

## Trade war averted

Less uncertainty at the price of higher tariffs

### IN A NUTSHELL

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- The preliminary agreement defuses the transatlantic trade conflict and provides short-term planning security for companies on both sides
  - The U.S. will impose a 15% tariff on almost all European Union (EU) imports, including cars and semiconductors; in return, the EU will refrain from retaliatory measures and announce extensive investments and energy imports from the U.S.
  - Despite the positive signal it sends, the deal is likely to dampen gross domestic product (GDP) growth in the EU slightly and fuel inflation in the U.S., making interest rate cuts less likely.
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## Trade agreement between the US and the EU

Over the weekend, EU President Ursula von der Leyen and U.S. President Donald Trump reached an agreement that should settle the tariff dispute, at least for the time being. This is not a tariff agreement, but rather a preliminary agreement that leaves many details (and room for interpretation) open. However, the deal does significantly reduce uncertainty for European exporters and U.S. importers.

The key points are:

1. Tariffs of 15% will be imposed on almost all imports from the EU. This tariff rate is comprehensive and not additive, i.e., it will not be added to other existing tariffs, but will replace (almost) all other tariffs. This includes semiconductors and cars in particular. The latter were previously subject to tariffs of 27.5%.
2. Steel and aluminum imports will continue to be subject to a 50% tariff. However, there will be exemption quotas and possibly further improvements at a later date.
3. Tariffs will be completely waived for some products, such as aircraft parts, certain chemical and agricultural products, and critical raw materials.
4. Pharmaceutical products will also be subject to the 15% tariff, at least for the time being.
5. In addition, the European Union promises to purchase USD 750 billion worth of energy from the U.S. over the coming years, invest USD 600 billion in the U.S., and increase its orders for defense equipment from the U.S. However, details have not yet been confirmed.
6. The EU will refrain from retaliatory measures.

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## Market and political implications

Even though most of the details are still unclear, it can be said that the agreement is positive for Europe for now, as it removes a lot of uncertainty. The planned purchases of energy and defense products are likely to be declarations of intent rather than actual orders. After all, the EU member states are sovereign, and the EU cannot enter into purchase commitments on behalf of private-sector energy buyers.

However, this can only be seen as an improvement on the worst expectations, which U.S. President Donald Trump had continually raised in the run-up to the agreement. Before the trade war began, average tariffs were below 2%, so in this respect, tariffs have multiplied. The 15 percent rate agreed now is also higher than our previous assumption of an average tariff rate of around 12 percent on imports from the EU and is likely to dampen GDP growth in the eurozone somewhat. This applies in particular to Germany due to its high dependence on exports. However, the additional dampening effects should be in the order of one-tenth of a percentage point.

Together with the trade deal with Japan, tariffs in the U.S. are also likely to be slightly higher than we had previously expected. It will take some time for these high tariffs to be reflected in consumer prices in the U.S. Studies from the first trade conflict in 2018 to 2019 show that consumers ultimately paid most of the higher tariffs. We expect the inflation rate in the U.S. to rise in the coming months and therefore the focus of the US Federal Reserve (Fed) should further lie on the inflation. Against this backdrop, we expect the Fed to leave interest rates unchanged on Wednesday. The European Central Bank (ECB) set the bar very high for further interest rate cuts at its last press conference. As the agreement removes a major risk to the economy and inflation, making an interest rate cut in September very unlikely.

In our view, the deal should have the greatest impact on European stock markets in the short term. Since this trade agreement now prevents a further escalation in the trade war, the developments are generally positive. Nevertheless, the agreement of now 15% for most European exporters, represents a deterioration compared to the previous situation.

At the sector level, civil aviation appears to be the clear winner for now, as tariffs have been completely abolished in this area. European car manufacturers can now expect export tariffs of 15%, which is below the 27.5% originally feared. Finally, due to a lack of details, a certain degree of uncertainty remains for some sectors, such as pharmaceuticals and chemicals.

## Glossary

The [European Central Bank \(ECB\)](#) is the central bank for the Eurozone.

The [European Union \(EU\)](#) is a political and economic union of 27 member states located primarily in Europe.

The [gross domestic product \(GDP\)](#) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

[Inflation](#) is the rate at which the general level of prices for goods and services is rising and, subsequently, purchasing power is falling.

[Sovereign](#) means that each EU member state retains independent authority, especially in areas like economic decisions or energy procurement, and the EU as a collective body cannot impose binding purchase obligations on them.

A [tariff](#) is a tax imposed by one country on the goods and services imported from another country.

The [U.S. Federal Reserve](#), often referred to as "[the Fed](#)," is the central bank of the United States.

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