

Trump 2.0 : knowns and unknowns

In 2002, Donald Rumsfeld, the then US Secretary of Defence, articulated the concepts of known knowns, known unknowns and unknown unknowns, i.e. 1) what we know, 2) what we know we don't know and 3) what we don't know we don't know. Here we take stock at the start of the second Trump presidency in terms of knowns (immigration, budget, energy) and known unknowns (tariffs in particular).

The known knowns. Trump signed several decrees as soon as he was sworn in, thus offering the first known knowns:

- On immigration: closing the borders, denying birthright citizenship, stricter asylum and deportation procedures.
- On energy policy: withdrawal from the Paris climate agreement, halting of the Green New Deal and call to increase hydrocarbon production ('drill, baby drill').
- On budgetary policy: creation of the Department of Government Efficiency (entrusted to Elon Musk), freeze on federal hiring and first wave of civil servant redundancies. Congress will discuss a cut in corporation tax and the extension of the 2017 tax cuts.

The first measures (and the exit from the World Health Organisation) confirm the Trump administration's America First strategy. The measures on energy should reinforce the United States' largeshare in world oil production (and limit the rise in its price). They will also contribute to slowing down the global effort to combat global warming.

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Finally, by reducing migratory flows, measures on immigration could be a source of labour market tensions and hence inflation.

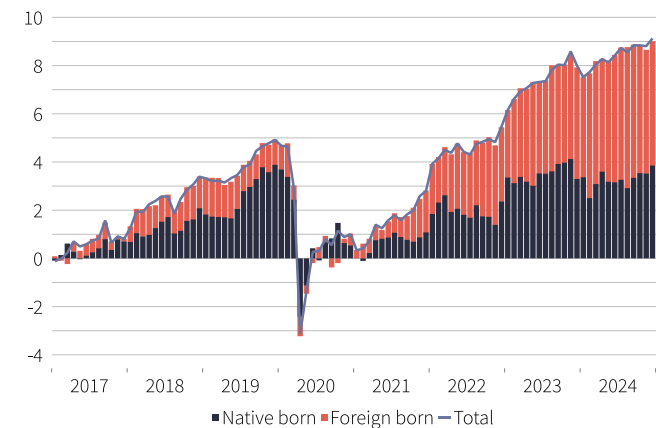
The Known unknowns. The extent of the impact of the measures on immigration is the first known unknown, linked to the uncertainties surrounding their implementation and possible intensification. What we do know, however, is that since 2017 (Trump's first term in office), more than 5 million immigrants have joined the labour force (in employment or unemployment), accounting for 55% of the increase in the labour force (chart 1). This helped the US economy to experience a strong performance, with robust growth and slower-inflation than its peers. As a result, these measures could jeopardise both the strong growth of the US economy and the disinflation process. The second major unknown lies in trade policy: Trump has announced his intention to impose tariffs on Canada and Mexico, and further tariffs on China and the European Union.

But it is difficult to know whether this is a negotiating tactic or the first step in a long list of protectionist measures. In fact, the gap between the level of tax rates on imports that would occur if all his campaign promises on tariffs are met and the current level is colossal (chart 2). At the same time, these measures appear inconsistent in some respects, with the risk of an appreciation of the dollar which would ultimately run counter to the desire to reduce the trade deficit. As a result, uncertainty about Trump's trade policy intentions remains.

Migration and trade policies have the potential to significantly alter the inflation profile in the United States, and hence the policy of the Federal Reserve. Since the start of the year, equity markets have continued to rise, particularly in the United States (+3.1%) and Europe (+4.6%), but bond markets have been jittery. Known unknowns have the potential to upset this unstable balance and keep financial markets volatile in the weeks ahead.

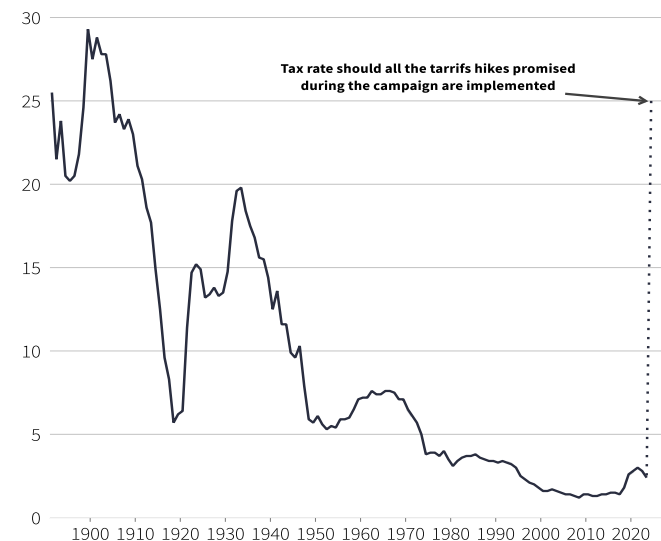
UNITED STATES: CUMULATIVE LABOR FORCE CHANGE

Since December 2017, millions



Sources: Société Générale Investment Solutions, Macrobond, BLS 12/2024

UNITED STATES: EFFECTIVE TAX RATE ON IMPORTS



Sources: Société Générale Investment Solutions, Macrobond, USITC 2024

OUR MACRO COMMENTS

Events of the week

Euro area: business surveys are generally weak but on an upward trend

The Composite PMI, a business climate index (weighted average of the manufacturing and services sectors) is back in expansion territory (first time since August 2024) at 50.2 after 49.6 last month, driven by the services sector.

In Germany, the manufacturing sector (around 30% of total GDP) is still below the 50 threshold but up at 44.1, while in France the services PMI slightly disappointed at 48.9.

It should be noted that the INSEE business survey also reports weak growth, being below the long-term average both in the services and the manufacturing sector.

Japan: Against the tide of other central banks, the BoJ raises rates by 25bp

As widely expected, the Bank of Japan (BoJ) raised its key rates to 0.50% - the highest since October 2008, justified by the improvement in the economy and inflation that surprised to the upside.

Indeed, inflation rebounded to 3.6% year-on-year from 2.9% in November, largely due to higher fresh food prices. Core inflation remained stable at 3% year-on-year (against a target of 2%).

In addition, the BoJ's projections of above potential growth have prompted its members to try to prevent a potential overheating of the economy.

THE WEEK IN DATA

Country	Data	Actual	Last	Forecast
United Kingdom	Unemployment rate November	4,40%	4,30%	4,30%
	Gfk Consumer confidence January	-22	-17	-23
Euro area	Composite PMI January	50,2	49,6	42,3
Allemagne	Manufacturing PMI January	44,1	42,5	42,3
	ZEW Economic sentiment index January	10,3	15,7	14
France	INSEE Business confidence January	95	97	96
Japan	BoJ monetary policy decision	0,50%	0,25%	0,50%

Source: Macrobond, January 24, 2025. The colors in the 'Actual' column correspond to the difference from the forecast

KEY EVENTS NEXT WEEK



Monday

Germany Ifo Business Climate January

Tuesday

United States Durable goods order MoM December
France INSEE Consumer Confidence January

Wednesday

Germany Gfk Consumer Confidence February
United States Fed Monetary policy decision

Thursday

Euro area ECB Monetary policy decision
France GDP growth Q4
Germany GDP growth Q4

Friday

France Inflation rate January
Germany Inflation rate January
United States Core PCE Price Index MoM January

MARKET PERFORMANCES

Interbank rates

%	22/01/2025	24/12/2024	24/10/2024	01/01/2024	24/01/2024
US SOFR	4.351	4.56	4.86	5.34	5.34
Euro area €ster	2.920	2.91	3.17	3.88	3.91
UK SONIA	4.700	4.70	4.95	5.19	5.19
Switzerland SARON	0.450	0.46	0.95	1.70	1.70
Japan TONAR	0.228	0.23	0.23	-0.04	-0.01

10Y Government rates

%	23/01/2025	24/12/2024	24/10/2024	01/01/2024	24/01/2024
US Treasuries	4.65	4.59	4.21	3.88	4.18
France OAT	3.29	3.15	2.96	2.55	2.83
Germany Bund	2.52	2.33	2.24	2.02	2.30
Italy BTP	3.64	3.49	3.37	3.70	3.89
Spain Bonos	3.17	3.02	2.93	2.98	3.25
Switzerland	0.41	0.28	0.48	0.66	0.91
UK Gilts	4.60	4.55	4.21	3.60	4.08
Japan JGB	1.20	1.05	0.97	0.62	0.63

Credit

%	23/01/2025	24/12/2024	24/10/2024	01/01/2024	24/01/2024
United States IG	5.38	5.35	5.08	5.06	5.28
United States HY	7.25	7.52	7.31	7.59	7.86
Europe IG	3.54	3.43	3.40	3.72	4.00
Europe HY	5.80	5.72	5.99	6.80	6.67
Emerging FX	6.40	6.40	6.25	6.77	7.02

Equity indices

23/01/2025 vs	-1w	-1m	-3m	01/01/2024	-1y
World	1.74	1.989	4.49	23.99	23.29
United States	2.01	1.687	6.08	29.17	27.40
Euro area	1.19	6.379	4.83	15.62	16.67
France	2.21	8.070	5.03	7.77	9.53
Germany	2.10	7.151	8.08	23.91	25.52
United Kingdom	0.62	4.669	3.29	13.72	17.44
Japan	2.72	1.112	4.60	19.00	10.72
Emerging	0.54	-0.264	-2.25	13.46	18.09
China USD	0.70	-3.264	-5.35	16.04	32.59
India USD	-0.61	-5.458	-8.06	8.95	7.16
Latin America USD	2.70	5.416	-7.65	-21.71	-15.89

Foreign exchange rates

	23/01/2025	24/12/2024	24/10/2024	01/01/2024	24/01/2024
EUR/USD	1.04	1.04	1.08	1.11	1.09
GBP/USD	1.23	1.25	1.30	1.27	1.28
EUR/CHF	0.95	0.94	0.94	0.93	0.94
USD/JPY	156.22	157.32	151.85	141.03	147.11
USD/CNY	7.29	7.30	7.12	7.08	7.08

Commodity prices

	23/01/2025	24/12/2024	24/10/2024	01/01/2024	24/01/2024
Brent, USD/BL	77	74	75	77	80
Copper, USD/Metric ton	9,056	8,848	9,413	8,476	8,460
Gold, USD/Troy oz	2,755	2,616	2,736	2,063	2,014
Silver, USD/Troy oz	30	29	34	24	23
Palladium, USD/Troy oz	998	924	1,135	1,136	971
Platinum, USD/Troy oz	952	938	1,035	1,000	911

Source: Bloomberg on 24 January 2025, 1W = 1 week change, 3M = 3 month change, 12M = 12 month change, YTD = year to date change, Equities; total return in local currency. Government bonds = 10 year returns. Figures are rounded.

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