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## TRUMP MEETS JUNCKER: THE NEXT STEP IN THE TRADE WAR SAGA

### Berenberg Macro Flash

Following a modest slowdown in Eurozone growth under the impact of trade war threats and higher oil prices, the outlook depends crucially on one question: Will US President Donald Trump start a genuine trade war with the European Union by imposing tariffs on car imports – or will he seek to resolve EU-US tensions in negotiations without resorting to such punitive tariffs instead? Today's meeting between Trump and European Commission President Jean-Claude Juncker and European Trade Commissioner Cecilia Malmström may offer further clues on the potential outcome of the trade war saga.

Not for the first time, Trump is sending out mixed messages. After calling tariffs “the greatest”, he reiterated in a separate tweet a proposal to “drop all tariffs, barriers and subsidies” between the US and the EU yesterday. The EU response to that probably comes with a wry smile: after all, Trump himself had abandoned the TTIP talks with the EU upon taking office. These talks had yielded a near-agreement that came as close as possible in real life to abolishing tariffs and many non-tariff barriers to trade between the US and the EU, the two biggest economies in the world. The EU has not stood in the way of liberalising transatlantic trade significantly in the last 18 months.

#### **We expect Juncker and Malmström to convey three messages to Trump today:**

- 1) The EU is ready to strike a deal with the US. The deal could be modest (cars and a few other sectors only) or ambitious in scope (many sectors, and/or perhaps more countries beyond the US and the EU). But in a deal both sides must make concessions. If the US wants the EU to abolish its current tariffs on cars, the US would also have to do away with some of its own trade barriers.
- 2) The EU is ready to work with the US to strengthen the rules governing global trade, preferably within the framework of the World Trade Organization (WTO), so that the rules can better deal with discriminatory Chinese practices.
- 3) If Trump imposes new US car tariffs, the EU would retaliate in kind. That Trump now sees a need for a \$12bn support package for US farmers hit i.a. by Chinese retaliation against new US import tariffs exemplifies how a trade war would hurt all sides including the US.

Some top US officials apparently want to defuse tensions between the EU and the US and reform the WTO to jointly put more pressure on China to change some of its practices. However, Trump himself seems to have rejected such an idea when the European side first raised it back in spring. Expectations what today's meeting may yield are low. We may get some friendly words first followed by potentially less friendly tweets. The best result we can probably hope for is that the US and the EU engage in serious and more detailed negotiations afterwards.

**Our base case** remains that **Trump may step up his threats to impose car tariffs – but that he will not actually implement them.** Instead, he will either strike a deal ahead of the US mid-term elections on 6 November or at least engage in lengthy negotiations during which the threat remains on hold. If so, Eurozone business confidence and growth could probably rebound to rates around 2% from Q4 2018 onwards. The risk to that call is obvious: if Trump starts a trade war with the big EU by resorting to punitive tariffs on car imports, the economic and financial outlook would be more clouded.



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