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## **JUNCKER-TRUMP: A STEP AWAY FROM THE BRINK**

### Berenberg Macro Flash

It is not really a deal yet. But it is a step away from the brink. With luck, it could even turn into a game changer. The agreement which European Commission President Jean-Claude Juncker and US President Donald Trump struck late yesterday reduces the risk of a trade war between the two economic giants of the world for the time being. While the US and the EU engage in serious talks to settle their various trade disputes, the US will not impose punitive tariffs on car imports from the EU during these negotiations according to Juncker. The threat of a trade war had been weighing heavily on Eurozone business confidence since March.

The US-EU agreement to talk rather than to slug it out in a tit-for-tat escalation of trade barriers strengthens our base case: despite all the noise, the US will not levy new tariffs on car imports from the EU in the end. Instead, the trade tensions stoked by Trump will ease somewhat as the two sides either strike a deal fast (25% probability) or at least engage in serious negotiations (55% probability). If so, Eurozone business confidence can recover this autumn. This should allow the Eurozone to overcome its current soft patch with a return to annualised growth rates of around 2% from Q4 2018 onwards.

According to Juncker, he and Trump agreed that the US and the EU should strive in their negotiations to

- remove mutual tariffs on industrial goods,
- reform the World Trade Organization (WTO), and
- intensify trade in services.

While the EU pledged to import more soybeans and liquefied natural gas from the US, the US will re-assess the tariffs it has already imposed on steel and aluminium imports from the EU. The EU would then lift its retaliatory measures.

Trump is not exactly known for consistency. The upcoming negotiations could still founder. A serious risk of a disruptive trade war between the US and the EU, which both account for almost a quarter of global GDP each, thus remains. However, the trade war threat (20% probability) now looms less large for the time being. The opposition in US Congress against punitive tariffs on car imports as well as the US discussion about the damage to the US from retaliation of trading partners (Chinese tariffs on soybean imports from the US, EU tariffs on whiskey, jeans and motorcycles) may have registered even with Trump in the end.

Any potential deal between the US and the EU will probably fall far short of the almost ready TTIP agreement between the two sides which Trump had abandoned upon taking office. Nonetheless, relative to the grave uncertainty that has reigned recently, a US-EU deal would mark significant progress. In the end, joining forces to reform the rules of the WTO could be the most important step. It would strengthen the rulebook that facilitates global trade and mark a turn away from the bilateralism pursued by Trump so far. New rules for the WTO would likely make it more difficult for China to get away with its current discriminatory practices. If Trump does indeed take up the long-standing EU offer to jointly deal with China mostly through the WTO, the global trade system may even benefit in the long run. Serious doubts remain. But for once, the news from Washington is not bad.



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