

# What to watch: France's back-to-school blues, ECB on hold and no summer break for the trade war

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## In summary

**France: Back-to-school blues.** *La rentrée* kicks off with another confidence vote on 8 September following the political deadlock over the 2026 budget. Prime Minister Bayrou's government is unlikely to survive, making a watered-down budget (EUR20bn vs EUR44bn originally) the most likely outcome by the end of the year, though the streamlining of public agencies, tighter control of healthcare spending, lower transfers to local governments and reduction or removal of inefficient tax loopholes should remain. The OAT spread would settle at around 80-90bps, while France's budget deficit would likely settle at around -5% of GDP in 2026 even if the next government resorts to a Special Law instead of passing a formal budget. The worst-case scenario (15% probability) would be new snap elections, which could hit growth hard amid tighter financing conditions (OAT spreads at 100-110bps) and keep the deficit at around -5.4% next year. But if French spreads hit 100-120bps, the ECB would likely slow down or halt its current pace of quantitative tightening (QT), and a move towards 120-150bps could trigger the Transmission Protection Instrument (TPI), which would bring spreads back to the 80-90bps range.

**ECB: Pausing for longer.** The ECB is expected to keep policy rates unchanged at 2% at its next meeting on 11 September. Given the recent uptick in inflation, fading uncertainty around the trade war and a closing window for fiscal-stimulus-fueled growth from Germany, we have now removed the two additional rate cuts that had been penciled in after Labor Day. While there remains an economic justification for modest additional easing, ECB communication has turned markedly more hawkish since the last policy meeting: In the absence of a major shock, the current policy stance will remain unchanged. Nevertheless, the Eurozone continues to face mounting challenges, including rising financing costs amid elevated fiscal deficits and growing political and economic fragility in core economies – notably France and Germany. In essence, we are revising our baseline from anticipating further monetary easing – with risks tilted to the upside – to expecting no additional cuts, with risks now skewed to the downside. The continued rise in long-end government bond yields will likely reignite the debate over the pace of quantitative tightening.

**No summer break for the trade war.** Companies continued to diversify supply chains, resulting in the US importing less from China (9% of total in July 2025 vs. 14% in 2024) and more from lower-tariffed markets (Southeast Asia, India and Taiwan, together 24% in July 2025 vs. 17% in 2024). Consequently, in July, the effective tariff rate collected was lower than expected, at 10%. But it could reach 14% as soon as September – compared to 17% without firms' mitigation strategies – given limited room for further supply-chain diversification (without major investment pledges), and higher tariffs kicking in since the summer trade deals. Moreover, uncertainty persists as several Section 232 sectoral investigations need to be concluded by year-end. Hiking tariffs by +25pps on all products currently under investigation could further raise the US tariff rate by up to +3pps. Meanwhile, if approved, the EU-US deal should ultimately bring the US tariff rate on the EU to 12% and potentially help the EU recover US market shares lost so far this year (-2pp), notably on aircraft & parts and semiconductor equipment. But some concessions could stand in the way of the EU's own ambitions in defense procurement, data privacy, emission reductions and energy procurement.

## France: Back-to-school blues

**France's back-to-school season kicks off with yet another confidence vote.** Prime Minister Bayrou has called for a confidence vote on 8 September to secure approval for his ambitious budget plan (total fiscal package of EUR44bn or 1.4% of GDP), aimed at reducing the public deficit from 5.8% in 2024 to 4.6% in 2026 (5.4% expected by the government for 2025). With almost half of it in the form of tax hikes, Bayrou's budget would knock -0.6pp off GDP growth in 2026, while likely falling short of its fiscal target because of (1) optimistic assumptions on healthcare savings and tax collection and (2) the lack of a clear and consistent strategy of structural spending cuts to achieve the target deficit of -2.8% GDP by 2029.

**The market response reflects long-term fiscal risks rather than short-term political uncertainty.** At 80bps, the 10y government bond spread compared to Germany remains in the fair value and close to our forecast. In terms of levels, we are at the upper end of the range since the announcement of snap elections in June 2024. More concerning is the absolute level of yields, which is now the highest since 2009 at the very long end of the yield curve. France is now seen by markets as a non-core issuer, closer to Italy, and the spread can further rise depending on the political developments next week. Several credit ratings reviews are up ahead, including Fitch (AA- with negative outlook) on 12 September, Moody's (Aa3 stable) on 24 October and S&P (AA- with negative outlook) on 28 November.

Figure 1: Projections for French fiscal deficits and GDP growth under different scenarios

	Watered-down budget (50% probability)	Care-taker government, Special Law (30% probability)	Snap elections (15% probability)	Bayrou wins (5% probability)
Fiscal deficit (% GDP)	5.0	5.1	5.4	4.9
GDP growth	1.1	1.0	0.6	0.9

Sources: LSEG Datastream, Allianz Research

**Ultimately, the Bayrou government is unlikely to win the confidence vote, making a watered-down budget the most likely outcome by the end of the year – as expected<sup>1</sup>.** In this baseline scenario, OAT spreads would be at 80-90bps and the budget could be delayed through early 2026 amid tough negotiations with political parties. We would expect a fiscal consolidation to the tune of EUR20bn, i.e. around half of Bayrou's fiscal plan. The cost of the fiscal package in terms of growth in 2026 would be modest. In addition to financial conditions easing on the back of financial market relief, private spending would not be hit hard. The fiscal deficit would reach 5% of GDP in 2026, down from 5.5% this year. French public debt is expected to rise to 117% of GDP in 2025 and 119% in 2026. Interest expenses would reach 2.5% of GDP in 2026 (EUR77bn), from 2.3% in 2025 (EUR68bn). We would expect the watered-down budget to keep some elements of the Bayrou plan, at least partially, including the streamlining of public agencies, streamlining and tighter control of healthcare spending, lower transfers to local governments and reduction or removal of inefficient tax loopholes. But it would likely exclude the across-the-board freeze in social benefits, the elimination of two public holidays and the freeze in personal income tax brackets.

**The government could alternatively opt for a Special Law instead of a budget bill (30% probability), which would send OAT spreads to 90-100bps.** In this scenario, even if Bayrou fails to win the confidence vote, President Macron could ask him to remain in office, heading a care-taker government. The lingering political deadlock would keep financial conditions and OAT spreads slightly tighter than the watered-down budget scenario but macro and fiscal outcomes would be somewhat similar. We estimate that relying on the Special Law would achieve around half of Bayrou's fiscal plan (EUR20bn). In all, growth could be slightly lower (at +1%) and the deficit slightly higher at -5.1% in 2026. However, this scenario would ramp up pressure on the President to call for snap elections in 2026.

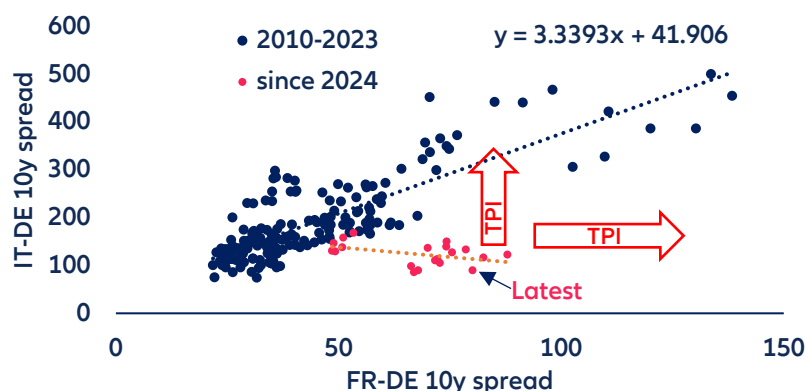
**Snap elections and a severe political crisis would push OAT spreads to 100-110bps but this looks unlikely (15% probability).** In this scenario, political infighting would increase, driving up pressure on President Macron to resign.

<sup>1</sup> [What to watch: 18 July 2025](#)

GDP growth would be reduced to +0.6% in 2026 on the back of tighter financial conditions and political fragmentation. A caretaker government would be appointed, likely resorting to the Special Law (i.e. EUR20 of fiscal consolidation). The fiscal deficit would remain stable (around 5.4% GDP) because of low growth weighing on revenue collection. Bayrou winning the confidence vote and passing the budget “as is” remains the least likely outcome (5%).

**For the ECB to activate the Transmission Protection Instrument, OAT spreads need to be much wider.** No matter what happens, the ECB is unlikely to activate its Transmission Protection Instrument (TPI), which would effectively mark a return to quantitative easing (QE). ECB board member Isabel Schnabel has made it clear that the recent widening in French spreads reflects a domestic issue, with markets rightly pricing in higher risk premia due to deteriorating fiscal fundamentals. Nevertheless, the so-called “ECB put” remains in place, implicitly capping spread moves even today. Should we see strong contagion to other countries or signs of “disorderly market dynamics” – the ECB’s own criteria for TPI activation – we expect the central bank would not hesitate to intervene. In our view, if French spreads were to rise rapidly to the 100–120bps range, the ECB would likely slow down or halt its current pace of quantitative tightening (QT). A move towards 120–150bps could trigger activation of the TPI. This should bring spreads back to the 80-90bps range.

Figure 2: Correlation between Italian and French government bond spreads, bps



Sources: LSEG Datastream, Allianz Research

**French GDP growth remains sluggish, hampered by weak domestic and external demand.** We estimate that political uncertainty and tighter financial conditions (relative to a “no dissolution” scenario) over the past year have shaved off -0.2pp from growth and added EUR4bn to the fiscal deficit due to weaker growth and higher interest rates. The trade war and US tariffs increasing to 13% from 1.3% previously will hit French exports by EUR5bn (-0.2% of GDP). Looking ahead, we estimate GDP growth at +0.1% q/q in Q3 and +0.2% q/q in Q4 2025, driven by modest domestic demand, with households holding back on goods consumption and saving more. Business investment contracted for the fourth straight quarter in Q2 2025, likely affected by political uncertainty and business tax hikes, with firms' margins dropping by 1.4pp to 31.4% of gross value added since their 2024 peak. Our GDP growth forecasts are +0.6% for 2025 and +1.1% for 2026. We anticipate a recovery in 2026, fueled by reduced trade uncertainty, a German economic rebound, a (weak) construction sector recovery and a gradual normalization of household savings rates. Nevertheless, risks to our GDP outlook for 2026 are on the downside amid persistent political deadlocks. Overall, without fiscal consolidation, France would need to grow by +2.3-2.4% to stabilize the debt-to-GDP ratio – a remote prospect.

## ECB: Pausing for longer

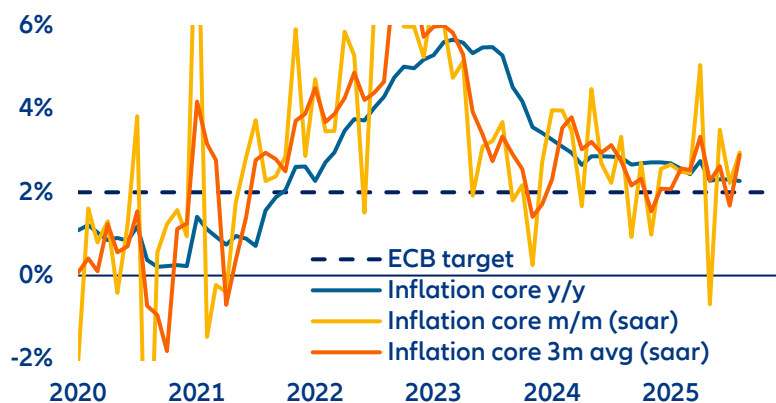
**The ECB is set to stay on hold for longer as hawkish voices dominate, despite downside risks.** The ECB is expected to keep its deposit rate unchanged at 2.0% when the Governing Council meets on 11 September. With inflation ticking up again, uncertainty from the trade war receding and the window for fiscal-stimulus-driven growth – particularly from Germany – narrowing, we have removed the two additional rate cuts previously penciled in after

Labor Day. While the Eurozone economy continues to operate below potential – and a simple Taylor rule would still justify further easing – the ECB’s rhetoric has hardened considerably.

**Policymakers now emphasize that the current stance is appropriate and should remain unchanged, absent a major shock.** President Lagarde set the tone at the last press conference, brushing aside concerns about the stronger euro and stating that a temporary undershooting of the inflation target is not sufficient reason to ease further. She also noted that the inflationary or deflationary effects of the trade war remain unclear. Board member Isabel Schnabel echoed this message, underscoring that the policy stance should remain unchanged unless a significant shock occurs. She went further, stating that even without retaliatory tariffs from Europe the trade war is net inflationary for the Eurozone. However, not all officials agree. Finland’s central bank governor Olli Rehn has warned that inflation may again undershoot and that the ECB should not rule out rate cuts below the neutral rate, given the downside risks from US trade tariffs. These diverging views underscore that the internal debate is far from settled – though the hawks currently have the upper hand. This also becomes obvious when looking at market pricing, with only half a cut being priced in by markets until mid-2026, and hikes again in 2027.

**Inflation, labor markets and the trade deal justify the current policy stance.** Inflation surprised to the upside recently, with headline inflation rising to 2.1% y/y in August (from 2.0% in July) and core inflation stable at 2.3% y/y. However, sequential core inflation is accelerating, with the three-month annualized rate at 2.9% (Figure 3). The chances of significantly undershooting inflation going forward have diminished. Meanwhile, the labor market remains robust, with unemployment at a record low of 6.2%. However, demographics play a role here, and the gap to the NAIRU is small, suggesting that the labor market may not be as tight as it appears. The recently concluded US-EU trade deal resulted in higher tariffs than initially expected, but it remains one of the more favorable arrangements globally. Importantly, the resolution of trade policy uncertainty is a near-term positive. Besides, the global economy appears resilient against the higher tariff environment. Economic surprise indices are in positive territory, implying that the damage from the trade war may have been overstated or remains to be seen. Last but not least, the 2026 fiscal boost in Germany should support growth across the Eurozone, closing the window for further rate cuts even if they were appropriate currently.

Figure 3: Eurozone core inflation, %

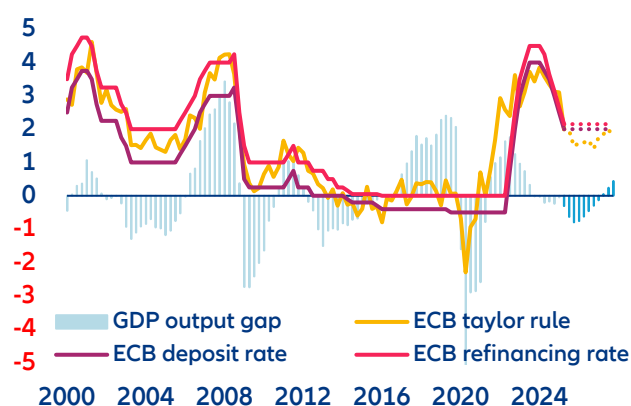


Sources: LSEG Datastream, Allianz Research

**But upside risks to a 2% terminal rate are low and market pricing for hikes in 2027 implausible.** The ECB’s own estimate for the neutral rate lies between 1.75% and 2.25%, while the Holston-Laubach-Williams (HLW) model puts it at 1.75%. With a currently negative output gap, a temporarily looser policy stance would be justified (two more cuts), as confirmed by our simple Taylor rule model (Figure 4). From that end, a 2% terminal rate has more downside than upside risks. Also, when looking further out, the ECB has historically never maintained rates at the estimated neutral rate for long, raising questions either about the credibility of a 2% neutral rate or putting the forecast itself in question (Figure 5). From that point of view, the current market pricing of more than one rate hike in 2027 seems highly unlikely. Leading indicators also warrant caution. Monetary aggregates are growing again but remain weak. The latest Bank Lending Survey showed a net increase in corporate loan demand but it still remained below long-

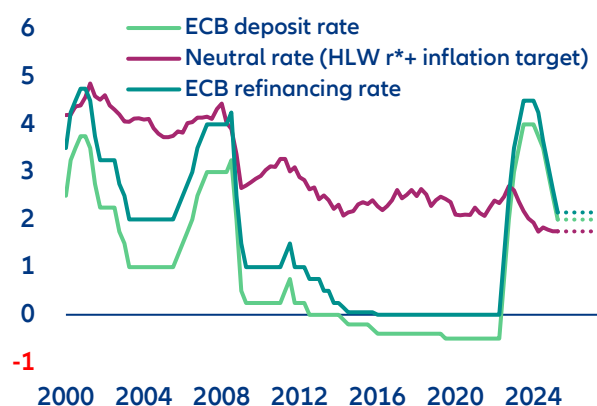
term averages. The same holds for the composite PMI, despite ticking up to 51.1 in August – a 12-month high. Consumer confidence and the European Commission’s Economic Sentiment Indicator have even slipped again in August and remain well below historical norms. Our combined leading median Z-score indicator sits at -0.4 – better than a year ago, but still far from a robust level that would point to the above-potential growth that is necessary to close the negative output gap.

Figure 4: ECB policy rates, output gap and Taylor Rule, %



Sources: LSEG Datastream, Allianz Research

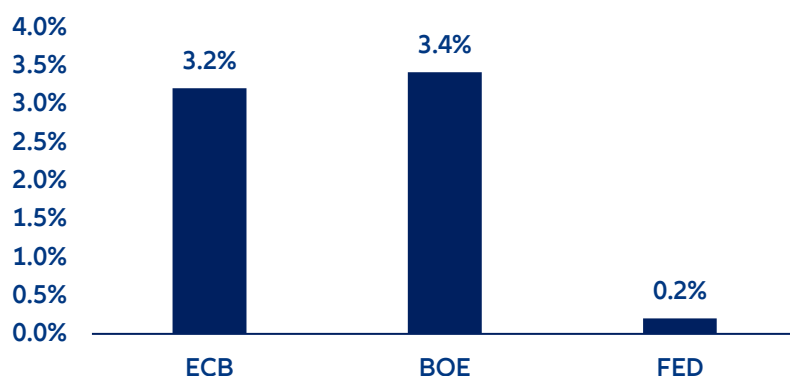
Figure 5: ECB policy rates compared to Holsten-Laubach-Williams neutral rate, %



Sources: LSEG Datastream, FED New York, Allianz Research

**Financial markets add another layer of downside risk, with QT coming in focus again.** Long-end yields are surging, with German 30-year yields rising above 3.4% in September – marking a decade high – despite a year of ECB rate cuts. France has seen similar moves. While global drivers play a role (e.g. higher US long-end yields and Dutch pension fund rebalancing), the ECB’s aggressive pace of quantitative tightening (QT) is a key factor. Currently, the ECB is reducing its government bond holdings by around EUR40bn per month (3.2% of Eurozone GDP), compared to just USD5bn per month (0.2% of GDP) for the Fed (Figure 6). This rapid runoff in sovereign bond holdings risks disorderly market reactions if long-term yields continue to climb or fiscal concerns intensify. Our fair value model suggests that a full stop to QT could lower long-term yields by about 20bps – an option the ECB may need to consider if market conditions worsen. Last but not least, and needless to say, if the Fed cuts more than expected, given the political pressure from the White House, the ECB might be forced to join as the euro would most certainly rise to even higher levels. EUR/USD levels significantly above 1.20 would certainly start to be problematic for the ECB.

Figure 6: Current pace of quantitative tightening (government bonds only) in % of GDP



Sources: LSEG Datastream, Allianz Research

Note: The Fed has capped quantitative tightening of US Treasuries to USD 5bn per month since April 2025. This compares to around EUR40bn per month by the ECB on average since January 2025 and GBP8bn per month by the BoE.

**The bottom line: The ECB will hold its deposit rate steady at 2.0% for longer and continue QT at the current pace, but downside risks dominate.** Leading indicators suggest sluggish growth ahead, and time will tell whether the trade war proves inflationary or deflationary for the Eurozone. Fiscal concerns and rapid QT put additional pressure on bond markets. But for the moment the ECB appears willing to tolerate subdued growth and elevated real borrowing costs to maintain its inflation-fighting credibility, and keep a buffer should conditions deteriorate further.

## No summer break for the trade war

**US trade policies evolved further over the summer, increasing in theory the US global import tariff from 13% in July to 17% in September.** After a salvo of tariff news in July, including several deals and adjusting “reciprocal” tariff hikes<sup>2</sup>, the momentum continued in August. Details of the EU-US deal were unveiled, likely settling the US tariff rate on imports from the EU at 12% (vs. 1% at the end of 2024 – see Figure 7). Additional tariffs were slapped on India, bringing the US tariff rate on India to 32% (up from 11% in June and 2% at the end of 2024). Additionally, the steel and aluminum tariffs were expanded to further products and the de-minimis exemption was fully terminated. On the positive side, the partial truce with China was extended for another 90 days, running until 10 November.

Figure 7: US estimated import tariff rate by country

	US imports		US tariff rate							Maximum export losses in the baseline scenario		
	USD bn (2024)	share of total (2024)	Pre-Trump II	Before "Liberation Day" *	After "Liberation Day" and related decisions **	With deals found in May (China and UK)	With steel and aluminum at 50%	As of 1 September ***	Adding threat of pharma and semiconductors at 25% ****	Baseline scenario	2025 (USD bn)	2025 (share of exporters' 2024 GDP)
Argentina	7	0%	0.7%	3%	9%	9%	11%	11%	11%	8%	-1	-0.1%
Australia	17	1%	0.1%	2%	10%	10%	12%	12%	14%	10%	-2	-0.1%
Bangladesh	9	0%	15.1%	15%	25%	25%	25%	35%	35%	35%	-1	-0.2%
Brazil	44	1%	1.0%	4%	11%	11%	14%	32%	32%	26%	-7	-0.4%
Cambodia	13	0%	6.5%	7%	15%	15%	15%	23%	28%	23%	-1	-4.1%
Canada	422	13%	0.1%	10%	10%	10%	12%	15%	16%	10%	-41	-1.8%
Chile	17	1%	0.0%	0%	6%	6%	6%	7%	7%	5%	-1	-0.2%
China	463	14%	13.0%	33%	103%	39%	39%	40%	40%	40%	-96	-0.5%
Colombia	18	1%	0.2%	5%	13%	13%	14%	14%	15%	12%	-2	-0.6%
Ecuador	9	0%	0.4%	1%	6%	6%	6%	10%	10%	8%	-1	-0.5%
EU	618	18%	1.3%	4%	9%	9%	10%	13%	17%	12%	-52	-0.3%
Hong Kong	6	0%	1.4%	1%	94%	9%	9%	9%	9%	9%	-1	-0.1%
India	91	3%	2.4%	4%	10%	10%	11%	32%	36%	28%	-13	-0.3%
Indonesia	30	1%	4.6%	5%	13%	13%	14%	24%	25%	24%	-4	-0.2%
Japan	152	5%	1.5%	10%	14%	14%	15%	13%	15%	13%	-16	-0.3%
Kenya	1	0%	0.3%	0%	8%	8%	9%	9%	13%	7%	0	0.0%
Malaysia	54	2%	0.7%	1%	5%	5%	6%	13%	20%	13%	-4	-0.8%
Mexico	510	15%	0.3%	4%	4%	4%	4%	5%	5%	5%	-19	-1.4%
New Zealand	6	0%	1.1%	1%	10%	10%	11%	15%	15%	12%	-1	-0.2%
Norway	7	0%	0.6%	1%	6%	6%	7%	9%	11%	8%	0	-0.1%
Pakistan	5	0%	9.7%	10%	20%	20%	20%	29%	29%	24%	-1	-0.2%
Philippines	15	0%	1.5%	2%	7%	7%	7%	13%	16%	13%	-1	-0.2%
Saudi Arabia	13	0%	0.3%	1%	4%	4%	4%	4%	4%	4%	0	0.0%
Singapore	44	1%	0.1%	0%	5%	5%	5%	10%	16%	7%	-2	-0.5%
South Africa	15	0%	0.4%	4%	9%	9%	11%	21%	21%	21%	-2	-0.5%
South Korea	135	4%	0.2%	8%	13%	13%	14%	16%	17%	16%	-17	-0.8%
Switzerland	64	2%	0.7%	1%	7%	7%	8%	25%	32%	19%	-7	-0.7%
Taiwan	119	4%	1.2%	2%	5%	5%	6%	9%	12%	8%	-6	-0.7%
Thailand	66	2%	1.4%	2%	8%	8%	9%	17%	20%	17%	-6	-1.0%
Türkiye	18	1%	3.5%	5%	13%	13%	15%	19%	19%	16%	-2	-0.2%
UAE	8	0%	2.4%	8%	13%	13%	21%	21%	21%	20%	-1	-0.3%
UK	69	2%	0.9%	4%	9%	6%	7%	7%	10%	7%	-4	-0.1%
Vietnam	142	4%	4.1%	4%	11%	11%	11%	22%	24%	22%	-15	-3.1%
Global	3359	100%	2.5%	9%	21%	12%	13%	17%	18%	14%	-325	-0.3%

\* Before “Liberation Day”: accounts for tariff hikes on US imports from China, Canada and Mexico, as well as US imports of steel, aluminum, autos and auto parts

\*\* After “Liberation Day” and related decisions: tariff changes in the first half of April (+10pps basic hike on all countries, higher on China, with sectoral exclusions)

\*\*\* As of 1 September: accounts for decisions in July (deals, adjusted “reciprocal” tariffs, country-specific executive orders, higher tariffs on copper)

\*\*\*\* Adding threat of pharma and semiconductors at 25%: Except for the EU, where the tariff will be capped at 15%

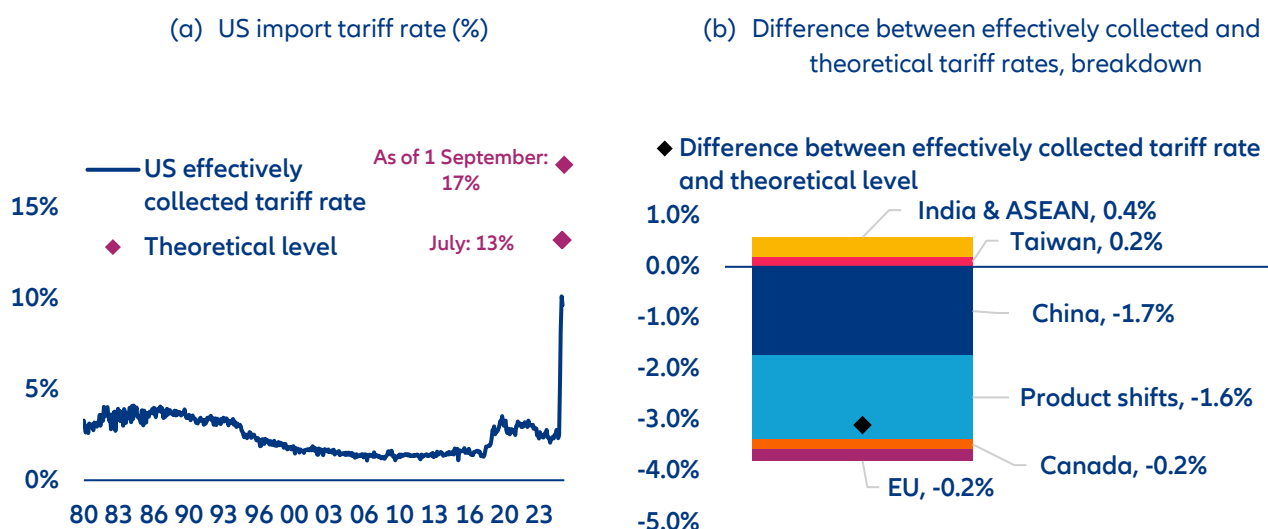
Sources: various, Allianz Research

<sup>2</sup> See [here](#), [here](#) and [here](#) for more details.



**The effectively collected tariff rate turned out lower in July at 10% (vs. 13% expected), but it is likely to increase going forward. Our baseline of 14% seems plausible.** The difference is explained by a shift in the structure of US imports, both in terms of source country and products. While our estimated global effective tariff rates are based on the 2024 structure of US imports, changes have already been observed in recent months. Most notably, the share of US imports coming from China dropped from 14% in 2024 to 9% in July 2025, meaning that China's contribution to collected tariffs is actually lower than anticipated (by -2.5pps, see Figure 8.b). Conversely, the share of US imports coming from other countries that face lower tariffs – in particular India, ASEAN countries, Taiwan and Mexico – has risen from 32% in 2024 to 41% in June 2025. Beyond this, a higher weight for imports of lower-duty or duty-free products is also likely contributing to the lower-than-calculated collected tariff rate. With likely limited room for further such supply-chain diversification (in the absence of major investment pledges), and higher tariffs kicking in since the summer, we estimate that the US effective tariff rate could reach 14% as soon as September – compared to 17% without firms' mitigation strategies. More products may also be at risk as several Section 232 investigations are still ongoing.

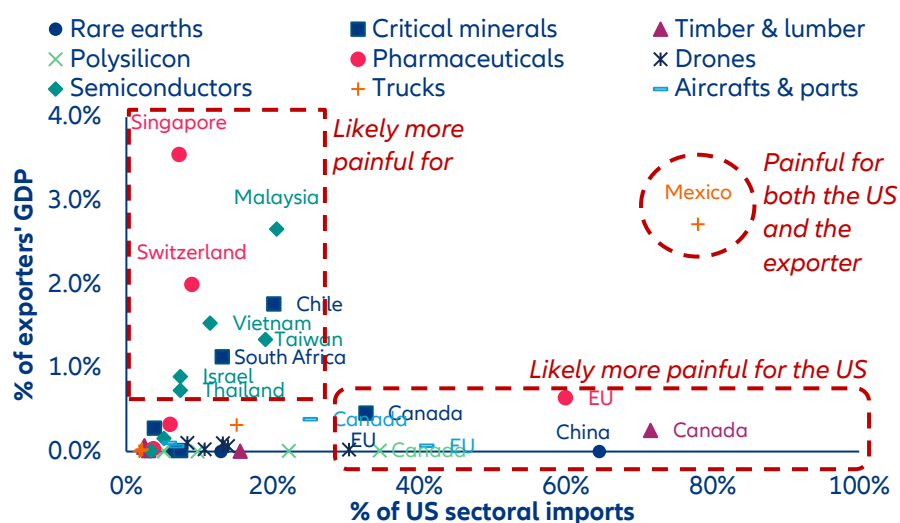
Figure 8: US effectively collected vs. theoretical tariff rates



Sources: US Census Bureau, US Bureau of the Fiscal Service, Allianz Research

**Hiking tariffs by +25pps on all products that are currently under Section 232 investigations could raise the US global import tariff rate by up to +3pps. But doing so on critical minerals and rare earths, pharmaceuticals, aircrafts & parts will likely to be too painful for the US.** Section 232 investigations on pharmaceuticals, semiconductors and timber & lumber will be concluded before the end of 2025. Other investigations on critical minerals & rare earths, trucks, commercial aircrafts & parts, drones & parts and polysilicon could take until Q1 2026. After receiving the results of the investigations, President Trump then has 90 days to decide how to act on them – e.g. by hiking tariffs or initiating negotiations with trade partners. We estimate that +25pps tariff hikes on all these sectors (taking into account the 15% cap for the EU, as part of the deal – see below) could raise the US global import tariff rate by up to +3pps. However, the US's strong dependency on some providers suggests that tariff hikes may be too painful to implement. In particular, the US imports more than a third of some products from a single country or area: 72% of timber & lumber from Canada, 65% of rare earths from China, 60% of pharmaceuticals from the EU, 49% of aircrafts & parts from the EU, 36% of aircrafts & parts from Canada, 35% of polysilicon from Canada and 33% of critical minerals from China (see Figure 9). With these shipments respectively representing less than around half a percentage point of the exporter's GDP, the burden of potential tariff hikes may end up being carried more by the US.

Figure 9: Sectors and goods currently under Section 232 investigations, top exporters to the US



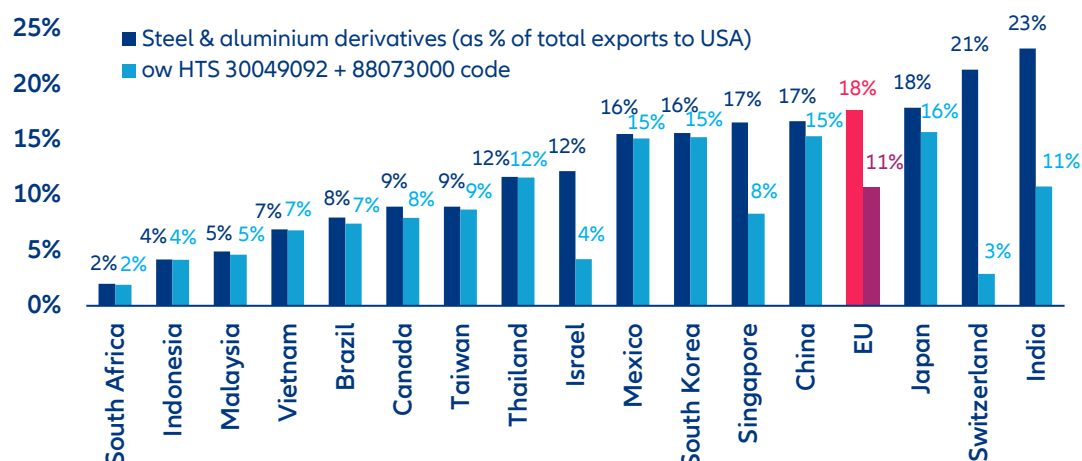
Sources: UNCTAD, IMF, US White House, Allianz Research

**Section 232 tariffs on steel & aluminum derivative products are the elephant in the room.** Section 232 tariffs on steel & aluminum (50% or +50pps, depending on goods) were expanded to additional derivative products in June and August, which account for a significant amount of imports: USD430bn, or 13% of US total imports. The exact applicability of these tariff hikes remains to be clarified, as official documents suggest that they should only apply on the steel and aluminum content of derivative products, reported by exporters to US customs. For some products, their inclusion in the list is only due to their packaging containing steel or aluminum. Nevertheless, in theory, the most exposed exporters to these additional tariffs would be India (23% of exports to the US), Switzerland (21%), Japan (18%), the EU (18%<sup>3</sup>), China (17%), Singapore (17%), South Korea (16%) and Mexico (16%) – see Figure 10. It is also not entirely clear at this stage what will prevail between these higher tariffs on steel & aluminum derivative products and the recently negotiated deals. In the case of the EU, for example, the pharmaceutical and aircraft sectors should be out of scope. By eliminating two steel & aluminum derivative products that are actually categorized in the pharmaceutical and aircraft sectors, the ratio of exposed exports for the EU drops to 11% (11% as well for India and 3% for Switzerland – see Figure 10). In this context, compliance with the EU-US deal is crucial to avoid suffering from additional heavy and damaging tariff hikes. In the meantime, the joint statement specifies that Europe intends to continue to negotiate with US officials to achieve further adjustments on steel and aluminum derivative tariffs. Given the broad reach of this tariff regarding the total value of goods affected, the terms of the EU-US deal will be scrutinized by other major US trade partners.

<sup>3</sup> Or around USD105bn, with Germany, France, Italy and Ireland the most exposed in value but Slovenia, Hungary, Croatia and Denmark the most exposed in relative terms.



Figure 10: US imports of steel & aluminum derivative products subject to tariff above 50%, by top countries

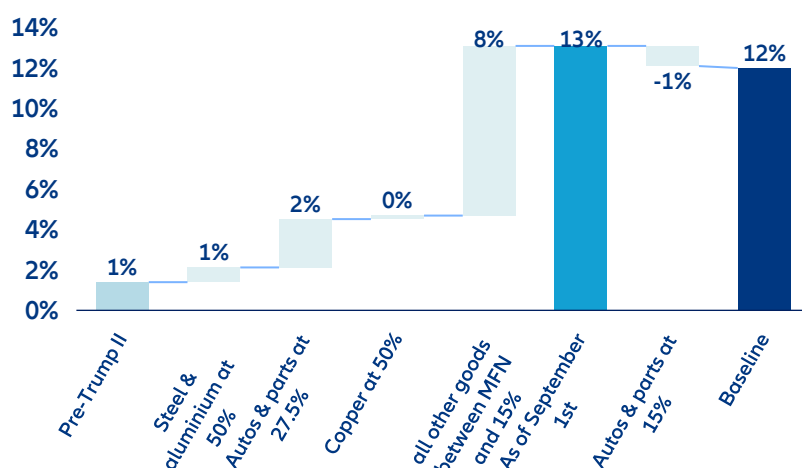


Note: HTS 30049092 = Medicaments nesoi, in dosage form and packed for retail / HTS 88073000 = Parts of aircraft of headings 8801, 8802, 8806, for airplanes, helicopters, unmanned aircraft, o/t propellers/rotors/undercarriages, nesoi.

Sources: Global Trade Alert, Allianz Research

The US tariff rate on imports from the EU now stands at 13% (up from 10% in June and 1% in 2024) and should edge down to 12% once tariffs on EU autos are reduced, which itself is conditional on the EU eliminating tariffs on US industrial goods and providing preferential market access to a wide range of agricultural and seafood products. The European Parliament still needs to approve the agreement, though the Socialist center-left party, the second largest in Strasbourg, and the Greens have already voiced concerns. The agreement covers key sectors at the heart of US-EU trade relations, including automobiles, pharmaceuticals and semiconductors. The automobile industry in particular will see tariffs reduced from 27.5% – the rate applied to most countries – to 15%, contingent on the EU removing tariffs on US industrial goods. European automakers welcomed the agreement with relief as economic uncertainty and new tariffs in the first half of 2025 had already reduced European car exports: German auto exports to the US fell by -7% y/y in H1 2025. Nevertheless, even with the reduction to 15%, tariffs remain significantly higher than the pre-2024 rate of 2.5%, representing a substantial loss for automakers. The EU-US deal also proactively addresses pharmaceuticals, semiconductors and lumber but Section 232 investigations are ongoing for these sectors and new tariffs from the White House could still be imposed. Under the deal, the US agreed to only raise EU tariffs on these sectors to 15% if the Section 232 investigations result in tariffs beyond that level for the rest of the world. All in all, the average EU tariff rate will temporarily increase to 13%, before declining to 12% as auto exports decrease (see Figure 11), and pending any new Section 232 tariff hikes. Notably, the EU-US deal does not address existing tariffs on steel and aluminum currently at 50%.

Figure 11: US effective tariff rate on EU imports

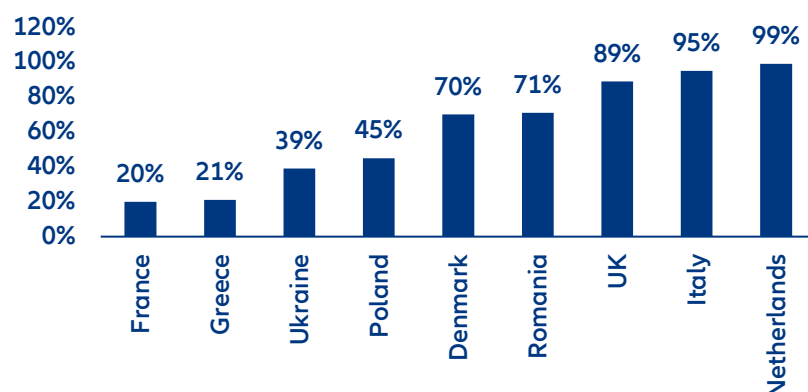


Sources: Allianz Research

**Notably, the deal opens up preferential market access to several agricultural and seafood products that were previously fenced off from US producers.** Included in the list are tree nuts, dairy products, fresh and processed fruits and vegetables, processed foods, planting seeds, soybean oil and pork and bison meat. In addition, both parties agreed to streamline sanitary and phytosanitary measures and technical measures to trade, though this might take years to achieve and are not expected to provide relief for US producers in the short term. This is a significant win to the US dairy industry, a key Donald Trump electorate, which had until now faced major hurdles to access the EU market: In 2024 it exported USD167mn to the EU, while the EU exported USD2.8bn to the US in dairy products.

**Yet, several potential concessions could stand in the way of the EU's own ambitions in defense procurement and data privacy.** The EU committed USD600bn worth of private investment (i.e. 3.3% of EU 2024 GDP), in strategic sectors, including military equipment and weapons, by 2028, though this contradicts the current EU ambition to increase domestic defense capacities, and reduce external dependencies for weapon procurement. With the US being by far the main provider for the EU and accounting for around two-thirds of EU arms imports in 2020-2024 (according to SIPRI statistics, see Figure 12 for country breakdown), the EU should seem rather inclined to reduce US exposure and favor more local production. Second, the EU committed to buy at least USD40bn of advanced chips to support the development of its data center infrastructure. This looks like a particularly large number, considering that the EU imported between USD5-7bn of semiconductors from the US yearly in recent years. While we see direct positive benefits for the EU as it would secure revenue for European firms specialized in chip printing equipment and allow the EU to take part in the AI train that is expected to drive future economic growth, such benefits will come with side effects and a greater dependency of European firms on US advanced AI infrastructure and cloud services, in the absence of sufficient advanced local alternatives. While the deal does not make any reference to specific treatment for US firms regarding the application of the European digital-focused regulatory framework (DSA, DMA & AI Act), a greater dependency on the US in digital services and AI technology could come with political pressure to ease regulation for US firms.

Figure 12: Share of US imports of arms among top European defense importers (2019-2023 period)



Sources: SIPRI, Allianz Research

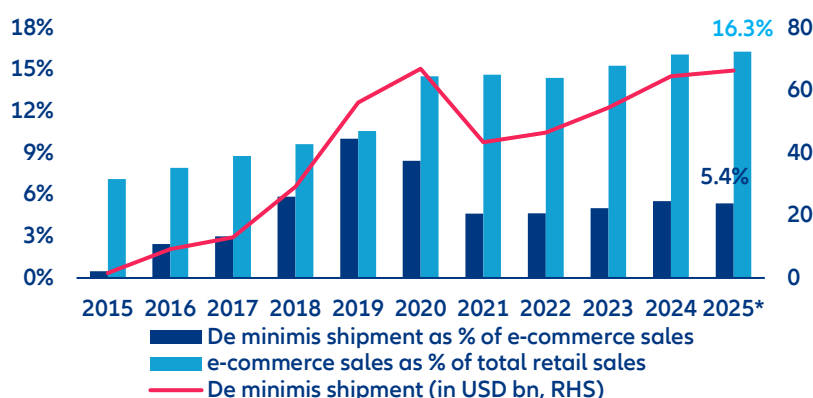
**The deal also raises concerns about emission reductions and energy procurement.** The full implementation of the Carbon Border Adjustment Mechanism (CBAM) scheduled in early 2026 will be critical for achieving the EU's target for carbon neutrality by 2050. But the trade deal opens the door for some "flexibility" for US SMEs, which appears as a clear threat to the project to create a carbon market. If concessions are made on US imports – which does not seem to be the case at this stage – other foreign nations could blame the EU of unfair competition and request an equal treatment in terms of carbon emittance rules. Finally, EU energy procurement from the US is set to increase, but tripling imports seems unrealistic. Under the agreement, the EU accepted to increase the procurement of energy products by USD750bn through 2028, or 4.3% of EU GDP. This would be a substantial increase considering that in 2023 (a record year of US energy imports to the bloc following the war in Ukraine), the EU purchased USD93bn of energy products (43% of which were LNG). Increasing US annual energy imports by USD250bn annually between 2026 through 2028 would bring the share of energy imports from the US to 55% from the current 18%. However, there are several reasons why this figure is unattainable. First, the EU does not procure energy, member states do. The EU cannot force member states or companies to buy from the US, the same way that the US does not mandate its companies to sell to the EU. Second, US energy supply cannot increase exports to the EU without leaving other existing clients empty-handed. US oil production is expected to decline over the next few years and the Trump Administration has already pledged millions of barrels to other partners. Greater LNG capacity is expected to come online in the US over the next few years, which could indeed be exported to Europe. However, new supply will also face long-lasting contracts that EU member states have signed, blocking buyers from shifting to new US LNG gas. The clearest path to increase the bloc's US energy purchases comes from fully phasing out energy imports from Russia, which would create a supply gap of around 25bn cubic meters of LNG, and that could very well match the new US supply. Hence, this part of the deal should probably be understood more as a pledge than a commitment.

**Meanwhile, there are also signs that the EU is trying to diversify away from the US, with Free-Trade Agreement negotiations intensifying.** Following a two-decade-long negotiation, the MERCOSUR-EU FTA, which the European Commission is aiming to finalize by December 2025, is now through the final rounds of approval among EU member states regarding assurances for farmers and agriculture producers, before it goes to the European Parliament. The India-EU FTA currently under negotiation is expected to be formalized by the end of the year. If both FTAs are signed by year-end, EU export gains could be above USD10bn when implemented. Over the last few months, several EU member states have proposed to open negotiations to join the 12-member Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which mainly includes countries on the Pacific rim but also the UK (having joined in 2024). Except for Australia and Malaysia – with whom there are open FTA negotiations – and Brunei, the EU already has signed FTAs with the rest of the CPTPP member states. A CPTPP-EU FTA would increase export gains by at least USD3.5bn annually, without considering new potential non-tariff agreements, supporting the EU's shift towards the Asian continent. Other negotiations with high stakes for Brussels continue, including with Indonesia, Philippines and the UAE.

**The end of the de-minimis exemption: not much impact on US consumers, but a potential blueprint for other countries.** Initially only applied to China and Hong Kong, the end of the de-minimis exemption on low-value shipments (below USD800) has become effective for all countries as of 29 August. Over a temporary period of six months, until 28 February 2026, US customs services will apply to each parcel a flat tax based on the updated most-favored nation (MFN) tariff applied to each single country: USD80 when the tariff rate is lower than 16% (the EU, Japan, South Korea), USD160 for the 16-25% range (Vietnam, Taiwan, Indonesia, Mexico) and USD200 for above 25% (China, Canada, India, Brazil). After that period, the MFN rate will be applied for all packages. Overall, the impact on US consumption and the overall economy is likely to be limited as de-minimis shipments only account for a little more than 5% of e-commerce sales in the US<sup>4</sup>, and 1% of total national retail sales. That said, low-income households should be more impacted as, for example, they account for almost 50% of China-origin de-minimis imports, compared with a little more than 20% for the wealthiest US consumers<sup>5</sup>.

**The Chinese marketplaces most affected are unlikely to exit the US but rather ramp up investments in warehouses located in the US or neighboring countries.** Shein and Temu account for around 30% of total de-minimis shipments registered in the US (i.e. around 400mn parcels in 2024) and have consequently hiked retail prices on their US websites and reduced ad placements on US digital platforms. However, we do not expect them to exit the US, which accounts for around 30% of total revenue. The end of the de-minimis exception should rather strengthen the dominance of domestic players in the US, notably the leader Amazon, which accounts for around 38% of local e-commerce sales. We also expect a push of Chinese marketplaces in Europe, where they are already well-established, to rebalance their revenue portfolios. In this context, the fate of the de-minimis exemption could be debated in the near future as the US experience is a potential blueprint for other countries. Notably, the EU has already started discussing a tightening of the regulatory framework to fight against the ultra-fast-fashion trend in textile retail.

Figure 13: De minimis import value and ratio of e-commerce sales in the US



\*Annual estimate based on H1 2025 trend. Sources: US Census, US Customs and Border Protection (CBP), Allianz Research

<sup>4</sup> We cannot fully attribute to the de-minimis exemption elimination the ongoing slowdown of e-commerce sales: +5.6% y/y in H1 2025, but a growth ratio of 1.3x compared to national retail sales compared to 3.3-3.4x in 2023-2024.

<sup>5</sup> According to a [research paper released at the start of the year](#)

These assessments are, as always, subject to the disclaimer provided below.

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