

## The start of a trade war

*The United States acted on customs duties. While Donald Trump had been clear during his campaign about his desire for a protectionist policy, he surprised by the speed, scale and extent of the tariff increases. China, Canada and Mexico, as well as steel and aluminium have already been targeted and there are strong threats of an extension to European goods as early as April.*

**Protectionism: if the objectives are multiple, its effectiveness seems limited.** The U.S. government has announced different reasons to justify a protectionist trade policy: (i) reindustrialize its economy, (ii) reduce its dependence on China, (iii) reduce the federal budget deficit, and (iv) rebalance certain global imbalances. However, even a significant increase in tariffs is expected to have only a limited effect on its objectives.

Indeed, as far as the reindustrialization objectives are concerned, one of the first consequences of the increase in customs duties will be the increase in production costs for American companies integrated into the global value chains (automotive or aviation for example).

Moreover, examples of policies of reindustrialization through import substitution without stimulating exports (Latin American economies between the 1970s and 1990s) have not been successful.

As far as the improvement of the public accounts is concerned, the substitution of income and corporate taxation seems unrealistic given the respective amounts of these two categories of revenue.

**A mapping of trade between the United States and Europe.** The US trade deficit has deteriorated significantly since Covid. It is high in particular vis-à-vis China, the European Union, ASEAN, the developed economies of Asia and Mexico. It mainly concerns consumer goods, capital goods and automobiles. The United States, on the other hand, has a trade surplus in services.

The euro area, as a whole, has a trade surplus. It appears to be in deficit only vis-à-vis China. France has a moderate deficit, mainly due to energy. France's exposure to US tariff increases is limited at the aggregate level but could weaken sectors such as aviation, pharmaceuticals and agriculture.

**Risks to the upside on inflation and to the downside on growth.** The increase in customs duties already in place as well as the threats of extension to all European goods pose a risk to the world's major economies. In its latest note, the OECD assesses the impact of an increase in US tariffs on all its imports, with equivalent retaliatory measures from trading partner countries (see graphs showing the impact of a 10-point increase in customs duties).

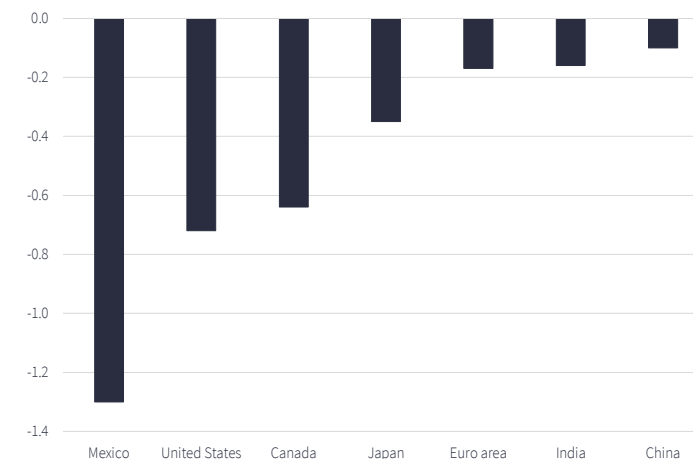
As for the US economy, the increase in customs duties would result in more inflation and less growth, playing a role equivalent to an increase in taxes on consumption.

For the rest of the world, Canada and Mexico would suffer a significant shock to their activity, given the importance for their economies of trade with the United States, with a real risk of recession in 2025.

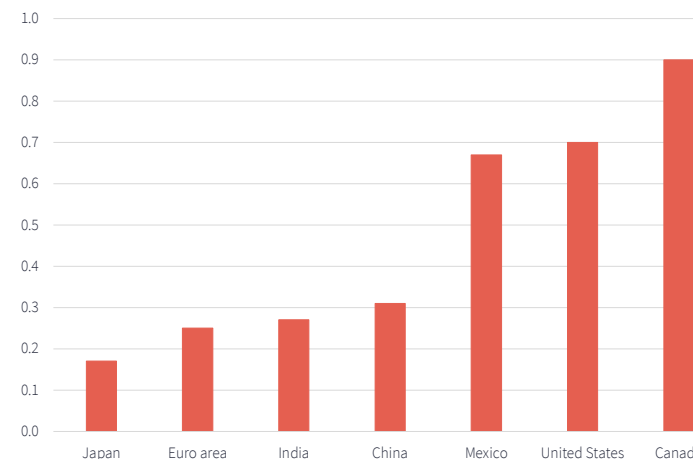
For the euro area, these measures should also have a negative effect on activity, but much more limited given the lesser weight of US trade for Europe.

For more information on the subject, you can refer to the [Strategy Focus](#).

**EFFECT OF A 10 POINT INCREASE IN US TARIFFS, WITH RECIPROcity, ON THE LEVEL OF GDP OVER 3 YEARS. Source: OECD**



**EFFECT OF A 10 POINT INCREASE IN US TARIFFS, WITH RECIPROcity, ON AVERAGE INFLATION OVER 3 YEARS. Source: OECD**



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# OUR MACRO COMMENTS

## Events of the week

### As expected, the Fed maintained the status quo...

The US Federal Reserve (Fed) kept its key rates unchanged at 4.25%-4.50% for the second time in a row, given the many uncertainties weighing on the US economy and inflation. These uncertainties have resulted in downside revisions to growth for 2025 (from 2.1% to 1.7%) and upside to inflation (2.5% to 2.8% year-on-year for the core PCE deflator), largely due to the Trump administration's trade policy.

Fed members continue to expect two rate cuts in 2025, compared to 3 for the markets – even though 8 out of 19 members now see only one at most. On the more accommodative side, the Fed has decided to reduce its quantitative tightening, with the Fed's Treasury portfolio now reduced by only USD 5 billion per month compared to USD 25 billion previously. In addition, Fed Governor Powell stressed that the Fed sees the impact of higher tariffs on inflation as temporary, thus appearing more worried about growth.

We continue to expect only one rate cut in 2025, as we believe the fundamentals of the US economy are strong enough to avoid a recession.

### ...as did most other major central banks

As widely expected, the Bank of England and the Bank of Japan also kept their key rates unchanged (at 4.5% and 0.5% respectively), both citing (geo-)political uncertainties.

Regarding the Bank of England (BoE), only one member voted in favour of a 25 basis points (bp) rate cut, compared to a unanimous vote for a 25bps cut last month (including 2 members in favour of -50bps). The BoE stressed that the risks to the inflation outlook are symmetrical, prompting it to pursue a "gradual and cautious approach" to its easing cycle. We continue to anticipate up to 3 rate cuts in 2025.

As for the Bank of Japan (BoJ), the status quo is largely explained by the potential impact of US trade policy on the Japanese economy. Nevertheless, the BoJ points to pay rises as per the latest wage negotiation round, which may push inflation higher and prompt further rate hikes in 2025.

The Swiss National Bank (SNB) cut rates by 25 basis points to 0.25%, in line with expectations, due to the appreciation of the Swiss franc and the low level of inflation (0.2% year-on-year in February). Nevertheless, the SNB mentioned that, given the level of interest rates and global uncertainties, the probability of further cuts had decreased.

### EVENTS OVER THE NEXT FEW MONTHS

2 April: Planned effective date of US tariffs against EU products

17 April: ECB monetary policy meeting

7 May: Fed monetary policy meeting

8 May: BoE monetary policy meeting

### KEY EVENTS NEXT WEEK



#### Monday

**Euro area** PMI business survey (March)

#### Tuesday

**United States** Consumer confidence (March)

**Germany** IFO Business survey (March)

#### Wednesday

**United States** Durable goods orders (February)

**United Kingdom** Inflation (February)

#### Thursday

**United States** Trade balance (February)

**Euro area** M3 Money supply (February)

#### Friday

**United States** Core PCE deflator (February)

**Euro area** Commission business survey (March)

**France** Inflation (March)

**Germany** Unemployment rate (March)

# MARKET PERFORMANCES

## Interbank rates

%	19/03/2025	21/02/2025	20/12/2024	01/01/2024	21/03/2024
US SOFR	4.344	4.35	4.60	5.34	5.32
Euro area €ster	2.416	2.67	2.92	3.88	3.91
UK SONIA	4.456	4.45	4.70	5.19	5.19
Switzerland SARON	0.434	0.44	0.45	1.70	1.69
Japan TONAR	0.477	0.48	0.23	-0.04	0.07

## 10Y Government rates

%	20/03/2025	21/02/2025	20/12/2024	01/01/2024	21/03/2024
US Treasuries	4.24	4.42	4.52	3.88	4.27
France OAT	3.47	3.17	3.08	2.55	2.84
Germany Bund	2.78	2.46	2.28	2.02	2.40
Italy BTP	3.84	3.55	3.45	3.70	3.67
Spain Bonos	3.43	3.13	2.98	2.98	3.21
Switzerland	0.65	0.58	0.28	0.66	0.68
UK Gilts	4.66	4.57	4.51	3.60	3.98
Japan JGB	1.48	1.43	1.07	0.62	0.72

## Credit

%	20/03/2025	21/02/2025	20/12/2024	01/01/2024	21/03/2024
United States IG	5.13	5.22	5.32	5.06	5.34
United States HY	7.50	7.23	7.50	7.59	7.65
Europe IG	3.58	3.36	3.40	3.72	3.90
Europe HY	5.79	5.44	5.67	6.80	6.65
Emerging FX	6.19	6.22	6.38	6.77	6.82

## Equity indices

20/03/2025 vs	-1w	-1m	-3m	01/01/2024	-1y
World	0.97	-3.699	-1.32	19.03	10.93
United States	0.57	-5.870	-5.20	19.14	10.27
Euro area	0.85	1.003	12.63	22.21	13.51
France	0.76	-0.339	11.37	10.89	3.16
Germany	0.24	3.041	15.60	33.68	26.47
United Kingdom	0.82	0.921	7.52	16.28	15.20
Japan	2.90	1.935	2.49	20.60	3.74
Emerging	1.89	-0.294	4.81	18.88	15.86
China USD	0.67	2.425	20.74	43.35	46.22
India USD	5.34	2.206	-7.73	6.43	4.38
Latin America USD	1.76	2.902	14.93	-14.55	-9.47

## Foreign exchange rates

	20/03/2025	21/02/2025	20/12/2024	01/01/2024	21/03/2024
EUR/USD	1.08	1.05	1.04	1.11	1.09
GBP/USD	1.30	1.26	1.25	1.27	1.28
EUR/CHF	0.96	0.94	0.93	0.93	0.98
USD/JPY	148.92	149.60	156.58	141.03	151.61
USD/CNY	7.23	7.25	7.30	7.08	7.20

## Commodity prices

	20/03/2025	21/02/2025	20/12/2024	01/01/2024	21/03/2024
Brent, USD/BL	72	74	73	77	85
Copper, USD/Metric ton	9,912	9,494	8,793	8,476	8,874
Gold, USD/Troy oz	3,045	2,936	2,623	2,063	2,181
Silver, USD/Troy oz	33	33	29	24	25
Palladium, USD/Troy oz	947	978	921	1,136	1,009
Platinum, USD/Troy oz	989	976	930	1,000	910

Source: Bloomberg on 21 March 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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