Global outlook

Trump 2.0, China's excess capacity, Europe's challenges

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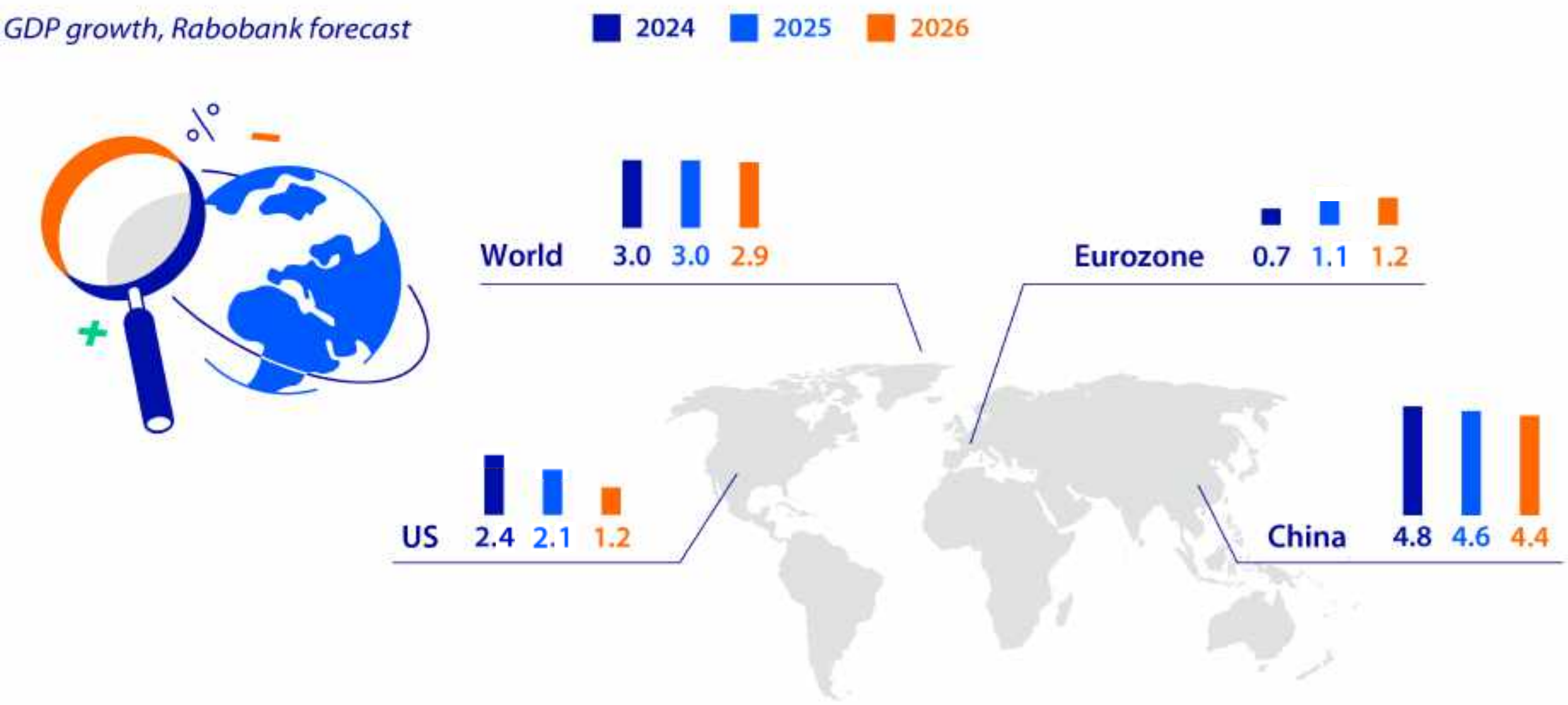
Global economy: a landing of some sort!

US Red Sweep likely to support US growth; lower Eurozone growth



Source: RaboResearch, NiGEM, Macrobond

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Trump 2.0

Make America Great Again, again

Made in China

Stimulus, exports and supply-driven growth

And Europe?

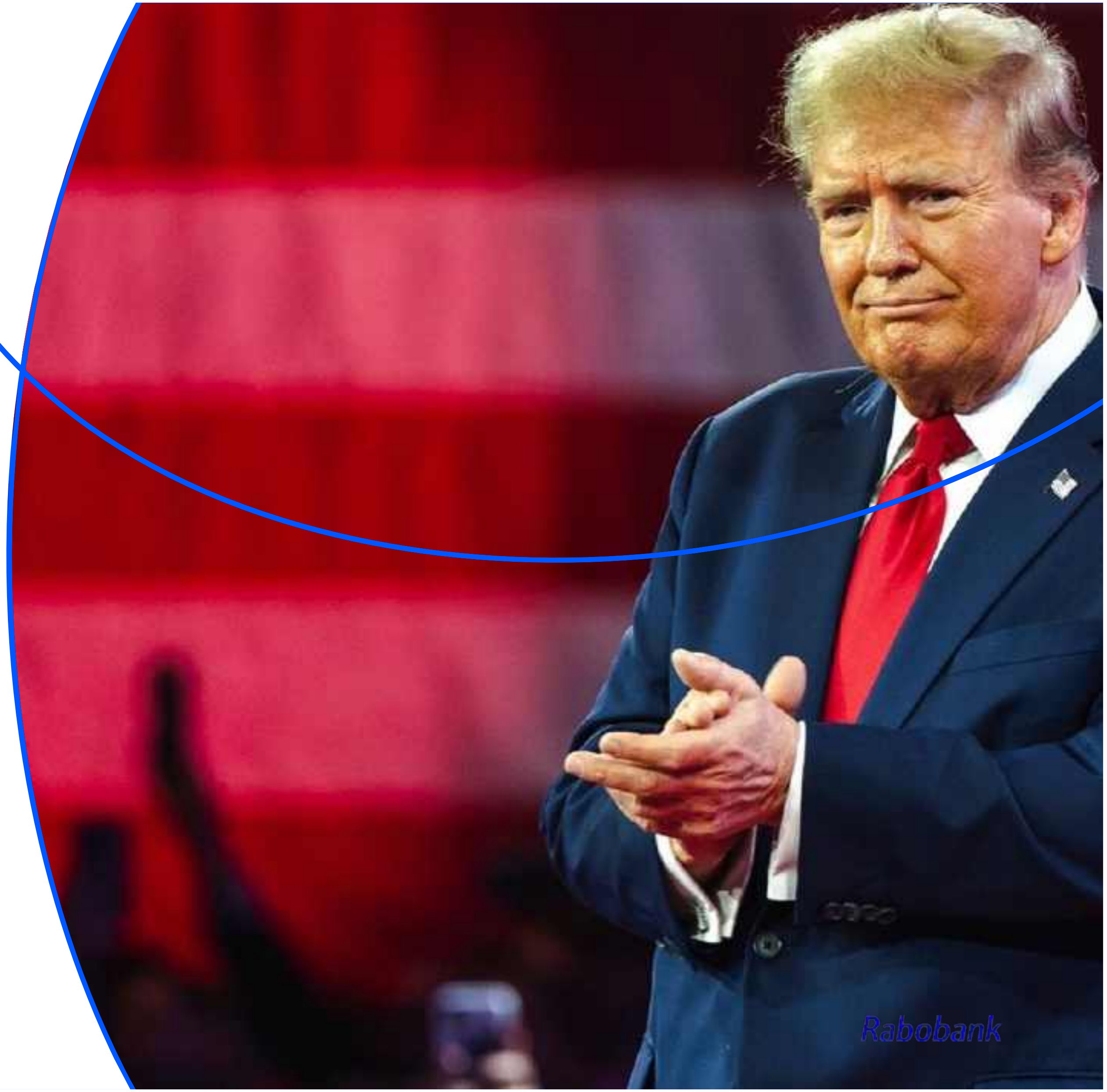
Caught in the middle

Inflation

Is 2% inflation a realistic target?

Trump 2.0

Make America Great Again, again



America First

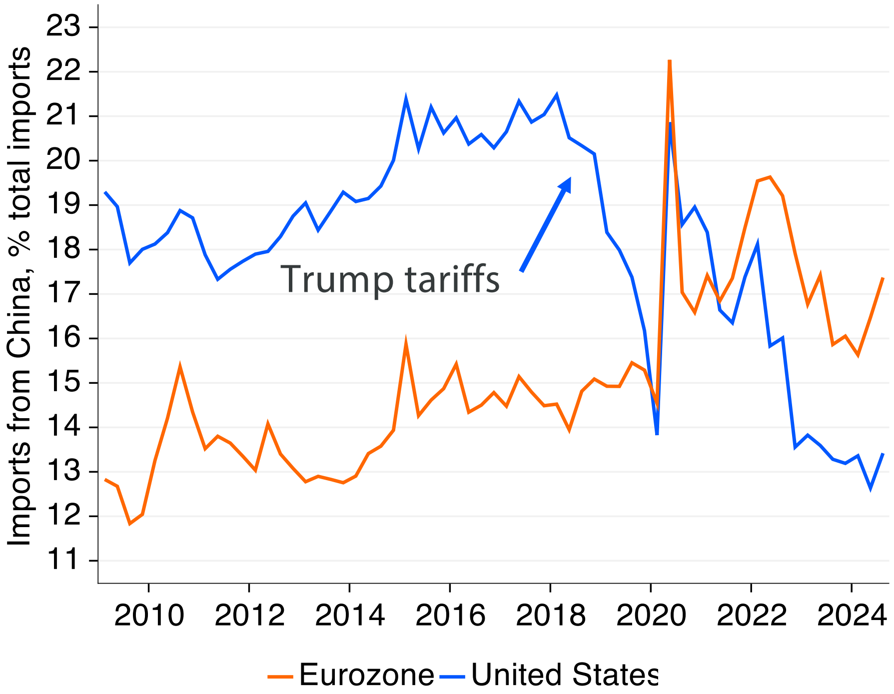
… instead of 'Markets First'

- IMF/World Bank/WTO are all Washington-based institutions, but the US **no longer champions free trade** and **free markets**
- Reduced appetite *and* ability to protect international waters and act as **world police** (for 'free')
- **Trump 1.0**:
  - Steel and aluminium **tariffs**
  - **China** tariffs and other trade and investment barriers
  - Pay for **NATO** or get tariffs
  - **EU** tensions over cars, defense and China
- Biden's **Inflation Reduction Act** and the **CHIPS Act** mark a fundamental shift to a more active role for the state
- **Protectionism** shields domestic industries, but hurts importers and consumers, international relations and the global economy

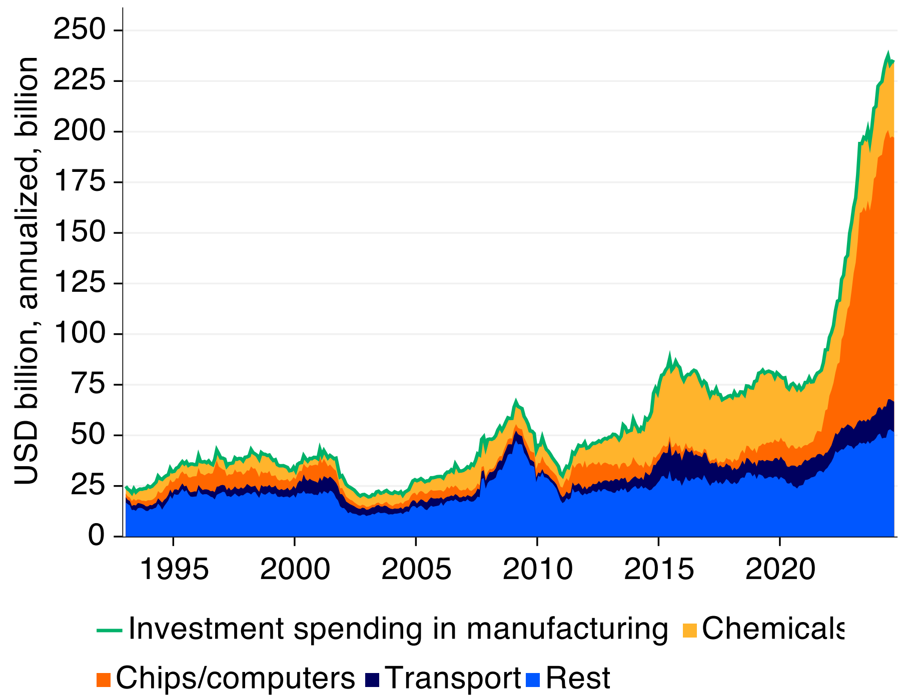
America First

Trade and investment flows are already changing

The US is becoming less reliant on China



The IRA and CHIPS act led to a boom in US investment



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This agenda is inflationary

At home (Depends on Congress)

- Treasury Sec. Bessent's 3-3-3 agenda:
  - 3% growth through tax cuts and deregulation, 3% budget deficit with "DOGE"-led spending cuts, 3 million barrels per day of extra oil production
- Labour market policies:
  - Reduced immigration
  - Increased deportations

Abroad (Presidential powers)

- Tariff threats
  - 10-20% universal import tariff
  - 25% tariff on Canada and Mexico, linked to "invasion" of fentanyl and migrants;
  - 10% tariff on China, also fentanyl
  - 100% tariff on BRICS+ that seek to undermine value/role of USD

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Trump 2.0

What's the inflationary impact?

A simplified way of thinking about import tariffs:

Suppose: 100% US tariff on the imports of Chinese goods;

- Goods = 33% of total consumption;
- Imports = 26% of total goods;
- China = 15% of total goods imports.

This implies upward pressure on inflation of 1.3%-point.

The price impact will be spread between suppliers, manufacturers, retailers and consumers, and reduced by substitution effects.

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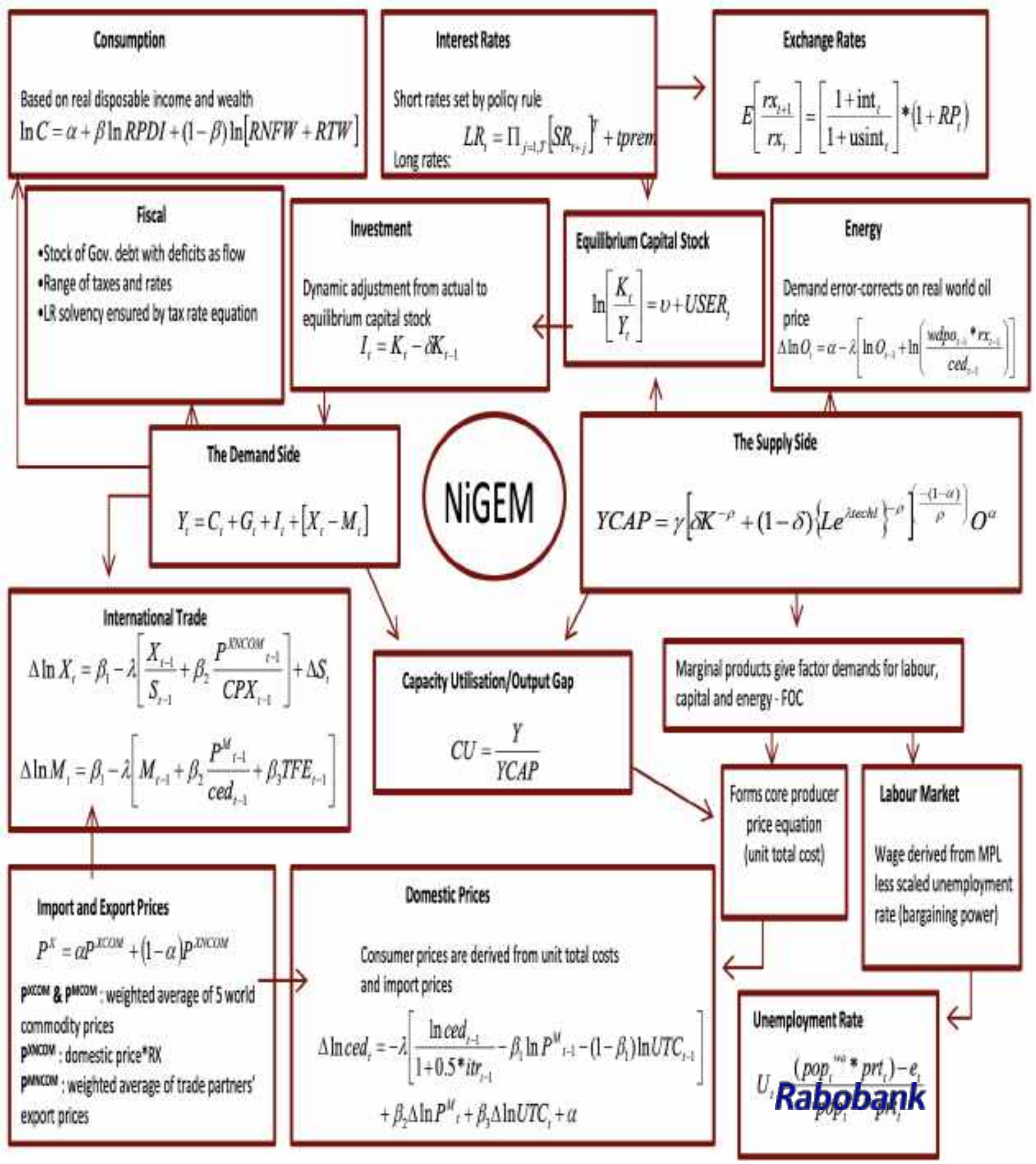
Or… a little more complicated

Assumption: 5% US import tariff from 2025Q3, 15% EU import tariff on US goods

	GDP impact			Inflation impact		
	2025	*2026*	*2027*	*2025*	*2026*	*2027*
US	-0.2	-0.7	-0.2	0.6	1.3	0.2
Eurozone	0.0	-0.1	0.0	0.3	0.5	0.1

Source: RaboResearch, NiGEM calculations



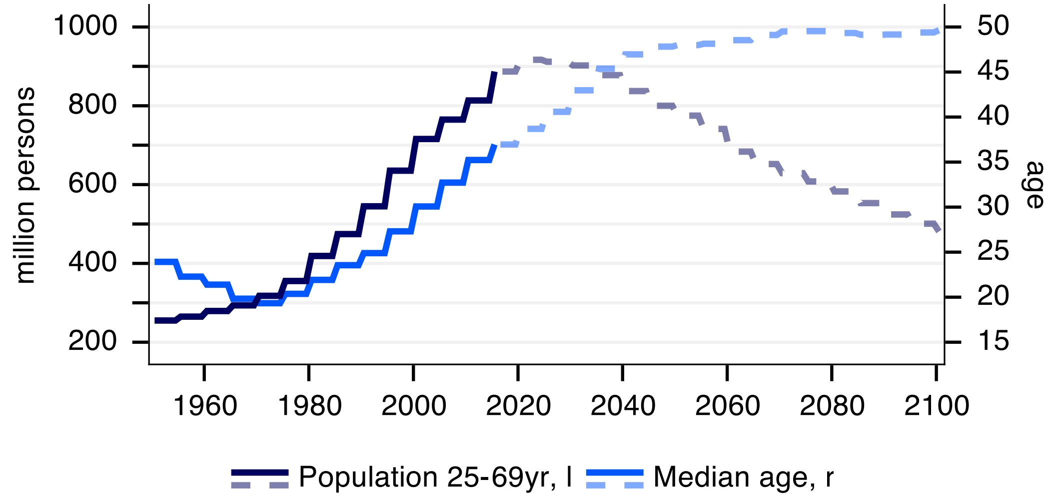
Made in China

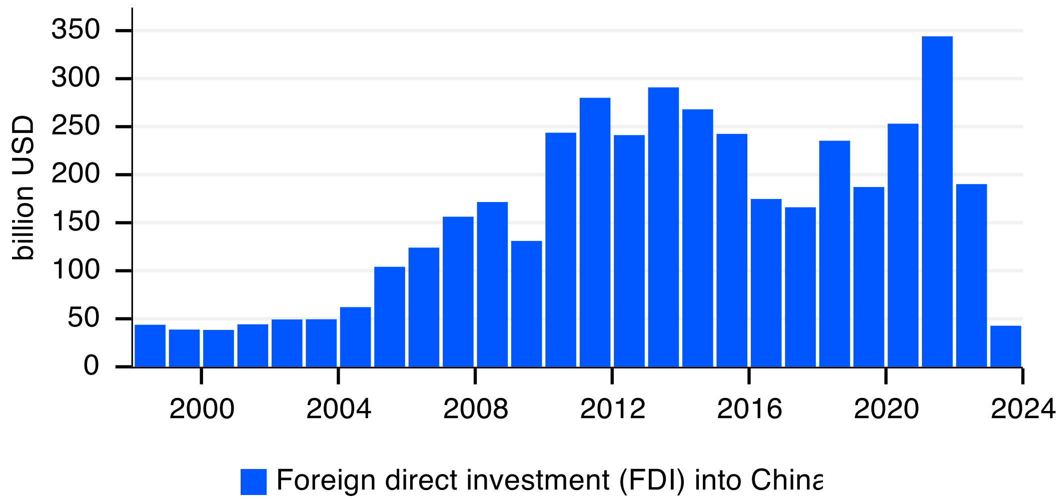
Stimulus, exports and supply-driven growth

What about China?

Still a 5% growth target, but…

- Population is **shrinking** and ***ageing;***
- Higher wages already point to **middle income trap;**
- Confidence by (foreign) investors under pressure from rising **geopolitical tensions;**





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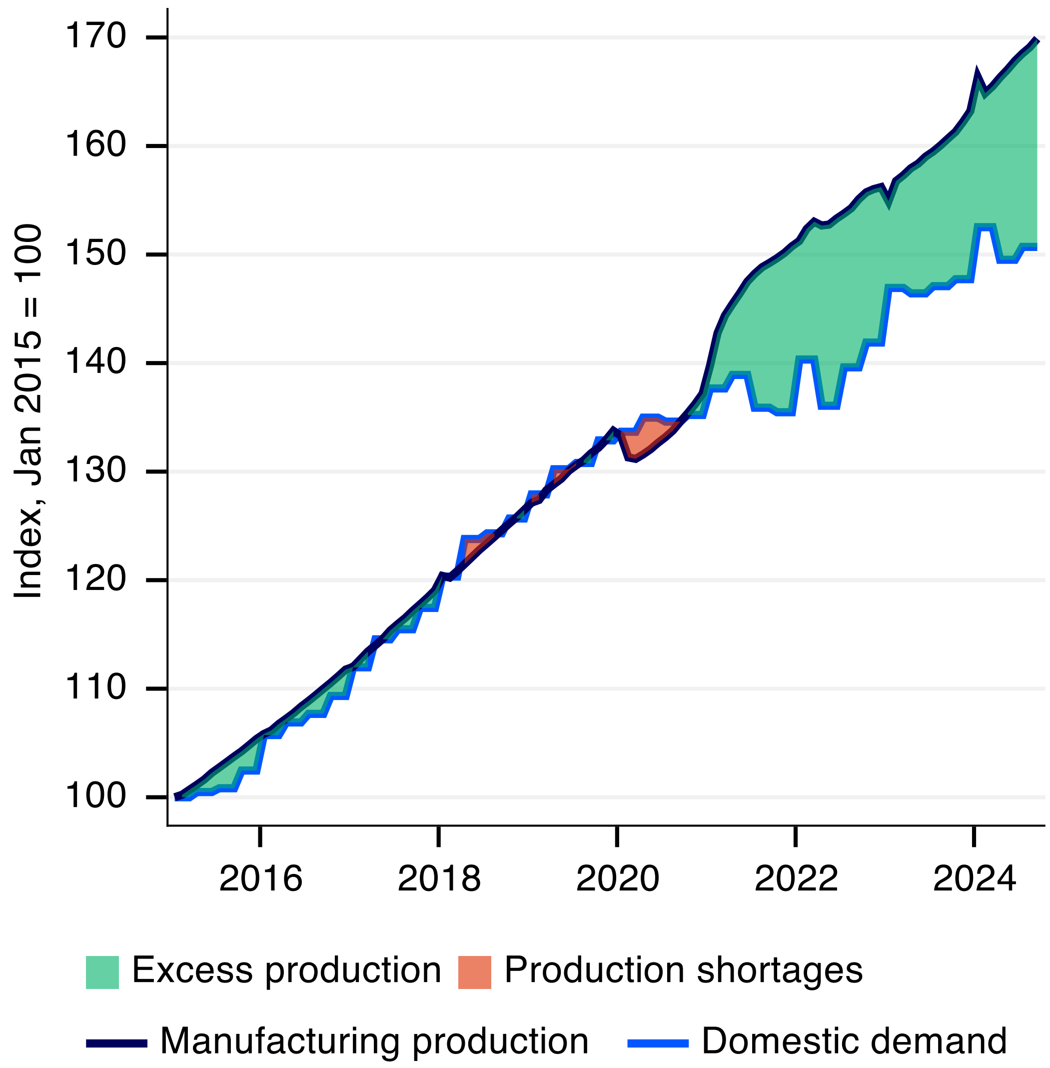
- Higher wages already point to **middle income trap;**
- Confidence by (foreign) investors under pressure from rising **geopolitical tensions;**
- Ongoing **real estate crisis** and **overcapacity** in numerous 'old' industries → deflationary pressure
- Industrial policy aimed at **advanced** and **export-oriented** manufacturing fuels resentment elsewhere
- **Recent support measures** are a step in the right direction, but no "fiscal" bazooka yet



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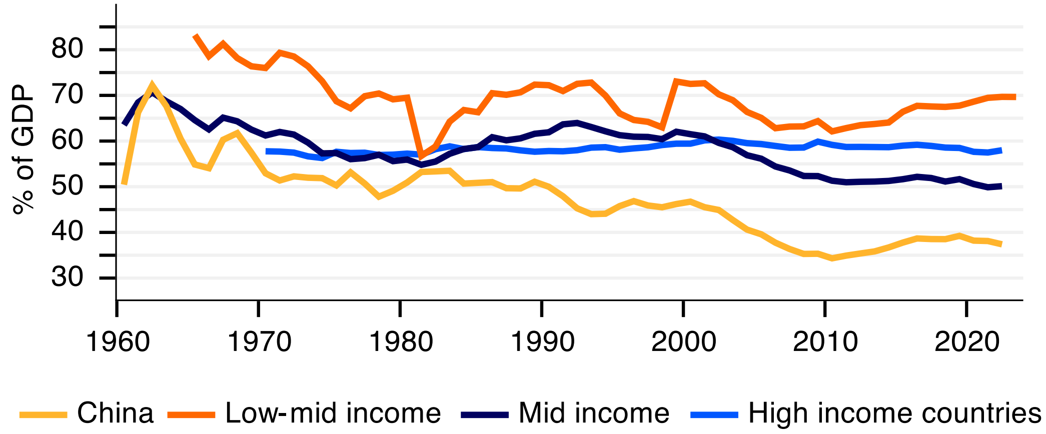
What about China?

It needs to consume more!

- For sustainable <u>global</u> economic growth, China's consumption must grow faster than its GDP.
- However - Chinese authorities believe that directing capital to advanced, export-oriented sectors results in faster and more sustainable growth than increasing household purchasing power.
- So far, we have seen more supply-oriented than demand-oriented measures.
- Chinese production will continue to require foreign markets to sell into, making Europe a logical destination if access to US markets is restricted.
- China will also target other markets where European companies are currently active or dominant.

Private consumption as a share of GDP



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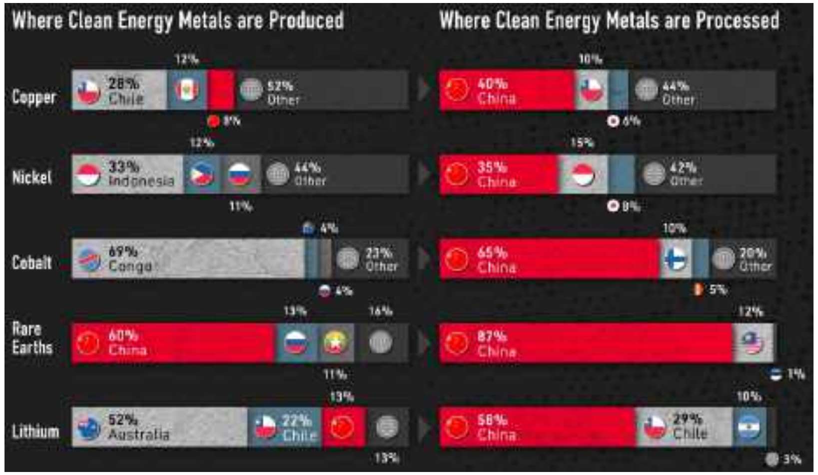
And Europe?

Caught in the middle

Europe is caught in the middle…

Will Europe be forced to choose?

Europe needs China for its energy transition



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Europe is caught in the middle…

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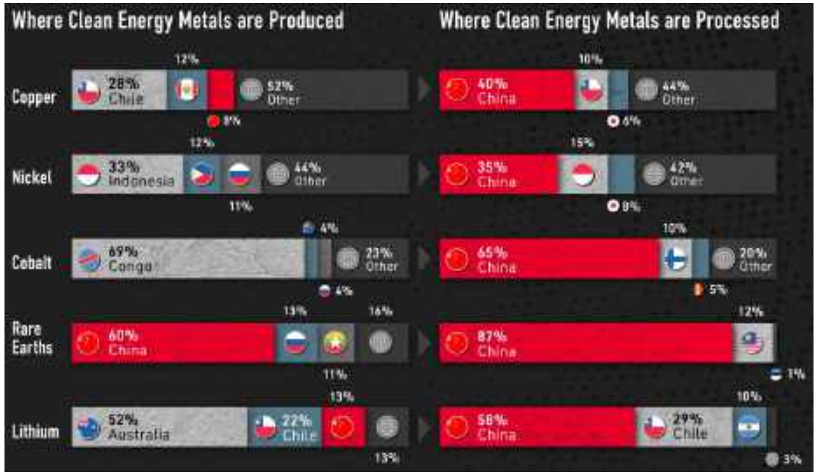
Europe needs China for its energy transition

But Europe cannot afford to lose US military support; and tariffs would hurt as well



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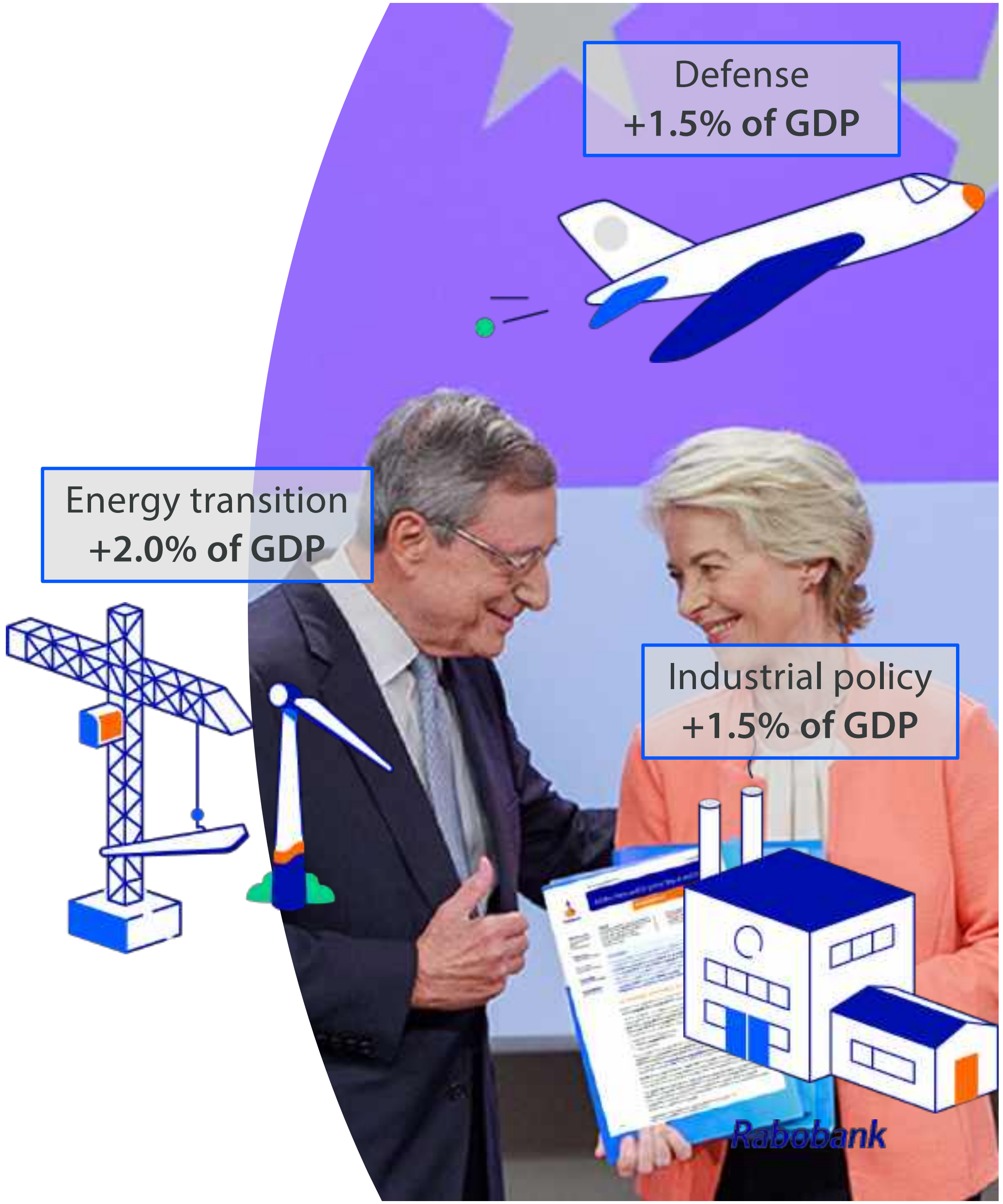
Invest, invest, invest!

"Slow agony" or "shock therapy"

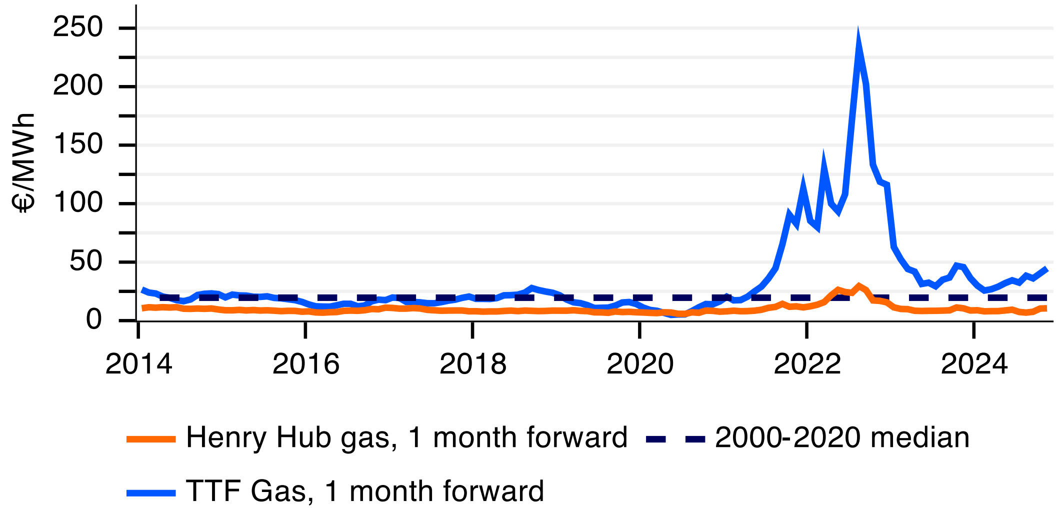
- The EU currently lacks the capacity for industrial policy at the European level.
- It seeks a balance between openness ("old EU") and developing/protecting its own industries ("new EU").
- **Investments in strategic autonomy** are essential: more funds for defense, energy transition, industrial policy, and digitalization. This could cost **800 billion euros per year** (5% of GDP).
- Excessive subsidies further fuel inflation (short-term ↑ demand; long-term ↑ supply).
- Redistribution of capital and labor to "strategic" sectors is necessary but may cause inefficiencies and displacement in "productive" sectors.
- Free trade is simply more efficient, so **inflation could be structurally higher than in previous decades**.

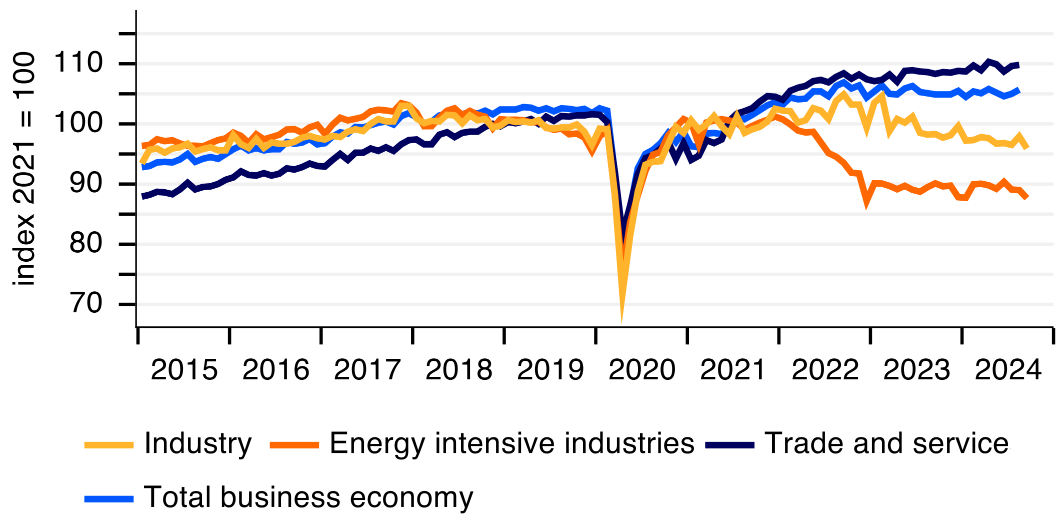


Shock therapy!

European industries are struggling

- **High energy costs** vis-à-vis main trade partners
- Lack of **innovation** and skilled labor, slow productivity growth
- Raw materials **dependencies** a future risk (both in terms of securing their availability as well as price volatility (see cobalt/lithium prices)
- Unfair trade practices by competitors (**subsidies**, state support etc.); excessive regulation compared to competitors
- Germany is the prime example of Europe's challenge: relying on old recipe for growth that won't work anymore





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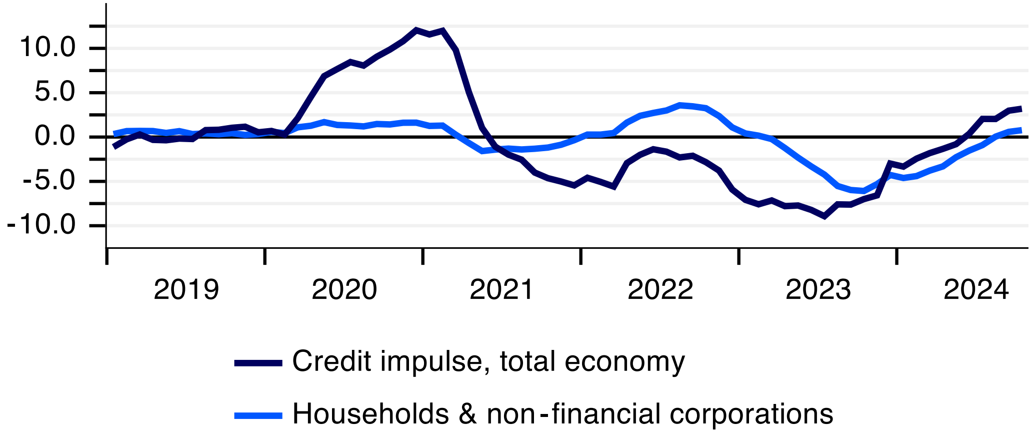
Or slow agony?

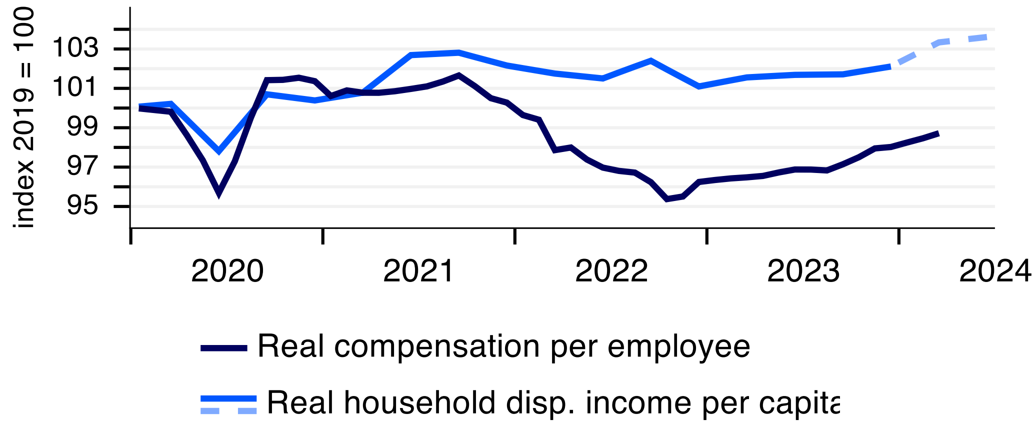
Better prospects for consumer demand

- European consumers have proved to be **price sensitive**, notably in off-premises food/drink consumption and 'trading down'
- The good news is that the labor market remains tight as **wages are recovering** and overall inflation comes back down
- And households have saved significantly in recent quarters whilst their assessment of their financial position has improved
- But the tight labor market also puts a **ceiling** on potential future growth

Credit impulse picking up again



Real wages and incomes improving



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If countries play Risk

Businesses need to diversify

Business swap efficiency for robustness, amid the risk of ongoing and recurring supply shocks

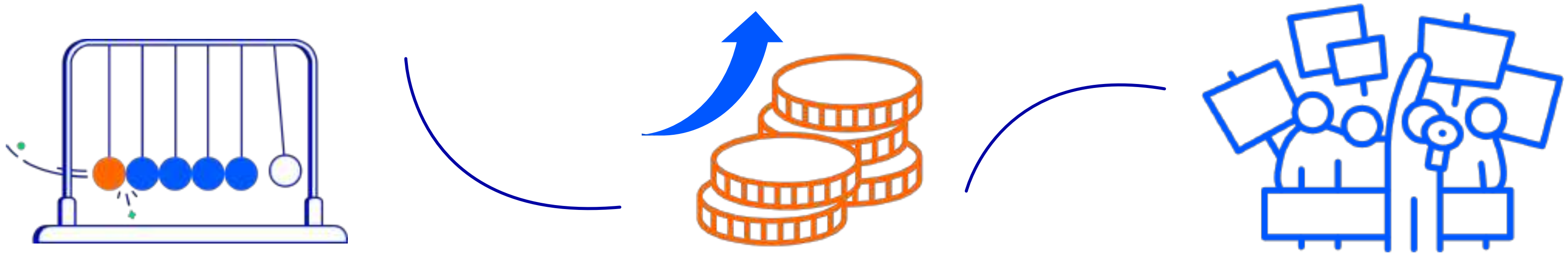
- Geopolitics and trade have always been intertwined: instability is the norm, stability the anomaly.
- A stable unipolar world shifts to a chaotic multipolar world with competing power blocs and **unstable supply curves**.
- A supply chain is **efficient** in ideal conditions but **robust/stable** if it performs well in less-than-ideal conditions.
- Supply disruptions can have a **significant price <u>and</u> volume impact**, especially in a non-ideal world.
- Ongoing trends include:
  - supply security over the cheapest option,
  - just-in-case over just-in-time,
  - and re-/friendshoring over offshoring.

Inflation

Is 2% inflation a realistic target?

The "conflict theory" of inflation

Inflation comes in different waves



Impulse

- Systemically important prices rise for *some* reason
- Input costs for entire economy increase

Propagation

- Firms raise prices to protect or increase profit margins

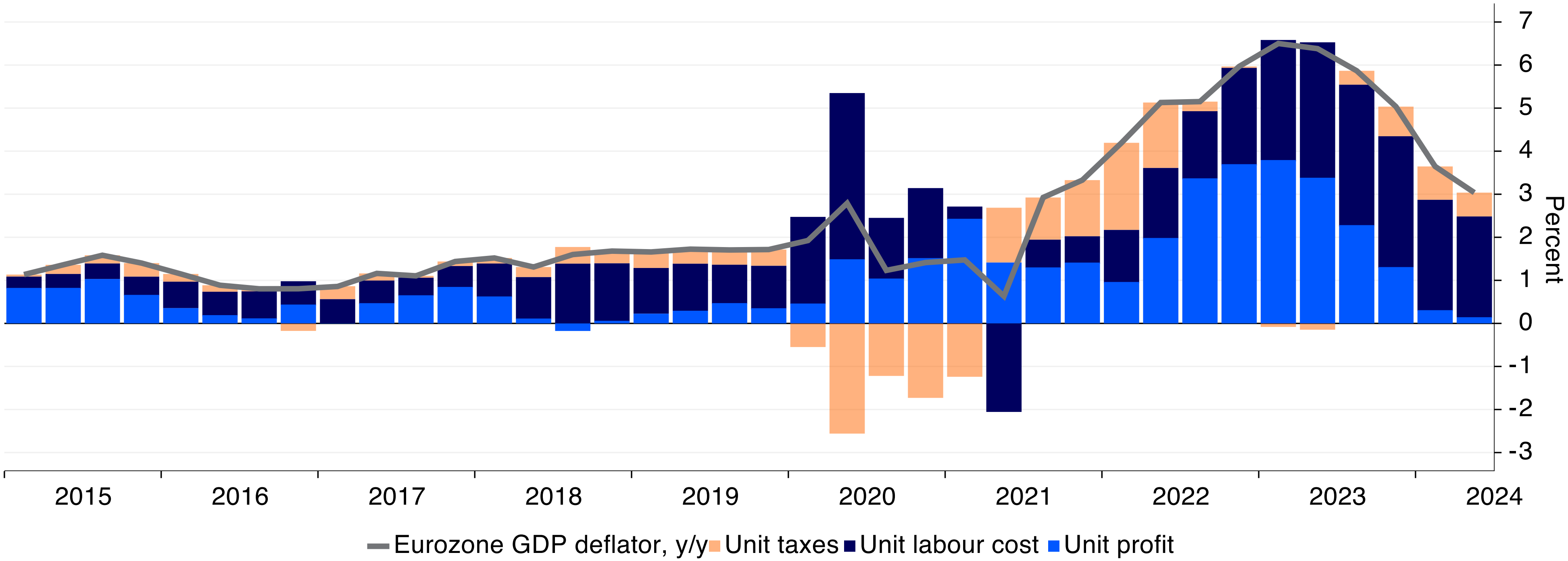
Conflict

- Labour protects real wages
- Firms protect profit margins

Source: Weber & Wasner (2023)

The conflict phase: wages and profits

Who bears the biggest burden after an external shock?



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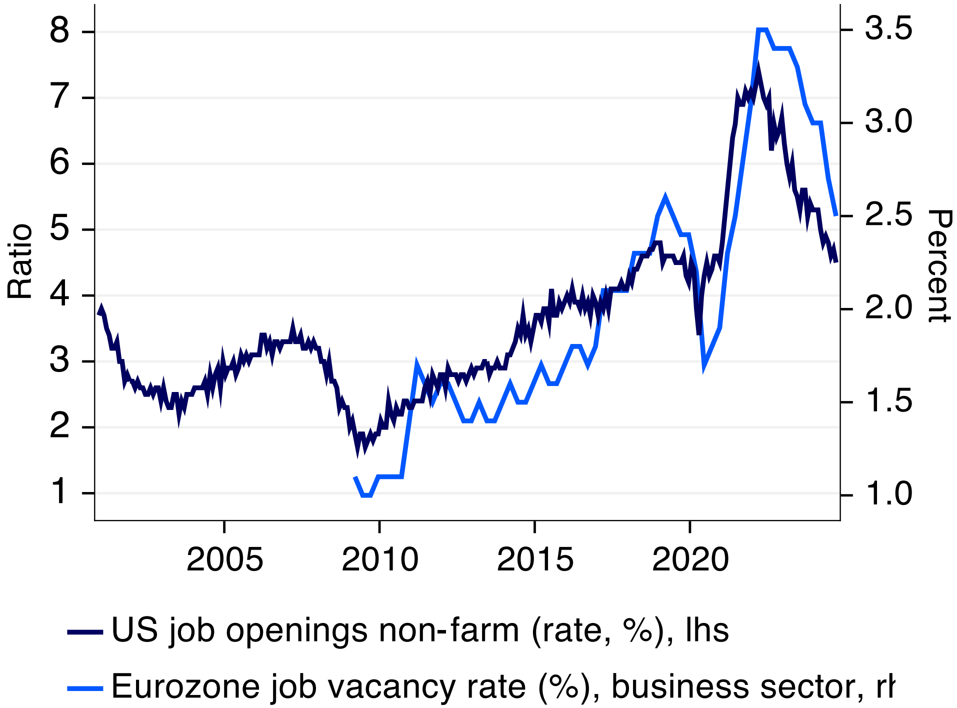
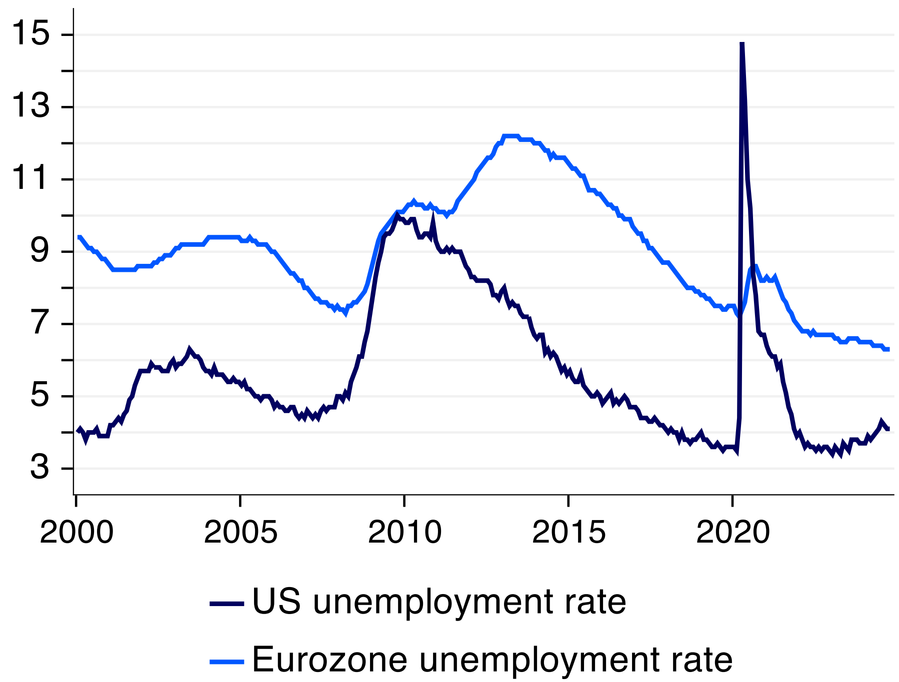
Labour markets cooling but not collapsing

Vacancy ratios ease, unemployment (close to) historical low

Job vacancies still at high end of historic average



Pickup in US unemployment



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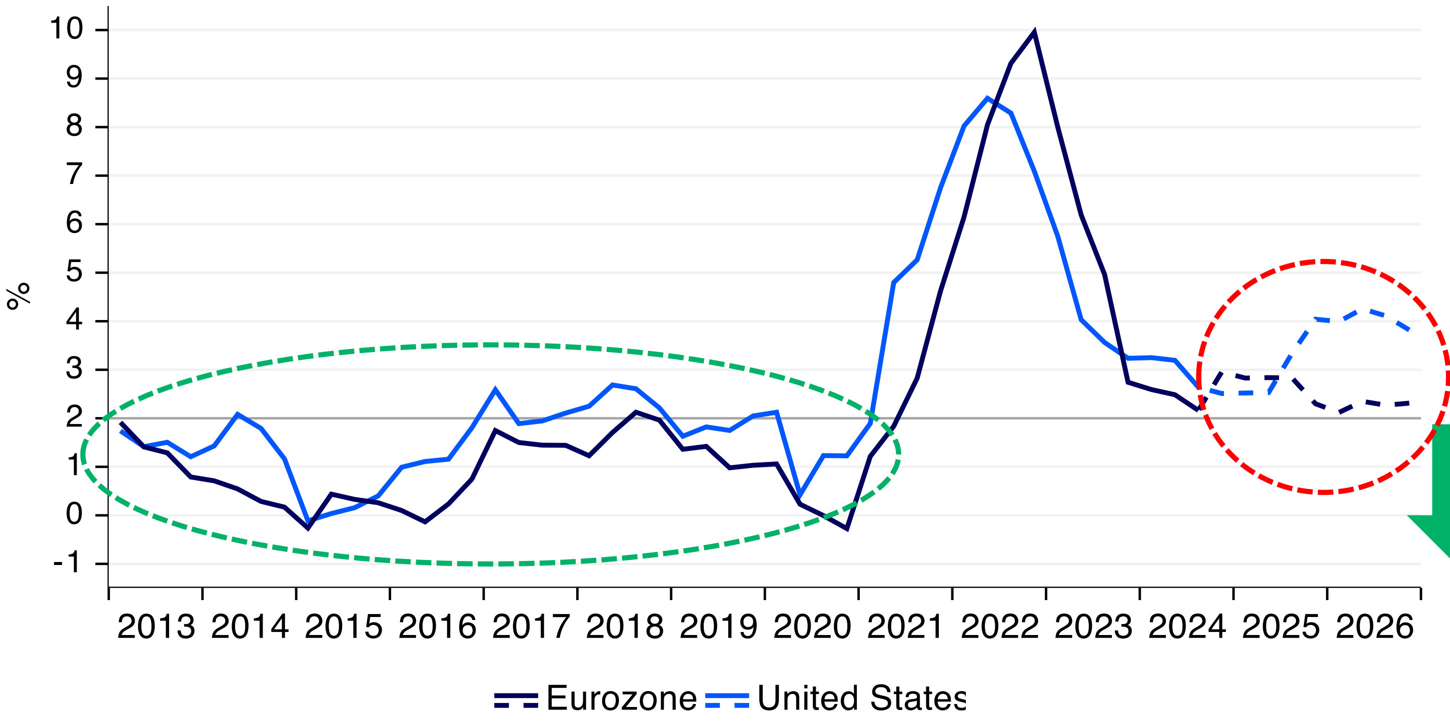
Inflation outlook

2% inflation now a floor instead of a ceiling?

RaboResearch medium-term forecasts



- War and security
- Protectionism / de-globalization
- More public spending
- Ageing, tight labor market
- Food & energy transition
- EU: CBAM / ETS

- AI (higher productivity, LT)
- Cheaper renewable energy (LT)
- Trade diversion (EU?)
- Lower energy prices on weak demand & US de-regulation?

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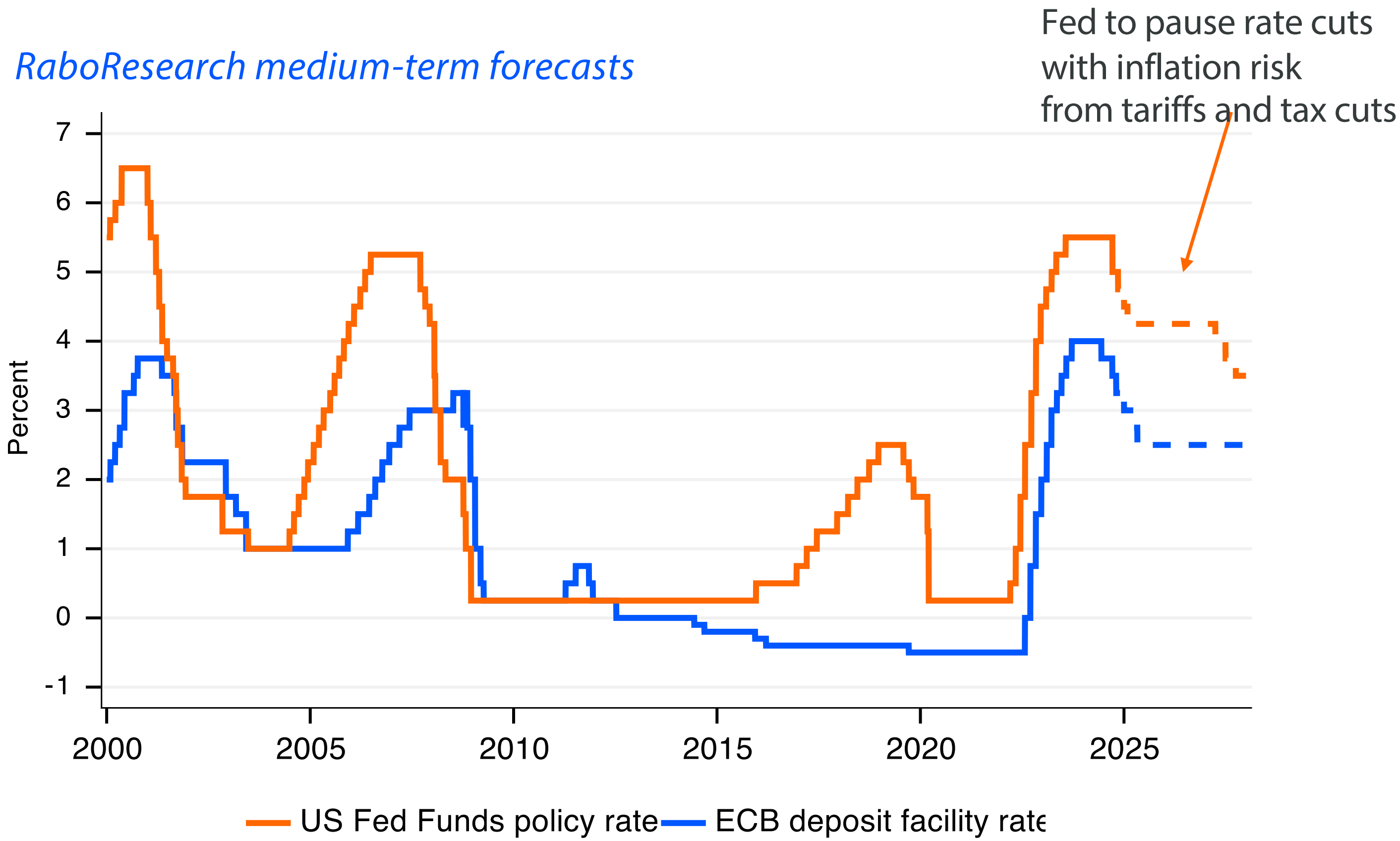
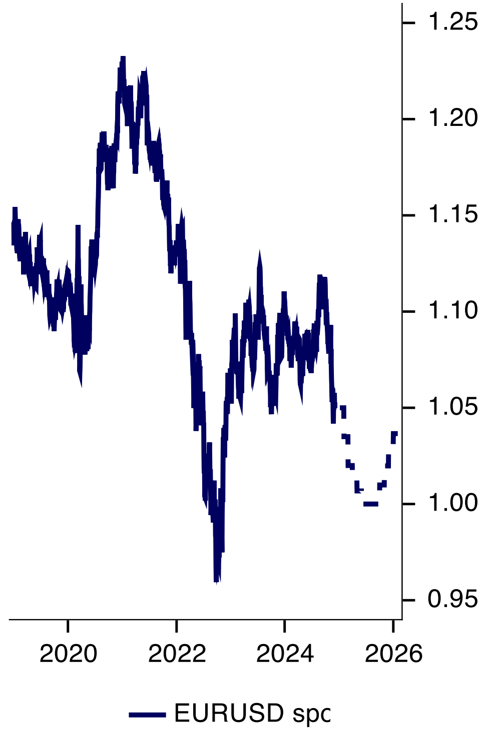
Allows for modest cuts in interest rates

No return to pre-Covid level anytime soon; dollar to strengthen in 2025

RaboResearch medium-term forecasts





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Conclusions and takeaways

Changing geopolitics requires scenario and impact analysis

New 'Cold War', geopolitics drives economics

Fragile supply chains shifting trade patterns

De-globalization
Less growth, more inflation

Less conducive financing conditions

Sanctions, tariffs and blockades,
Subsidies, market interventions
Competition over value chains, friendshoring

More expensive inputs, more volatile prices/volumes
De-dollarization risks; costlier shipping and inventories
Higher rates and, if central banks tolerate higher inflation, negative real rates

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Trump 2.0

From idealism towards realism

- The US will use **tariffs, tax cuts, deregulation, and industrial policy** to onshore key industries. It's a **strong dollar** policy.
- If the US is able to reduce its trade deficit, the flow of dollars into the global system will slow, with risk of **dollar shortages.**
- Trump team will try to **redirect supply chains from China to allies**. GVCs will be transformed in a **zero-sum** game with losers and winners – Europe(an companies) have to pick a side.
- **Many, many, many wild cards:**
  - Will he pressure the Fed? (keep rates low, weaken $)?
  - Will he offer tariff exemptions? (re-location incentives)
  - Will he offer deals to countries? (in exchange for what?)
  - Will he steer towards a 'Mar-a-Lago Currency Accord' (weaker dollar in exchange for lower tariffs)?

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Thank you for your attention

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A summary of the methodology can be found on our website