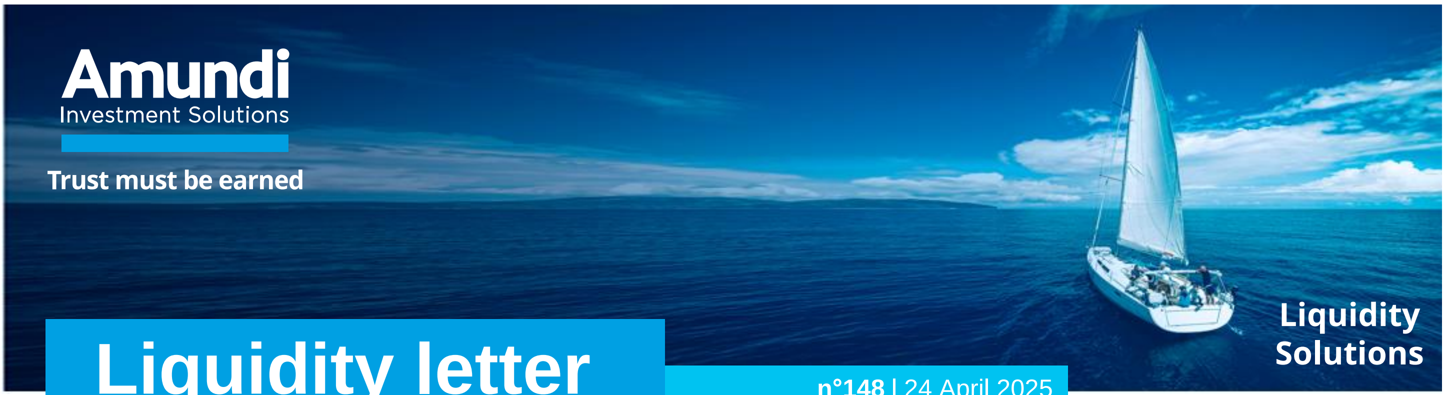


Liquidity letter

n°148 | 24 April 2025

Trade war: in uncharted territory

Tariffs at unprecedented levels

The escalation of the trade war between the United States and China has reached a critical point, and threatens to severely disrupt global trade.

After Donald Trump announced widespread tariffs on April 2, China retaliated with similar measures. In one week, both countries imposed additional tariffs of 145% on each other's imports. Affected products include Chinese manufactured goods, such as clothing and toys, as well as U.S. exports such as agricultural products and high-tech equipment.

Donald Trump has always maintained that the short-term cost of tariffs is very small compared to the long-term benefits. He sees them as a tool to finance tax cuts, to reduce the US trade deficit and to attract foreign capital to relocate manufacturing production. Thus, breaking trade relations with a surplus economy such as China is fully in line with this logic.

The risk of a collapse in trade between the United States and the rest of the world is not a matter of concern for Donald Trump, since he believes that world trade has always benefited the United States.

Growth projections by region (April 2025)

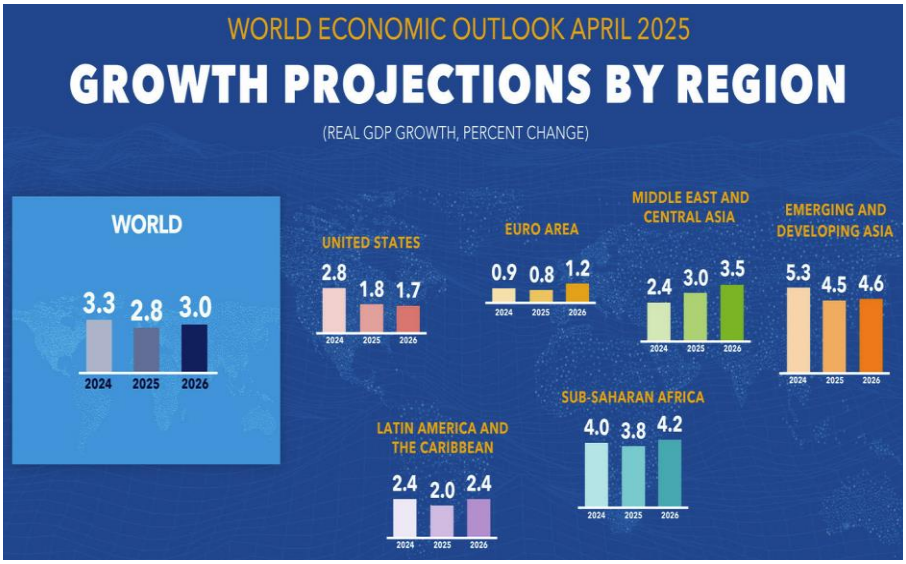


Figure of the week

50,1

Euro zone S&P Composite PMI (April)

United States faces a risk recession

Trump's tariffs and retaliatory measures by other countries are likely to weigh heavily on the global economy, according to the IMF.

In its report, the institution was cautious, due to the *"complexity and fluidity of the present moment".* The IMF said it had taken into account changes in tariffs until April 4, but not necessarily all retaliatory measures between Beijing and Washington. Its economists expect global growth to reach 2.8% this year, a value revised down by 0.5 points from its previous estimate in January.

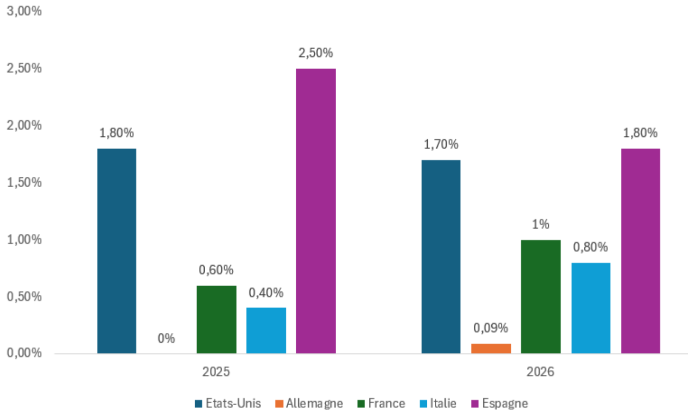
For the time being, the global economy is expected to avoid recession, but the risk has risen sharply for the United States in particular, as the impact of tariffs will be negatively felt on their growth this year, revised to 1.8% in 2025 against 2.7% expected.

Source: IMF

Storm in sight for the global economy

China, which has been particularly targeted by tariffs since they were raised to 145%, could see its weakest growth since 1990, with just 4%. Japan, another major partner of the United States, has seen its forecast cut by 0.5 points, to reach 0.6% growth this year.
The shock is expected to be less pronounced for the euro zone, however, with an average downward revision of 0.3 points, which would lead Germany to another year without growth, before a recovery now postponed to 2026.
As for France, growth is now expected at 0.6% this year, a weaker forecast than that of the Banque de France or the government (0.7%). Only Spain, which has experienced the best growth in the zone over the past two years, has seen its forecast revised upwards, to 2.5%.

IMF growth forecasts

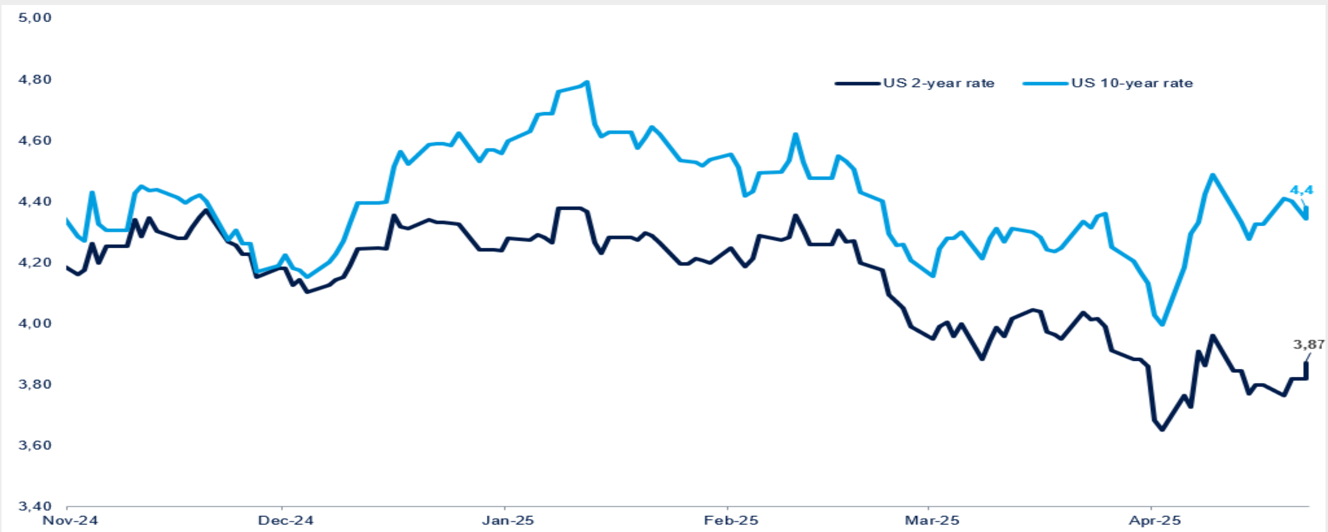


Source: Amundi, IMF

> *There is currently no inflationary risk in Europe, and we can now almost say "mission accomplished"*
>
> *François Villeroy de Galhau, Governor of the Banque de France, 23/04/2025*

Market Impact

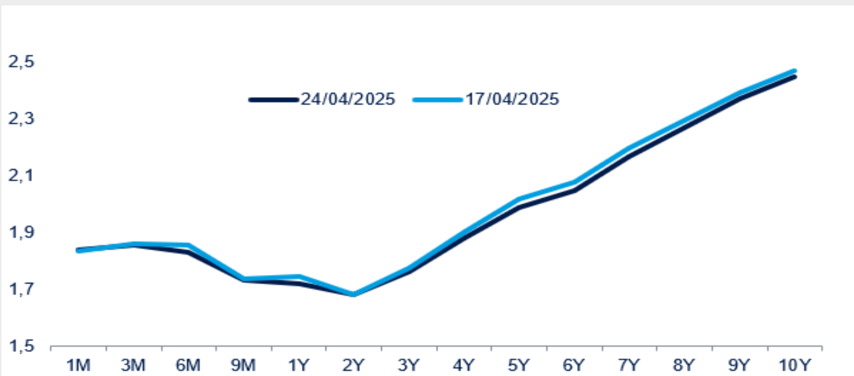
US sovereign rates (%)



US sovereign yields experienced a lot of volatility in April following several statements by Donald Trump on tariffs and criticism of the Fed chairman this week.

Source: Amundi, Bloomberg

German yield curve (%)



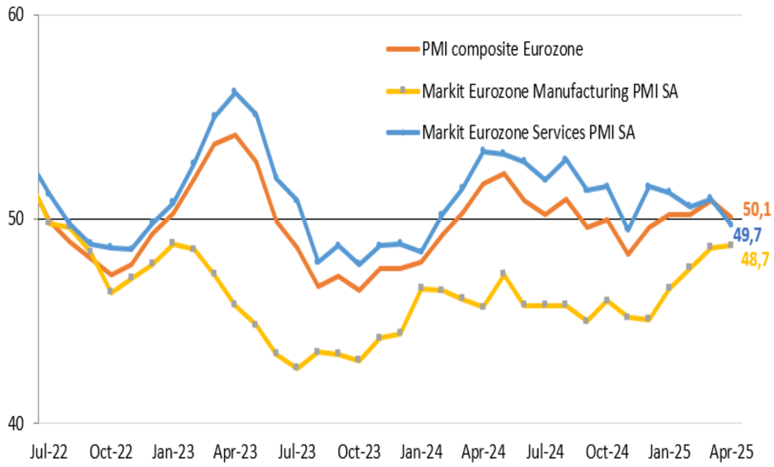
The steepening of the curve is more marked from the 2-year maturity.

Source: Amundi, Bloomberg

Euro zone: economic uncertainty

Once the engine of growth in the euro zone, the services sector recorded a slight decline in its activities in April, due to a fall in business confidence in an increasingly uncertain economic context. For example, the services PMI fell to 49.7 this month, from 51 in March. This is its lowest level in five months.
In addition, activity in the manufacturing sector, which has been in sharp decline for many months, is still on the rise. The manufacturing PMI rose to 48.7 from 48.6 in April.
As a result, the composite PMI, which combines data from the manufacturing and services sectors, fell to 50.1 in April. This is just above the 50 mark, which separates growth from contraction in activity.
Nevertheless, we can note good news: inflationary pressures eased in April in the private sector. Prices recorded their smallest increase since last November. But above all, the rise in prices charged fell to its lowest level in five months, fuelling speculation that the ECB would cut rates again in June.

Economic activity almost stagnated in Euro zone in April



Source: Amundi, Bloomberg

News

France | S&P Composite PMI 47.3 (April)

Germany | S&P Composite PMI 49.7 (April)

Agenda

29 April | Publication of the inflation rate in Spain (April)

30 April | Publication of the inflation rate in France, Germany, Italy, Portugal (April)

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