

## The mad dance of tariffs

### President Trump's decisions shake up markets

#### The central banks' dilemma between inflation and growth

- **Fed** Trump's tariff hikes put the Fed in a delicate position. On the one hand, these tariffs are likely to slow down the economy, which could prompt a drop in interest rates. On the other hand, they are likely to increase inflation, pushing the Fed to maintain, or even increase, rates to contain inflation.
- **Donald Trump** has publicly urged the Fed to cut interest rates, saying inflation is non-existent. This political pressure, combined with rising trade tensions, has led to higher global borrowing costs.
- **Neel Kashkari**, president of the Minneapolis Fed, said the new tariffs pushed him to favor maintaining current interest rates. He points out that the tariffs are expected to lead to inflation in the short term and increased job losses.
- **Trump** After the decision to suspend the application of customs duties for 90 days to 75 countries (excluding China) to make way for negotiations, the European Commission has also decided to postpone the entire list of measures approved in response to the customs duties ordered by Donald Trump on steel and aluminum.

### Figure of the week

**2,4%**

This is the inflation rate in the United States at the end of March down from February



### Neel Kashkari

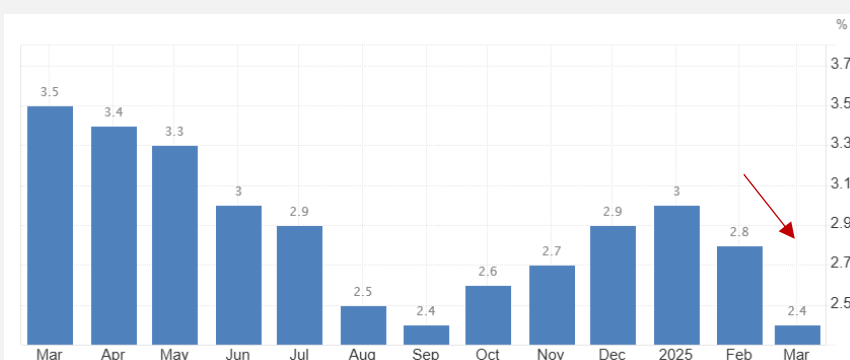
Minneapolis Fed President **Neel Kashkari** said the central bank is less likely to lower interest rates in the face of tariffs because of their inflationary impact, even as the economy begins to deteriorate.

Kashkari called Trump's tariffs "much higher and more widespread than expected," adding that he expects the levies to reduce investment and economic growth and drive up inflation "at least in the short term."

The barrier to changing the federal funds rate in either direction has increased because of tariffs.

Given the paramount importance of keeping long-term inflation expectations anchored and the likely increase in short-term inflation due to tariffs, the bar for cutting rates even in the face of a weakened economy and a potential increase in unemployment is higher."

### Inflation rate evolution in the United States



Source: BLS 10/04/25

**Inflation** in the US did not meet analysts' expectations in March. According to the BLS, prices fell 0.1% on a monthly basis, compared to +0.2% in the previous month and less than the +0.1% expected by analysts. Year-on-year, inflation growth was 2.4%, down from 2.8% in February and below the 2.5% expected by consensus.

The **core rate**, the consumer price index stripped of the most volatile components such as food and energy, the most closely watched by the Fed, rose 0.1% on a monthly basis (+0.3% according to market estimates), after +0.2% the previous month.

Annual **growth** was +2.8%, below the consensus of 3% and the +3.3% in February.

## Villeroy De Galhau: Tariffs encourage further rate cuts "soon"

The ECB is expected to cut interest rates "soon" as U.S. President Donald Trump's tariffs and spillovers to global markets favor such a decision, according to Governing Council member Francois Villeroy de Galhau.

The trade war will have a "non-negligible" direct impact on the economy, which will cut growth by about 0.25% this year, the director general of the Banque de France has warned.

While the U.S. will likely experience an "inflationary shock, the disinflation trend in Europe is solid" and the euro's rise since Trump announced significant tariffs will help contain upward pressure on prices, he said.

"There is still room for a rate cut, which we need to decide with agile pragmatism: pragmatic because it is based on economic data and agile because we need to move as fast as warranted."

"The changes that have taken place since April 2 argue in favour of a reduction in the near future. Going even further than Villeroy, Finland's Olli Rehn said in a speech that "the reasons for further rate cuts at the April meeting have strengthened markedly based on a holistic assessment of inflation and economic growth."

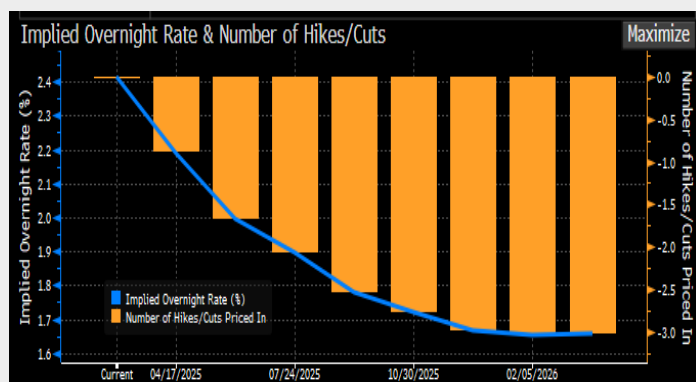


*If the negotiations are not satisfactory, our countermeasures will come into force*

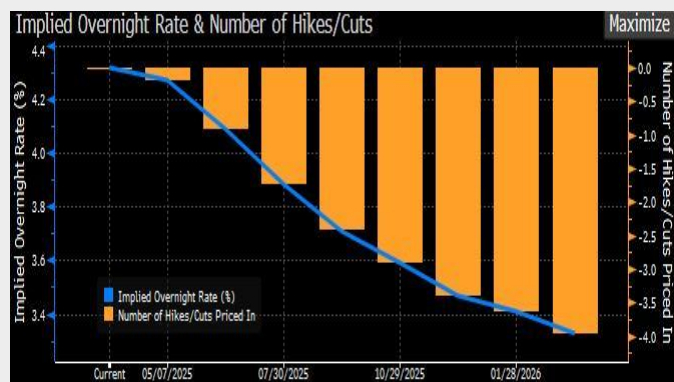


*Ursula Von der Leyen, President of the European Commission*

**ECB**



**FED**



Source: Bloomberg 10/04/25

With one week to go before the ECB's next monetary policy meeting on April 17, it is almost certain that the central bank will cut rates again by 25 bps to bring the deposit facility rate down to 2.25% as Donald Trump's tariffs risk dragging the European Union into recession.

If this scenario materializes, it would be the seventh consecutive cut by the European Central Bank.

A further rate cut of 25bp is expected in June. Before the end of 2025, markets expect a total of 3 interest rate cuts.

As for the **Federal Reserve**, if caution prevails in the short term, as central bank members have indicated in recent days while waiting to analyze the impacts of Donald Trump's implementation of tariffs, up to four interest rate cuts are expected in the coming months by March 2026.

According to market forecasts, the first of these cuts could take place at the FOMC meeting on June 18.



### FED MINUTES: INFLATION MORE PERSISTENT THAN EXPECTED

In March, Fed members almost unanimously noted the increased risks to the US economy, between rising inflation and slowing growth.

Some of them said they thought that "delicate compromises" could await the institution in the future, according to the "minutes" of the March 18-19 meeting, which was held in the wake of the first tariff announcements by the administration of US President D. Trump.

Since then, the head of the White House has unveiled other so-called "reciprocal" taxes, which came into force on Wednesday for only a few hours, Washington having announced a 90-day pause. Uncertainty over tariffs and their impact has prompted Fed members to favour a "cautious approach", with the possibility of keeping interest rates high for longer than expected in the event of a rebound in inflation or, conversely, easing monetary policy if the need to support the economy arises

## BoJ concerned about tariffs

Bank of Japan Governor **Kazuo Ueda** said the central bank needed to look "without preconceptions" at whether the economy was on track to meet its forecast, suggesting the possibility of a pause in interest rate hikes as U.S. tariffs rattle markets.

Although it remains below the central bank's 2% target, Japan's core inflation is gradually accelerating as wage increases continue, Ueda said on Wednesday,

He added that economic and price conditions were moving roughly in line with the central bank's forecast.

"We need to pay due attention to risks, especially the recent increase in uncertainty about each country's trade policy developments," Ueda said in a speech, highlighting the BOJ's concern about the potential damage from U.S. tariffs.



Kazuo Ueda, BoJ Governor

***Ueda reiterated that the BOJ would continue to raise interest rates if the economy continued to improve, suggesting that the BOJ could remain on hold until the impact of the U.S. tariffs is clearer.***

### Topicality



▶ **New Zealand** | The central bank lowers interest rates by 25 bp to 3.50%

▶ **Germany** | Industrial production falls more than expectations at -1.3% at the end of February

### Agenda



▶ **April 16** | Bank of Canada Interest Rate Decision

▶ **17 March** | ECB decision on interest rates of interest in the Eurozone

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