



BERENBERG

PARTNERSHIP SINCE 1590

MACRO NEWS

18/02/19

Holger Schmieding, Chief Economist | Holger.schmieding@berenberg.com | +44 20 3207 7889

US-EU TRADE: UPPING THE ANTE?

Berenberg Macro Flash

Is the US about to up the ante? Yesterday, the US Department of Commerce submitted its auto tariff probe report to US President Donald. It is likely that the report will conclude that car and car part imports from the EU “threaten the national security” of the US. If so, Trump now has 90 days to decide whether to levy the oft-mooted punitive tariffs of, perhaps, 25% on such car imports. Such tariffs, to which the EU would respond in kind, would be a massive escalation of the trade tensions between the two biggest economic powers of the world. They could severely damage economic growth on both sides of the Atlantic. On balance, we maintain our view that the US and EU will find a compromise on trade and avert such a calamity. For Trump, increasing the pressure with such threats seems to be part of his usual hardball negotiating tactics.

Unlike the US-Chinese issues, the US-EU talks are not complicated by a geostrategic rivalry. In the US, political support for a trade war against the EU is much weaker than for one with China. Even the US car industry opposes tariffs on car and car part imports as they would disrupt their own cross-border supply chains. Still, the talks are not easy. The EU wants to strike tariff-cutting deals on industrial goods (“we abolish our car tariffs, you abolish your SUV tariffs.”). However, the US is also seeking enhanced access to the EU agricultural market. On this issue, the political room for the EU to yield to US demands is very limited. Still facing some “yellow vest” protests, French President Emmanuel Macron will not accept significant changes to EU agricultural policies that could further nurture unrest in rural regions. Similarly, lowering EU standards for foodstuffs would be so unpopular in major parts of the EU that it could put governments at risk, including German Chancellor Merkel’s CDU/CSU-SPD coalition.

The exchange of goods and services between the US and the EU is the biggest bilateral trade flow in the world, ahead of US-China trade, with US exports to and imports from the EU estimated at \$570bn and \$670bn, respectively, in 2018. Depending on the statistical treatment of profit and royalty flows from some EU countries to the US, the US either runs a small current account surplus or a small deficit with the EU. In commercial terms, the EU could hit back at the US much harder than China could. The EU probably has a good idea which sectors may be politically sensitive in the US in the run-up to the 2020 election season. As both sides have too much to lose from an escalating conflict, we expect the US and EU to defuse tensions in the end. But it will get noisy first.

This message has been produced for information purposes for institutional investors or market professionals, it is not a financial analysis within the meaning of § 34b or § 31 of the German Securities Trading Act (Wertpapierhandelsgesetz), no investment advice or recommendation to buy financial instruments. The message does not claim completeness regarding the information on the developments referred to in it. On no account should it be regarded as a substitute for the recipient’s procuring information for himself or exercising his own judgements. The message may include certain descriptions, statements, estimates, and conclusions underlining potential development based on assumptions, which may turn out to be incorrect. Berenberg and/or its employees accept no liability whatsoever for any direct or consequential loss or damages of any kind arising out of the use of this message or any part of its content. -- For full economics reports please visit our website or contact capitalmarkets@berenberg.de.

Joh. Berenberg, Gossler & Co.
KG
60 Threadneedle Street
London EC2R 8HP
Phone +44 20 3207 7889
www.berenberg.com
holger.schmieding@berenberg.com