LBBW

To the point!

Cross-Asset- and Strategy-Research

Moritz Kraemer -- Chief Economist
LBBWResearch@LBBW.de

August 8, 2025

Tariff drama continues

The “deal” between the EU and the US has built-in breaking points

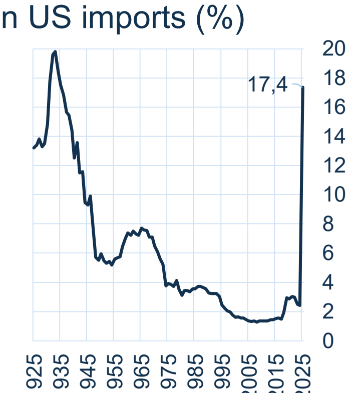
Much has already been said about the so-called trade “deal” between U.S. and Europe. Since the day President Donald Trump and European Commission President Ursula von der Leyen shook hands on Trump’s loss-making golf course in Scotland, the agreement has prompted widespread criticism. Skeptics argue that the European side has all but surrendered to the schoolyard bully in the White House. Such actions, they contend, amount to nothing less than a humiliation unworthy of Europe.

The agreement comes at the EU’s expense

Yes, it could have been (even) worse

The European Commission and many politicians counter that, while the “deal” with its 15% tariffs on nearly everything will hurt Europe economically, the alternative – further escalation – would have been far worse. There is some truth to this. Trump's threat to match all EU-imposed counter-tariffs on American duties one-to-one on top of the 15 % is certainly to be taken seriously. In such a scenario, Europe’s economic outlook would darken considerably. Economists largely agree that imposing tariffs ultimately harms the country doing so. Just because a trading partner has thrown rocks into its harbor doesn’t mean you should do the same. And Washington has tossed plenty into its own harbor (see Fig. 1). LBBW Research has been skeptical all along about the prospects of an amicable resolution with the U.S., which is why we left our 2025 growth forecast for Germany at 0%.

Fig. 1: Average tariff rate on US imports (%)



Source: Yale Budget Lab, LBBW Research (2025: Stand 1. August)

The fine print of the EU “deal” is mostly window dressing

But the issue goes far beyond tariffs. To prevent another Trumpian tantrum, Europe agreed to a slate of concessions. These commitments include arms purchases, direct investments, and the procurement of American energy, especially liquefied natural gas (LNG). And there, I believe, is the rub.

Europe has promised to purchase $750 billion worth of LNG, oil, and nuclear fuel from the U.S. over the next three years. This is entirely unrealistic when you consider that, in 2024, the EU imported only €376 billion worth of energy in total – and that number is trending downward. Less than €70 billion of that came from the U.S. Under the deal, annual U.S. energy exports to Europe would suddenly almost quadruple, accounting for nearly two-thirds of the EUs energy imports. To achieve this, European importers would need to terminate existing supply contracts with countries like Norway or Qatar. The agreed import volume is divorced from both demand and reality. And when Trump realizes this, you can bet he'll angrily slam his fist on the table.

Promised energy imports from the US are as unrealistic…

A similar issue arises with European direct investments in the U.S. The EU has pledged an investment volume of $600 billion. But such investments do not come from the European Commission – they come from companies. And those companies currently seem far from eager to invest in the U.S. In the three months following Trump's election, German firms alone *pulled €389 million more out of the U.S.* than they invested there. For comparison, in the first three months of a U.S. presidency since the turn of the millennium, German companies have typically invested an average of €10 billion net in the U.S. Right now, European firms are voting with their wallets: They are steering clear of an unpredictable U.S. economic climate. If von der Leyen's promises of investment fail to materialize – and I find that highly likely – it will incense the petulant occupant of the White House.

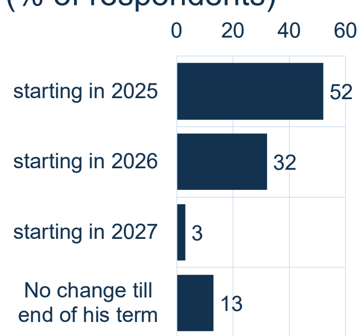
… as are the agreed investments

Slipping on thin ice instead of providing stability

You may be wondering why I keep placing "deal" in quotation marks. The answer lies in my deep skepticism that the handshake in Scotland has truly established a lasting framework. Almost immediately after the tête-à-tête in the golf club house, the interpretations of the assumed agreement diverged dramatically. And if Trump feels deceived, rightly or wrongly, he won't hesitate to tear everything up again and impose new trade rules.

By now, tariff policy has become about far more than trade. In cases like Brazil or India, the White House openly pursues political goals. Should Europe overstep with its criticisms or fail to meet the kind of exaggerated expectations outlined above, it's only a matter of time before today's trade agreement becomes just the prelude to tomorrow's trade dispute. And I'm not alone in seeing things this way (see Fig. 2).

Fig. 2: US-EU Trade Deal: how long will it last before Trump is dissatisfied and sets new trade conditions?
(% of respondents)



Source: Author's LinkedIn survey (296 responses)

Switzerland, from where I write this column can sing a song – or yodel – about it. Switzerland had weeks before the August 1 deadline hashed out a "deal" with U.S. Trade Representative Jamieson Greer and Treasury Secretary Scott Bessent. But, in the current U.S. administration, there's only one person who makes the final call. And he moved in mysterious ways. The result? A 39% tariff, based on an accusation that Switzerland "stole" from America! Expect the unexpected from Trumpian trade policy.

Disclaimer:

This publication is addressed exclusively at recipients in the EU, Switzerland, Liechtenstein and the United Kingdom.

This report is not being distributed by LBBW to any person in the United States and LBBW does not intend to solicit any person in the United States.

LBBW is under the supervision of the European Central Bank (ECB), Sonnemannstraße 22, 60314 Frankfurt/Main (Germany) and the German Federal Financial Supervisory Authority (BaFin), Graurheindorfer Str. 108, 53117 Bonn (Germany) / Marie-Curie-Str. 24-28, 60439 Frankfurt/Main (Germany).

This publication is based on generally available sources which we are not able to verify but which we believe to be reliable. Nevertheless, we assume no liability for the accuracy and completeness of this publication. It conveys our non-binding opinion of the market and the products at the time of the editorial deadline, irrespective of any own holdings in these products. This publication does not replace individual advice. It serves only for informational purposes and should not be seen as an offer or request for a purchase or sale. For additional, more timely in-formation on concrete investment options and for individual investment advice, please contact your investment advisor.

We retain the right to change the opinions expressed herein at any time and without prior notice. Moreover, we retain the right not to update this information or to stop such updates entirely without prior notice.

Past performance, simulations and forecasts shown or described in this publication do not constitute a reliable indicator of future performance.

The acceptance of provided research services by a securities services company can qualify as a benefit in supervisory law terms. In these cases LBBW assumes that the benefit is intended to improve the quality of the relevant service for the customer of the benefit recipient.

Additional Disclaimer for recipients in the United Kingdom:
Authorised and regulated by the European Central Bank (ECB), Sonnemannstraße 22, 60314 Frankfurt/Main (Germany) and the German Federal Financial Supervisory Authority (BaFin), Graurheindorfer Str. 108, 53117 Bonn (Germany) / Marie-Curie-Str. 24-28, 60439 Frankfurt/Main (Germany). Authorised by the Prudential Regulation Authority. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request.

This publication is distributed by LBBW to professional clients and eligible counterparties only and not retail clients. For these purposes, a retail client means a person who is one (or more) of (i) a client as defined in point (7) of Article 2(1) of the UK version of Regulation (EU) 600/2014 which is part of UK law (UK MiFIR) by virtue of the European Union (Withdrawal) Act 2018 (EUWA) who is not a professional client (as defined in point (8) of Article 2(1) of UK MiFIR); or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (as amended, the FSMA) and any rules or regulations made under the FSMA (which were relied on immediately before the 31 December 2020 (IP completion day)) to implement Directive (EU) 2016/97 on insurance distribution, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of UK MiFIR; or (iii) not a qualified investor as defined in the UK version of Regulation (EU) 2017/1129 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, which is part of UK law by virtue of the EUWA (the UK Prospectus Regulation).

This publication has been prepared by LBBW for information purposes only. It reflects LBBW's views and it does not offer an objective or independent outlook on the matters discussed. The publication and the views expressed herein do not constitute a personal recommendation or investment advice and should not be relied on to make an investment decision. The appropriateness of a particular investment or strategy will depend on an investor's individual. You should make your own independent evaluation of the relevance and adequacy of the information contained in this publication and make such other investigations as you deem necessary, including obtaining independent financial advice, before participating in any transaction in respect of the financial instruments referred to this publication herein.

Under no circumstance is the information contained within such publication to be used or considered as an offer to sell or a solicitation of an offer to buy any particular investment or security. Neither LBBW nor any of its subsidiary undertakings or affiliates, directors, officers, employees, advisers or agents accepts any responsibility or liability whatsoever for/or makes any representation or warranty, express or implied, as to the truth, fullness, accuracy or completeness of the information in this publication (or whether any information has been omitted from the publication) or any other information relating to the, whether written, oral or in a visual or electronic form, and howsoever transmitted or made available or for any loss howsoever arising from any use of this publication or its contents or otherwise arising in connection therewith.

The information, statements and opinions contained in this publication do not constitute or form part of a public offer. LBBW assumes no responsibility for any fact, recommendation, opinion or advice contained in any such publication and expressly disclaims any responsibility for any decisions or for the suitability of any security or transaction based on it. Any decisions that a professional client or eligible counterparty may make to buy, sell or hold a security based on such publication will be entirely their own and not in any way deemed to be endorsed or influenced by or attributed to LBBW.

LBBW does not provide investment, tax or legal advice. Prior to entering into any proposed transaction on the basis of the information contained in this publication, recipients should determine, in consultation with their own investment, legal, tax, regulatory and accounting advisors, the economic risks and merits, as well as the legal, tax, regulatory and accounting characteristics and consequences, of the transaction.

To connect on LinkedIn, please scan QR-Code