Extra update

Energy
Research
Strategy

Monday 7 April 2025

The trade war is really taking off

- **U.S. import tariffs lead to downward revision of economic outlook;**
- **With the likely negative impact on the US economy and possible higher inflation expectations, the dollar is back to summer 2024 levels;**
- **As a result of the negative sentiment, oil prices fell more than 15%;**
- **Gas prices are also under pressure, although expected purchases to fill gas inventories provide a floor.**

Import tariffs in summary

April 2, 2025 will go down in the books as the moment U.S. President Donald Trump launched the global trade war. Having previously introduced a 25% import tariff on steel and aluminium, and confronted Mexico and Canada with high tariffs, it was now the rest of the world's turn.

All imports of goods are subject to a 10% import tariff as of today. In addition, there is a list of countries that, according to the Trump administration, have unfairly high tariffs against the US. Therefore, imports from those countries will be taxed with a levy of more than 10%. This levy varies from country to country. Here, the EU is considered a bloc.

According to the Trump administration, Europe "levies" an import tariff of about 39% on imports of American goods. This leads to a US import tariff of 20% for Europe, a "mild measure" according to Trump.

Import tariffs for cars and parts.

In addition to the "standard" import tariffs, the import of cars and auto parts are subject to a general duty of 25% for all countries. There is a long list of auto parts covered by these measures. For complete cars, the levy took effect April 3. The tariffs on auto parts will take effect no later than May 3.

In addition to import tariffs, an aid measure was announced that actually encourages the purchase of American cars. Buyers will be allowed to deduct the interest on financing for these cars for tax purposes.

What stands out?

The calculation method for these import tariffs is childishly simple and relates only to trade flows of goods between two countries. In doing so, it does no justice to the trade of services (which is precisely where the U.S. is dominant) and to indirect trade. Many US products go to Europe via Canada and Mexico, for example. These are not included.

Another striking point is that it does not look at the actual import tariffs that Europe, for example, levies on imports from the US (about 5%), but rather at the net value of trade flows. This lumps together other considerations for not importing products from the US with import tariffs. Consider the stricter regulations in Europe around the consumption of genetically modified food, which prevents us from importing beef and chicken from the US.

The theoretical underpinnings

The rationale behind imposing import tariffs is a theoretical stimulation of one's economy. The underlying reason Trump and his team see for justifying these import tariffs is what they see as the lopsided trade balance between the US and the countries concerned.

By increasing taxes on imports of goods from abroad, the alternative of national production ("US First") becomes more attractive. In theory, in the long run, this stimulates national production of goods and creates jobs. However, the question is whether this will work out in practice and what the additional consequences will be.

The actual economic effects

The short-term economic impact of such import tariffs for Americans is primarily seen in higher costs of products the U.S. imports. An increase in domestic production of these goods will not take off easily. The reason some products are imported has to do with the fact that they can be made cheaper and/or more efficiently elsewhere in the world.

The increased cost of import taxes will inevitably lead to an increase in inflation. In addition, an increase in inflation will be fought by the U.S. central bank - the Federal Reserve (Fed) - with interest rate hikes. Interest rate hikes will discourage investment and thus are an additional brake on economic growth. In doing so, they run counter to Trump's desire for interest rate cuts in favor of economic growth and increased investment.

In addition, the question is whether Trump's desired investments in the US will take off on a large scale. There will certainly be companies that already have large interests in the U.S., or see substantial growth opportunities there. But there will also be companies whose market was already not that big, or whose growth was already under pressure. In addition, many European companies were looking to the U.S. for investment, especially after the introduction of the Inflation Reduction Act (IRA). This law made investment attractive due to the combination of less regulation (relative to Europe) and high subsidies

At the same time, this major reversal around trade tariffs is actually putting pressure on the investment climate in the US. Whereas companies were slowly drifting away from Europe due to fickle policies, the U.S. now seems increasingly guilty of the same. Therefore, it may actually lead to additional reticence among several companies, partly because the decisiveness of the Trump administration may be limited to the mid-term elections in just under two years.

Dollar weakens

Since Trump's election, the US dollar had strengthened considerably. The reason for this was that the market expected that the economic policy pursued, including import tariffs, would cause interest rates in the US to fall less quickly than in Europe, for example. In economically ailing Europe, on the other hand, the European Central Bank (ECB) would lower interest rates more quickly to stimulate economic growth.

Dollar is back to 'off'

EUR/USD

Source: LSEG Eikon

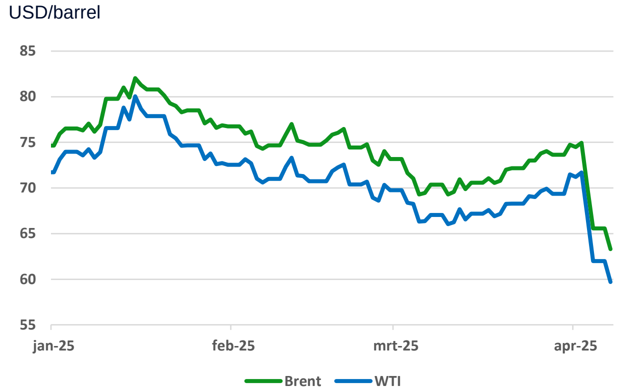
The financial markets thus ignored Trump's call to the FED to lower interest rates more quickly. A justified reaction, given that the central bank has an independent position and a mandate to fight inflation. The FED's policy should therefore be politically independent. FED chair Powell has also indicated that he will not be heeding Trump's call.

After the announcement of the tariffs against Mexico and Canada, the dollar weakened considerably. After the announcement of the broader import tariffs, the dollar weakened even further, returning to the level of the summer of 2024 (before Trump's election victory). The main reason for this is that Trump's economic policy has so far been particularly destructive, and the US itself seems to be the main victim of this. The current policy uncertainty in the US is also doing the dollar's reputation as a safe haven in troubled times no favours, accelerating the decline.

Oil market falls sharply after one-two punch between Trump and OPEC+

The expected negative impact of trade tariffs on economic growth translates to energy markets. In the oil market, macroeconomic indicators are important because oil demand is directly related to the level of economic activity. As a result, oil prices shot down in the days following Trump's announcement. The backlash from China, with an increase in import tariffs on goods from the U.S., led to another wave of negative news and thus pressure on oil prices.

Oil price falls nearly USD 10/barrel



Source: LSEG Eikon

Although the price drop is largely related to import tariffs, the OPEC+ decision of April 3 also plays a role. It had been known for some time that the voluntary production cuts totalling 2.2 million barrels per day (mb/d) were going to be phased out monthly starting April 1. However, OPEC+ caused a surprise by increasing the phase-out in the month of May to 411 thousand barrels per day (kb/d), instead of the previously announced 135 kb/d. As a result, oil prices fell to USD 65/barrel late last week. A move that continued early this week so that Brent is now trading around USD 63/barrel and WTI around USD 59.50/barrel.

OPEC+'s official press release cited continued healthy market fundamentals and a positive market outlook as reasons for the accelerated unwinding. This is probably not the (only) reason, especially in light of Trump's import tariffs announced the day before. The market outlook for oil is currently far from positive.

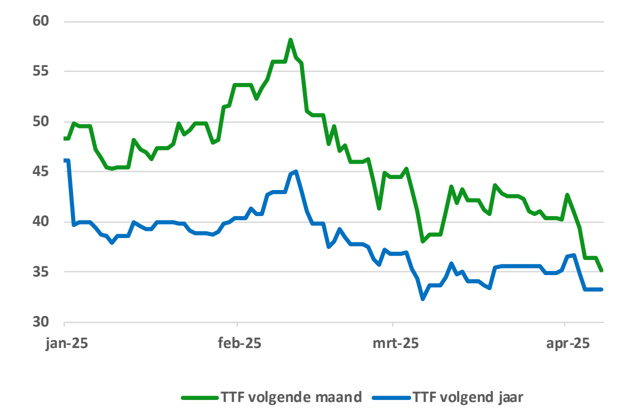
For this reason, OPEC+'s decision cannot be separated from the policies of the Trump administration. For example, Trump called on the oil cartel at the beginning of his second term to ensure lower prices. In addition, the accelerated phasing out of production cuts gives Trump the opportunity to tighten the sanctions on Iran and Venezuela even more, without pushing the oil price up too far in the process. Russia, together with Saudi Arabia, will also account for a large part of the additional production. Two countries to which Trump is explicitly seeking rapprochement and which, in Russia's case, did not have to deal with import tariffs either.

Gas price is also under

The gas price has reacted strongly to the announced import tariffs. Whereas a closing price for the active monthly contract of nearly EUR 43/MWh was still quoted on April 1, it is currently around EUR 35/MWh. This drop is again significantly related to (expected) reduced economic activity.

Gas price drops by nearly EUR 8/MWh

USD/barrel



Source: LSEG Eikon

Here it is notable that the decline in the gas market is not as sharp as in the oil market. This is largely due to the context in which the import tariffs were announced. Whereas the oil market has been dealing with an oversupply for quite some time and OPEC+ policy is contributing to this, this situation is different on the gas market.

Despite the expected economic impact of the levies, the filling of low gas reserves hangs over the market. This is the main reason why, despite recent profit-taking, a good number of speculators are still "long" on the gas market. They are speculating on price increases due to expectations of gas demand in the coming months. This translates into a fundamental bottom in the price, which works against the price effect of import duties.

Following in the footsteps of the gas price, the EU ETS price also continued its decline. Reduced economic activity in Europe, which for a multitude of reasons had been causing downward pressure on the ETS price for some time, is also the culprit here. Less economic activity leads to less CO2 emissions and thus pressure on the demand for allowances.

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