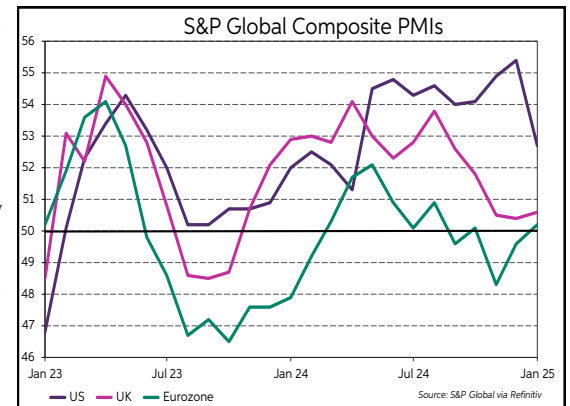


Trump expands trade war beyond tariffs

- Amidst the flurry of executive orders and the omnipresence of President Trump across the media, it has been challenging to decipher clear trade policy signals from the noise of the first month of the administration.** However, in terms of the geo-economic implications of Trump 2.0, it is clear that tariffs will be a key feature and leverage point in the US relationship with its main trading partners.
- To recap, despite numerous announcements, Trump has implemented just two key tariff policies thus far – a 10% additional tariff on Chinese goods, and a 25% universal tariff on steel and aluminium imports.** The later predominately impacts large trading partners of Mexico and Canada, as well as other partners in Brazil and Germany. Universal tariffs on Mexico and Canada were put on hold for now, giving - perhaps false - comfort to other partners and markets that the administration may take a more pragmatic approach to trade policy if a deal is available to the President. Elsewhere, developments towards a peace settlement between Ukraine and Russia may have also underpinned a rise in the euro and European equity markets this week.
- So far, Trump has not targeted the EU directly, despite his punchy rhetoric on the bloc's large goods trade surplus with the US.** However, the steel and aluminium tariffs will hit producers across Europe, while the latest announcement on "reciprocal tariffs" could be the most impactful measure yet on the EU, with the mooted inclusion of local VAT rates and digital taxes as quasi-tariffs by the US. Trump has signed an executive order to investigate these so-called tariff disparities on a country-by-country basis and remedy these divergences with fresh US tariffs, potentially from early April.
- With current EU tariffs on the US close to free trade status, this in itself would not be too damaging. Instead, developing countries, such as Brazil and India, with relatively large tariff barriers are set to be hit hardest.** However, the order also indicated that other domestic taxes or perceived barriers by trade partners, such as VAT, may be treated as an additional tariff which "disadvantage" US exporters. In a European context, this implies standard VAT rates (which average c.20%) could be in line for reciprocal US tariffs. In Ireland's case, a VAT rate of 23% is currently among the highest in the EU.
- While we don't yet have exact details of how these reciprocal tariffs will work, they pose an imminent risk to the EU's export sector.** However, as before, the interregnum between executive order and implementation gives a window for the EU to strike a deal with the US, which might yet be tangled up with geopolitical factors such as increased European defence spending.
- Turning to the week ahead, the flash PMI readings for February in the Eurozone, UK and US will be in focus.** In the Eurozone, the manufacturing PMI has been very weak, staying in contraction mode since July 2022. In contrast, the services PMI has printed in expansion mode for the past two months. The consensus is for both sectors to register some improvement in February, albeit manufacturing is set to remain well below the key 50 mark. Like-wise in the UK, the manufacturing PMI has printed in contraction territory for the last three months, while the services sector was above the 50 threshold. The forecast is for both PMIs to be broadly unchanged in February. Meanwhile, the US PMI surveys have been consistent with increasing activity levels recently. The manufacturing PMI joined the services sector, which has been in expansion mode for two years, last time round in January. As in the UK, both surveys are expected to be little changed this month.
- Elsewhere, a busy release schedule in the UK includes updates on the labour market, inflation and retail sales.** In terms of the labour market, conditions appear to have softened in recent months. However the data remain volatile and are judged to be less reliable due to low survey response rates. Nevertheless, the unemployment rate increased steadily from a low of 4.1% in August to 4.4% in November. Meantime, wage inflation has re-accelerated sharply, climbing to +5.6% y/y in November. The consensus is for both trends to continue, with the unemployment rate edging up to 4.5% and earnings growth rising to +5.9% y/y. On the inflation front, the headline rate rose throughout Q4 and stood at 2.5% in December, up from 1.7% in September. However, core-CPI eased to 3.2% y/y in December and services inflation declined to 4.4% y/y, its lowest level since March 2022. All three rates are projected to rise in January though, with the headline and core rates increasing to 2.8% and 3.6%, respectively. Elsewhere, after contracting by 0.3% in December, retail sales are expected to rebound by 0.3% in January.
- In the Eurozone, the flash reading of consumer confidence for February is forecast to register a modest improvement.** Across the Atlantic, a holiday shortened week in the US will feature the Fed minutes from the January FOMC meeting. The release will be of keen interest for investors looking for guidance on the future path of policy. Remarks from a number of Fed officials dotted throughout the week will also warrant close attention.



	Interest Rate Forecasts			
	Current	End Q1	End Q2	End Q3
		2025	2025	2025
Fed Funds	4.375	4.375	4.375	4.125
ECB Deposit	2.75	2.50	2.25	2.00
BoE Repo	4.50	4.50	4.25	4.00
BoJ OCR	0.50	0.50	0.50	0.50

Current Rates Reuters, Forecasts AIB's ERU

	Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q1	End Q2	End Q3
		2025	2025	2025
EUR/USD	1.0494	1.03	1.04	1.05
EUR/GBP	0.8323	0.83	0.83	0.84
EUR/JPY	159.84	155	157	157
GBP/USD	1.2603	1.25	1.26	1.26
USD/JPY	152.30	150	150	149

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast
This Week:	ECB Speakers:	Cipollone (Tue); lane (Fri)		
	BoE Speakers:			
	Fed Speakers:	Bowman, Harker, Waller (Mon); Daly, Barr (Tue); Jefferson (Wed); Goolsbee, Mualem, Barr, Kugler (Thu); Jefferson (Fri)		
Mon 17th	US:	President's Day (Market Holiday)		
	EU-20:	10:00 Total Trade Balance (December)	+€12.9bn	
		- Eurostat Trade	+€16.4bn	
Tue 18th	UK:	07:00 ILO Unemployment Rate (December)	4.4%	4.5%
	UK:	07:00 Employment Change (December)	+35,000	
	UK:	07:00 Average Earnings (December)	(+5.6%)	(+5.9%)
		- Ex-Bonus	(+5.6%)	(+5.9%)
	UK:	07:00 Claimant Count (January)	+700	
	FRA:	07:45 Final HICP Inflation (January)	-0.1% (+1.8%)	-0.1% (+1.8%)
	GER:	10:00 ZEW Economic Sentiment (February)	10.3	15.5
	US:	13:30 NY Fed / Empire State Index (February)	-12.6	0.00
	US:	15:00 NAHB Homebuilder Sentiment (February)	47.0	47.0
Wed 19th	UK:	07:00 CPI Inflation (January)	+0.3% (+2.5%)	-0.3% (+2.8%)
		- Core-CPI	+0.3% (+3.2%)	(+3.6%)
		- Services CPI	+0.3% (+4.4%)	(+5.2%)
	IRE:	11:00 Residential Property Price Index (December)	+0.7% (+9.4%)	+0.6% (+8.7%)
	US:	13:30 Housing Starts (January)	+1.50m / +15.8%	+1.46m / -2.6%
		- Building Permits	+1.48m / -0.7%	+1.38m / -6.8%
	US:	19:30 Fed FOMC meeting Minutes (28-29th January)		
Thu 20th	GER:	07:00 Producer Prices (January)	-0.1% (+0.8%)	+0.6% (+1.3%)
	IRE:	11:00 CPI Inflation (January)	+0.9% (+1.4%)	-0.9% (+1.8%)
		- HICP Inflation	Flash: -0.9% (+1.5%)	-0.9% (+1.5%)
	US:	13:30 Initial Jobless Claims (w/e 10th February)	+213,000	+215,000
	EU-20:	15:00 Flash Consumer Confidence (February)	-14.2	-13.9
	JPN:	22:30 CPI Inflation (January)	(+3.6%)	(+3.7%)
		- Core-CPI	(+3.0%)	(+3.1%)
Fri 21st	UK:	00:01 Gfk Consumer Confidence (February)	-22.0	-24.0
	JPN:	00:30 Flash Jibun Composite PMI (February)	51.1	
	UK:	07:00 Retail Sales (January)	-0.3% (+3.6%)	+0.3% (+0.4%)
		- Ex-Fuel	-0.6% (+2.9%)	+0.4% (+0.2%)
	FRA:	07:45 INSEE Business Climate (February)	95.0	96.0
	FRA:	08:15 Flash HCOB Composite PMI (February)	47.6	48.3
	GER:	08:30 Flash HCOB Composite PMI (February)	50.5	51.0
	EU-20:	09:00 Flash HCOB Composite PMI (February)	50.2	50.5
		- Manufacturing / Services	46.6 / 51.3	47.0 / 51.5
	ITA:	09:00 Final HICP Inflation (January)	-0.7% (+1.7%)	-0.7% (+1.7%)
	UK:	09:30 Flash S&P Composite PMI (February)	50.6	50.2
		- Manufacturing / Services	48.3 / 50.8	48.4 / 50.7
	US:	14:45 Flash S&P Composite PMI (February)	52.7	52.7
		- Manufacturing / Services	51.2 / 52.9	51.0 / 53.0
	US:	15:00 Final Uni. Michigan Consumer Sentiment (Feb)	67.8	67.8

◆ Month-on-month changes (year-on-year shown in brackets)