Economic Research Unit

Economics Weekly

Bank of Ireland

Risks for Irish economy recede a little

The relief rally in equity markets following President Trump's decision to delay 'reciprocal' tariffs for 90-days has proven short-lived. Yesterday, both the S&P 500 (-3.5%) and Nasdaq (4.3%) fell back sharply as investors refocused on the substantial US tariffs that remain in place and the potential for US/China trade tensions to escalate. This morning, China has retaliated, imposing 125% tariffs on US imports. Signs of stress in the US Treasury market remain a concern with 10-year yields at 4.39% this morning, following speculation Japan and China may have sold some of their holdings and accompanied by downward pressure on the dollar.

For all that, the risks for the Irish economy appear to have receded a little. Exporters to the US now face a smaller 10% tariff. Crucially, the exemption for pharmaceuticals remains in place, so circa 75% of Irish goods exports to the US will not be subject to tariffs. That the EU and US now look set to negotiate hopefully means an escalation of trade tensions, with measures targeting the key pharmaceutical and ICT sectors, is less likely.

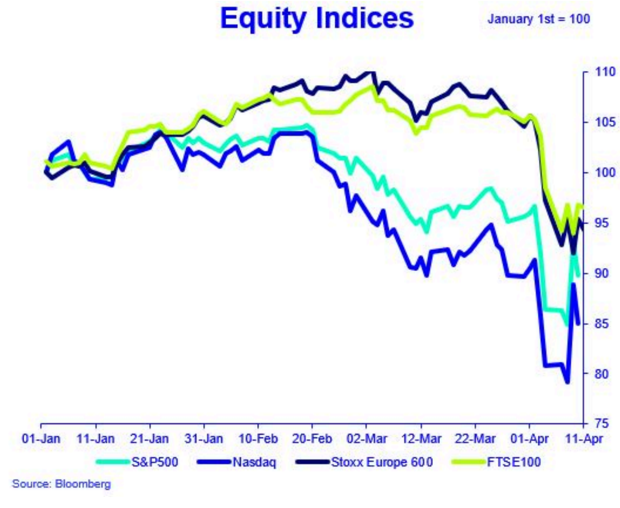
90-day delay gives equity markets only temporary reprieve: President Trump's decision to delay '*reciprocal*' tariffs for 90-days is hopefully a sign EU/US and other negotiations can bear fruit. In response, US equity markets saw close to double-digit gains late on Wednesday (April 9th). However, the tariffs that remain in place, 125% on China and 10% baseline are sufficiently large to still pose the risk of a US recession. Yesterday, the S&P 500 (-3.5%) and Nasdaq (-4.3%) both saw heavy declines as investors refocused on the prospect of an escalating US/China trade war. This morning, China has retaliated, announcing 125% tariffs on US goods imports effective from April 12th.

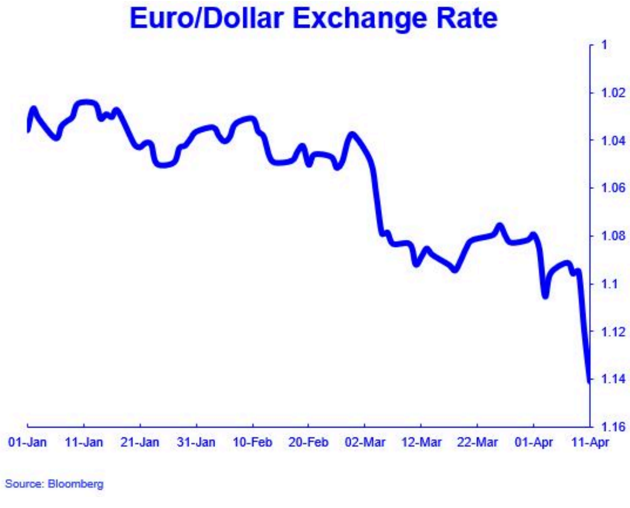
Signs of stress in US bond market weigh on dollar: This morning US 10-year Treasury yields are still elevated at 4.39%, well up from the 3.9% trough last week. This move has been accompanied by several signs of stress in the Treasury market; weak demand for an auction Tuesday, concerns some financial institutions might be exposed to 'basis trades' and widening spreads to swap rates. Market commentators also speculated China and Japan might be selling their holdings to exert leverage on the Trump administration. The downward pressure on bond prices has also hurt the dollar, the exchange rate against the euro breaking through $1.143 this morning, its weakest level in 3-years.

Markets expecting Central Bank support: Investors have clearly taken the view tariffs will ultimately be deflationary, pricing-in three 25bps cuts from both the Bank of England and ECB by end-2025, to 3.75% and 1.75% respectively and starting at their next meetings on May 8th and April 17th. The outlook for the Federal Reserve is more uncertain. Last week, Fed Chair Jay Powell warned US tariff policy posed the risk of damaging global supply chains, leading to more persistent upward pressure on US inflation. Options only imply a 40% probability the Fed will cut rates at the May 7th policy meeting, but are fully pricing-in four 25bp cuts over the next 12-months to a 3.25-3.5% range.

Risks for the Irish economy recede a little: Irish exporters will now face a smaller 10% tariff on their US trade, vs 20% previously announced, a less severe adjustment to their dollar price, or profit margins. Crucially, pharmaceuticals and semi-conductors remain exempt from tariffs, so circa 75-80% of Irish goods exports to the US won't be affected. However, this week President Trump threatened major tariffs on pharmaceuticals. Hopefully, the US administration will now also delay any plans for further sectoral tariffs, as they negotiate with the EU and other countries.

Measures targeting US big-tech firms operating in Ireland less likely in near-term: Opinion in the EU had appeared to harden in recent weeks, with several countries arguing the '*anti-coercion instrument*' targeting US ICT companies should be part of the EU's early response to tariffs. This now seems far less likely given the EU's initial retaliation to US steel/aluminum tariffs has been delayed for 90-days. That said, speaking in an interview published by the Financial Times today, European Commission President Ursula von der Leyen said the EU would seek a 'completely balanced' agreement with Washington, but was developing retaliatory measures, including as an example a levy on the advertising revenues of digital services.





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