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Economic Briefing

Trump tariffs: back and forth

10 April 2025

Bernd Weidensteiner [AC]

Dr. Christoph Balz [AC]

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Yesterday, President Trump paused some of his tariffs. The rate of 10% will apply for 90 days for the "reciprocal" tariffs, rather than the higher country-specific rates. This would have been 20% for the EU, for example. For China, however, an increased rate of 125% applies. Trump's backtracking shows that he is obviously not completely unimpressed by the financial market turbulence. This reduces the risk of a US recession, even if it is unclear exactly what will happen in three months' time.

Trump backtracks…

Donald Trump was obviously impressed by the extreme market movements triggered by his aggressive tariff policy; after all, the US stock market had plunged by around 15% in a few days (as measured by the S&P 500), and the ten-year yield rose by 50 basis points. Trump therefore announced a 90-day pause for the "reciprocal" tariffs yesterday. During this period, these are set uniformly to 10%. However, the sectoral tariffs of 25% will continue to apply to autos, auto parts, aluminum and steel. Financial markets have reacted euphorically to Trump's announcement, with US stock indices rising 10-12% ("What a day," to quote Trump).

Higher reciprocal rates (e.g. 20% for the EU and 46% for Vietnam) had been planned for countries with which the US has a trade deficit. Donald Trump cited the fact that 75 countries had already approached the US to negotiate a solution to trade issues. He particularly emphasized that these countries had so far refrained from countermeasures.

However, different rules apply to China: tariffs on Chinese goods will be increased to 125% with immediate effect. This is a consequence of the "lack of respect" that China shows towards world markets, according to Mr. Trump. Trump hopes that China will soon come to its senses and reach out to the US. So far, however, China has shown little willingness to give in to American pressure; after all, it does not want to lose its face. Whether a quick agreement can be reached here is therefore at least uncertain. However, it is also clear that a longer-lasting US tariff of 125% on Chinese imports or of 84% on Chinese imports from the US would cause bilateral trade to collapse completely. This would be too costly for both sides, which is why we expect tariffs to be reduced in the medium term.

…which reduces tail risks

Obviously, the US administration is not entirely unimpressed by the impact of its policies on financial markets and the sentiment of consumers and businesses. In itself, this reduces the risk of recession.

Donald Trump and his staff are trying to sell the whole back-and-forth in trade policy as part of a well-thought-out negotiation strategy ("Art of the International Deal"). While this seems to us to be a very rosy view, it does at least confirm our long-held view that Trump will start with a tough measure to force his negotiating partners to make concessions. If these are then offered, relief is possible again.

Volatile policy has costs

The high level of uncertainty caused by the back and forth of tariff policy has significant costs. After all, companies have no reliable basis for investment planning; the natural reaction of companies is then to postpone investments for the time being. Firms that rely on supplies from abroad face a completely unclear cost situation, since their supplies can rise sharply overnight due to the sudden imposition of new tariffs. This increases the economic headwind.

Constant and sometimes extreme changes in US trade policy also make the work of forecasters more difficult. However, since the most extreme economic risks do not seem to materialize, we see no reason to revise our forecast significantly. We will present our updated forecasts tomorrow.

Analysts

Bernd Weidensteiner AC
Senior Economist
+49 69 9353 45625
bernd.weidensteiner@commerzbank.com

Dr. Christoph Balz AC
Senior Economist
+49 69 9353 45592
christoph.balz@commerzbank.com

This report was completed 10/4/2025 09:05 CEST and disseminated 10/4/2025 09:05 CEST.

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Commerzbank Offices

Frankfurt	**London**	**New York**	**Singapore**
Commerzbank AG	Commerzbank AG	Commerz Markets LLC	Commerzbank AG
DLZ - Gebäude 2, Händlerhaus	PO BOX 52715	225 Liberty Street, 32nd floor,	128 Beach Road
Mainzer Landstraße 153	30 Gresham Street	New York,	#17-01 Guoco Midtown
60327 Frankfurt	London, EC2P 2XY	NY 10281-1050	Singapore 189773
Tel: + 49 69 136 21200	Tel: + 44 207 623 8000	Tel: + 1 212 703 4000	Tel: +65 631 10000