.4	2.4	2.4	2.3
France	1.2	1.3	1.4	1.7	1.7	1.0	1.1	2.0	1.4	1.5
UK	2.8	3.3	3.5	3.4	3.0	2.2	2.3	2.3	3.2	2.4
Italy	1.8	2.0	1.9	1.9	1.8	1.8	2.1	2.2	1.9	2.0
Canada	2.2	2.1	2.7	3.4	3.3	2.4	1.6	1.4	2.6	2.2
Australia	2.2	1.9	2.3	2.8	2.8	2.7	2.5	2.4	2.3	2.6
Eurozone	2.3	2.2	2.1	2.0	2.1	2.1	2.2	2.2	2.2	2.2
Austria	3.3	2.7	2.2	2.1	2.1	2.1	2.1	2.1	2.6	2.1
Spain	2.7	2.3	2.1	2.0	2.1	2.1	2.1	2.1	2.3	2.1
Netherlands	3.3	3.4	3.0	2.6	3.0	2.6	2.1	2.3	3.1	2.5
Belgium	3.5	2.7	2.7	2.7	1.9	2.0	2.1	2.1	2.9	2.0
Greece	3.0	2.7	2.3	2.2	2.1	2.1	2.0	2.2	2.5	2.1
Portugal	2.3	2.1	2.0	2.0	2.1	2.2	2.2	2.1	2.1	2.2
Switzerland	0.4	0.4	0.6	0.8	0.9	0.9	1.0	0.9	0.5	0.9
Sweden	2.3	2.3	2.5	2.2	1.3	1.4	1.6	1.9	2.3	1.6
Bulgaria	3.9	4.9	5.1	5.2	3.1	2.7	2.8	2.9	4.8	2.9
Croatia	3.6	3.2	3.1	2.7	2.2	3.3	3.5	3.8	3.2	3.2
Czech Republic	2.7	2	2.5	2.7	2.4	2.4	2.3	2.3	2.6	2.4
Hungary	5.3	4.2	4.3	4.6	3.0	3.9	3.8	3.7	4.6	3.6
Poland	4.9	4.1	2.8	2.8	2.8	2.9	2.4	2.4	3.7	2.6
Romania	4.9	5.5	5.0	4.9	4.3	4.4	4.3	4.3	5.2	4.3
Turkey	38.1	35.9	30.5	29.0	24.5	20.7	19.7	18.5	34.1	21.3
Serbia	4.5	4.2	3.7	3.2	3.2	3.4	3.5	3.5	3.9	3.4
Azerbaijan	5.6	6.0	4.5	4.7	4.5	4.9	5.2	5.7	5.2	5.1
Kazakhstan	9.4	10.6	10.6	11.1	13.0	12.6	12.0	11.0	10.4	12.2
Russia	10.1	10.0	9.3	7.8	6.8	6.4	6.0	5.7	9.3	6.2
Ukraine	13.6	14.0	12.0	8.4	7.0	6.7	6.5	6.3	12.0	6.6
China	-0.1	0.0	0.0	0.2	1.1	0.8	0.8	1.8	0.0	1.1
India	4.9	4.7	3.8	3.5	4.9	4.9	4.7	4.4	4.6	4.7
Indonesia	2.1	2.0	2.1	2.2	2.2	2.2	2.2	2.2	2.1	2.2
Korea	2.1	2.3	2.2	2.2	1.4	1.4	1.6	2.0	2.2	1.6
Philippines	2.4	2.5	3.0	3.2	3.5	3.5	3.5	3.5	2.8	3.5
Singapore	2.2	2.0	1.8	1.8	2.3	2.4	2.4	2.4	2.0	2.4
Taiwan	2.2	2.1	2.0	1.9	1.4	1.5	1.4	1.5	2.0	1.5

*Quarterly forecasts are quarterly average; yearly forecasts are average over the year, HICP for Eurozone economies

Source: ING estimates

Oil and natural gas price forecasts (avg)

	2Q25F	3Q25F	4Q25F	1Q26F	2025F	2026F
Brent (\$/bbl)	68	70	66	65	70	68
Dutch TTF (EUR/MWh)	45	42	44	37	45	33

Source: ING estimates

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies). The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <https://www.ing.com>.