CUSTOMER TREASURY SERVICES

Economist's Weekly Market View

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US trade deal boost markets, but details scant

The weekend breakthrough in trade talks between the EU and US provided a fillip to markets early in the trading week, but the details of the agreement are scant, and key areas are yet to be determined - notably pharmaceuticals.

A baseline 15% tariff has been agreed on EU exports to the US, with no additional tariffs from the EU on US products. With pre-Trump tariffs of c.4-5% on the EU, reports suggest the 15% will be inclusive of this, meaning a net additional 10% versus the January 2025 baseline. Higher tariffs of 25% will remain on steel and aluminum for now, but autos tariffs will be reduced from 25% to 15%, which will be something of a reprieve for the large car industry in central Europe. President Von der Leyen also said there would be no tariffs from either side on aircraft and aircraft parts, certain chemicals, certain generic drugs, semiconductor equipment, some agricultural products, natural resources and critical raw materials. In return, the EU has agreed to purchase more US energy and military equipment and potentially lower its tariffs in some areas.

There are conflicting media reports on pharmaceuticals, with some suggesting 15% would apply immediately, while others suggest a carve out below that rate for some areas. The final landing zone for pharmaceuticals and other strategic sectors such as semiconductors is likely to become clearer when the US Government concludes 'Section 232' trade investigations into these sectors in the coming weeks.

For now, markets have welcomed the certainty provided by the deal, with stocks rising sharply on Monday morning. While details are scant, the key tail risk of an all-out trade war is now off the table. Nonetheless, the EU has conceded significant ground from its initial position of "zero-for-zero" tariffs and a later offer of 10%. If sustained across most sectors, a 15% tariff would bring US duties to their highest level since the 1930s and would likely damage trade and GDP growth in the export-orientated EU and could also yield a stagflationary shock for the US.

For Ireland, the deal is less damaging than many feared post-Liberation Day. Alongside the conclusion of the "big beautiful" US tax bill, which retains existing provisions which underpin the presence of US FDI intellectual property in Ireland, the certainty might be cautiously welcomed by some large exporters. However, in lower margin sectors, where products might be more readily substitutable, the new higher 15% rate could be a death-knell for some transatlantic markets. It could be several months for the final deal to be hammered out, and the impact on the economy will play out over an even longer period in the years ahead.

Chief Econismit
David McNamra

AIB Customer Treasury Services
DUBLIN / CORK
aib.ie/fxcentre

Customer Treasury Services NI
BELFAST
aibni.co.uk/fxcentre

Customer Treasury Services GB
LONDON
aibgb.co.uk/fxcentre

Economic Research Unit
AIBeconomics.unit@aib.ie
Tel: 353-1-6600311