Macro Note

US: “Liberation Day” tariffs very broad-based & material

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- 2 Apr “Liberation Day” tariff announcement by US President Trump, was more significant and broad-based than projected, bringing the US effective tariff rates to above 20%, something not seen since 1900s. 25% tariff on all auto imports will also come into effect while the De Minimis tariff exemptions will expire on 2 May.

- The imposition of significant tariffs on US trading partners has realised our pessimistic case of trade scenarios and materially impacted our growth and inflation outlook for the US. We now expect the US GDP growth to slow to 1% for 2025 (from previous forecast of 1.8%), while headline CPI inflation may spike higher to 4% (from previous forecast of 2.5%).

- **FOMC outlook -** We raise our Fed rate cut expectations to three 25-bps cuts to 3.75% by end-2025 (from previous 1 cut in 2025). We keep the two cuts for 2026, implying a lower terminal rate of 3.25% in 2026 (previous forecast was 3.75%). In this case, despite the inflation spike, the Fed could justify the rate cuts by pointing to the fact that inflation was induced by supply side shocks rather than demand-driven price increases. The probability of a US recession has risen to 40% (from 20-25% previously).

2 Apr “Liberation Day” tariffs more significant than projected

On “Liberation Day” (2 Apr), US President Trump announced a national emergency to “increase the nation’s competitive edge, protect our sovereignty, and strengthen our national and economic security”.

This declaration allowed him to invoke the International Emergency Economic Powers Act (IEEPA) and enabled him to issue an Executive Order, on the imposition of a 10% baseline tariff on all imports to the US from all countries, and among all these countries, reciprocal tariffs are imposed on several economies & one economic bloc (EU comprises 27 countries).

The “reciprocal” rates are based on the US government’s tally of the tariffs and non-tariff barriers those countries imposed on US goods, and the customised levy imposed under Trump’s proposal, is approximately equal to half of that calculated amount (i.e. Tariffs charged to US by Thailand= 72%, proposed US reciprocal tariff on Thailand= 36%). That said, according to USTR, the reciprocal tariff rates are calculated simply based on the US’ trade deficit with the said country divided by the said country’s exports to the US and adjusted by price elasticity of import demand and tariff pass-through to import prices.

Separately, White House also announced that De Minimis tariff exemptions, which currently allow packages worth US$ 800 or less (typically from China and Hong Kong) to enter the US duty-free, will end on 2 May, and this will be adding to price pressures while impacting the online marketplace platform business. This will also add to the effective tariff rate for China.

The baseline import taxes will take effect after midnight on Sat (5 Apr, 12:01am UST) while the higher tariffs will come into effect later on 9 Apr. Bloomberg also estimated that the new effective US tariff rate is now at 22%, almost 10 times higher from 2.3% in 2024, a rate not seen since the 1900's. Note that some of the product-specific tariffs have yet to be announced (such as semiconductor chips, pharmaceuticals and lumber), so the US effective rate may adjust higher as the announcements roll in.

Some of the highest reciprocal tariff rates are levied on Asian economies, and far higher than the tariff rates that these economies/blocs imposed on the US, as seen in the selected list below:

Tariff rate imposed on US products imported by selected trading partner versus US' reciprocal tariff rates on these trading partners.

Tariff rate % (average for all products) imposed on US products imported			US' bilateral trade gap	Exports to US	US trade deficit/exports to US	Reciprocal tariff to be imposed by US
Partners	2017	2022	(USD bn)	(2024, USD bn)	(%)	wef 9 Apr 2025
China	10.73	7.11	-295.40	438.95	67.30	34.00
Cambodia^	13.45	12.90	-12.34	12.66	97.46	49.00
France**	5.04	4.79	-235.57	605.76	38.89	20.00
Germany**	5.23	5.01	-235.57	605.76	38.89	20.00
India	11.13	12.63	-45.66	87.42	52.24	26.00
Indonesia	8.41	8.56	-17.88	28.08	63.67	32.00
Ireland**	4.77	4.80	-235.57	605.76	38.89	20.00
Japan	4.63	3.63	-68.47	148.21	46.20	24.00
Malaysia^	5.90	5.47	-24.83	52.53	47.26	24.00
Philippines	6.14	6.13	-4.88	14.18	34.42	17.00
South Korea	3.56	2.66	-66.01	131.55	50.18	25.00
Thailand*	11.52	9.82	-45.61	63.33	72.02	36.00
Vietnam	9.17	9.13	-123.46	136.56	90.41	46.00
United States (average tariff on all imports)	3.36	2.77	-	-	-	likely above 20%
Total table average (excl. US)	7.67	7.13				
Total ASEAN5 average (excl. Cambodia)	7.07	6.55				

^ 2016; no data 2017-2019
* 2021; no data 2016-2020
**US Reciprocal tariff calculated using aggregated EU data
Source: World Integrated Trade Solutions (WITS), USTR
https://wits.worldbank.org/CountryProfile/en/Country/MYS/StartYear/2000/EndYear/2022/TradeFlow/Import/Indicator/AHS-SMPL-AVRG/Partner/USA/Product/all-groups

Several economies received the minimum reciprocal tariff of 10% including Brazil, UK, Singapore, Australia and New Zealand. Notably, Canada and Mexico were left out of the reciprocal tariff list, having already been slapped with 25% tariffs tied to drug trafficking and illegal migration which will remain in place. Moreover, both Canada and Mexico will be impacted by the 25% tariff on imported cars which will start today (3 Apr). It is also surprising to find that a number of Asian economies got hit by high tariff rates, even for Singapore (10% tariff) despite both sides having an existing free trade agreement.

US Treasury Secretary Bessent, in interviews after President Trump tariff announcements, confirmed that China will now see a 54% tariff rate (34% reciprocal plus the 20% on drugs). More importantly, Bessent warned the affected countries against retaliating, saying that "My advice to every country right now is, do not retaliate. Sit back, take it in, see how it goes, because if you retaliate, there will be escalation. If you don't retaliate, this is the high watermark."

The implication is that with some countries already lining up retaliatory response, the tariff rates imposed by the US may escalate higher. Conversely, some countries are expected to proactively engage US to negotiate for lower or removal of reciprocal tariffs, so there is possibility of changes to the tariffs, but it is unlikely to be zero tariffs. Note that the executive order (issued under IEEPA) has also bestowed on President Trump the "*modification authority, allowing President Trump to increase the tariff if trading partners retaliate or decrease the tariffs if trading partners take significant steps to remedy non-reciprocal trade arrangements and align with the United States on economic and national security matters.*" (Link)

A darker US outlook post-liberation day, with more Fed cuts now priced in

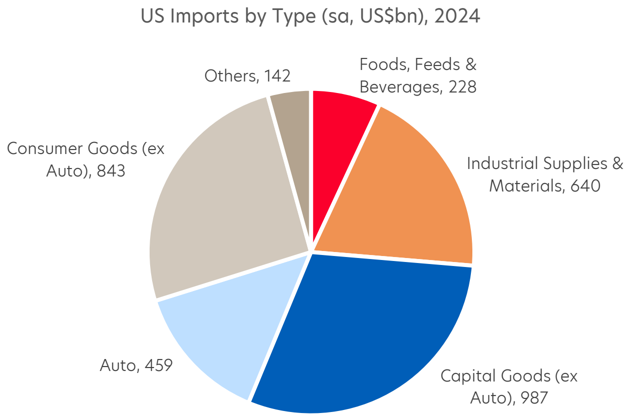
Trump's announcement of "Liberty Day" tariffs has unfortunately realized our pessimistic case of trade scenarios with 40% probability into reality (link).

The risk for US trade policy tilting towards a more negative outcome of higher tariffs (closer to 60% tariff rate for China as claimed by Trump during his election campaign), punitive reciprocal tariffs for major and lesser trading partners, coupled with the imposition of a blanket tariff for all US imports (10%), and an earlier than expected implementation timeline, has significantly impacted our outlook for the US.

The impact of this scenario will be significantly weaker growth outlook for the US and Asia, accompanied by higher US inflation outturns, which we assume to be a one-time spike in prices before coming off from the headline inflation sometime next year.

While only a quarter of US imports are consumer goods, the broad-based and significant nature of Trump's latest tariffs, will also affect intermediate goods which will eventually push up CPI inflation further in the near term, as a one-time price spike.

Source: Macrobond, UOB Global Economics & Markets Research



Changes to our US forecasts for 2025

GDP – lowered to 1.0% (from previous forecast of 1.8%)

CPI inflation – raised to 4.0% (from previous forecast of 2.5%)

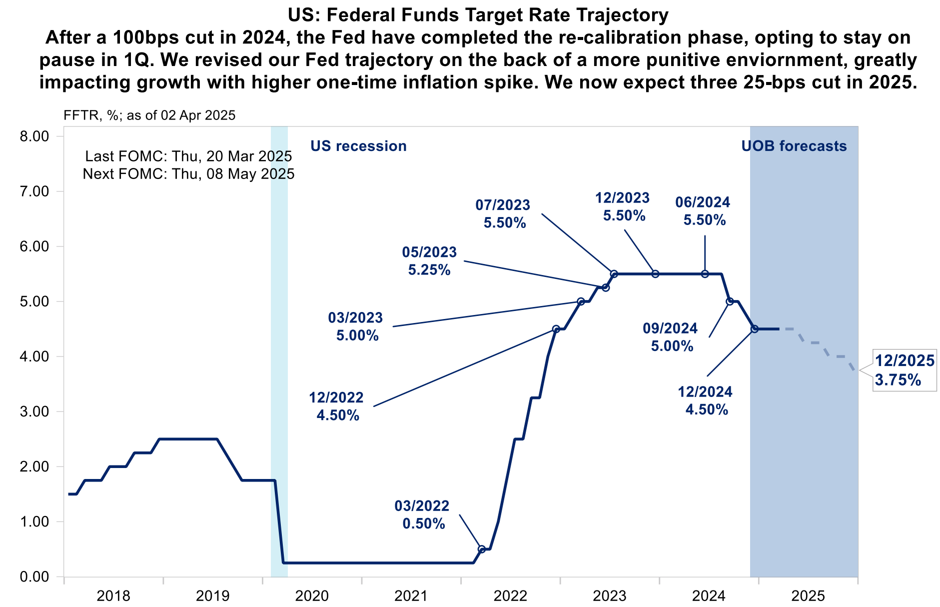
FOMC rate cuts – raised to three 25-bps cuts to 3.75% by end-2025 (from previous 1 cut in 2025). We keep the two cuts for 2026, implying a lower terminal rate of 3.25% in 2026 (previous forecast was 3.75%). In this case, the Fed could justify the rate cuts by pointing to the fact that inflation was induced by supply side shocks rather than demand-driven price increases.

Notwithstanding that there could be 2 quarters of consecutive declines or "technical recession", the probability of US entering into an economic recession or stagflation is now more material and we estimate it at 40% chance, from 20-25% prior to Liberation Day.

As for Asia, there will definitely be negative implications for growth in 2025 and beyond, given the high tariff rates and the export orientation of these economies. The potential for growth downgrade will likely range between -0.4 and -1.0 ppts if no further improvements in the tariff situation. We will finalize our growth forecasts as and when 1Q GDP data become available, starting with VN (6 Apr), CN (16 Apr), MY (18 Apr), SK (24 Apr), TW (30 Apr), ID (5 May), PH (8 May), TH (19 May).

UOB's Projected US Federal Funds Target Rate Trajectory (As Of 3 Apr 2025)

Source: Macrobond, UOB Global Economics & Markets Research



Our Forecast

%	As of 2 Apr	2Q25F	3Q25F	4Q25F	1Q26F
US Fed Funds Target - Upper Bound	4.50	4.25	4.00 (4.25)	3.75 (4.25)	3.75 (4.25)

Source: Global Economics & Markets Research (as of 3 Apr 2025), old forecasts in brackets

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