Macro Insights Weekly

Second tariff deadline: reciprocity or retaliation?

Group Research

July 14, 2025

Philip Wee
Senior FX Strategist
philipwee@dbs.com

Radhika Rao
Senior Economist
radhikarao@dbs.com

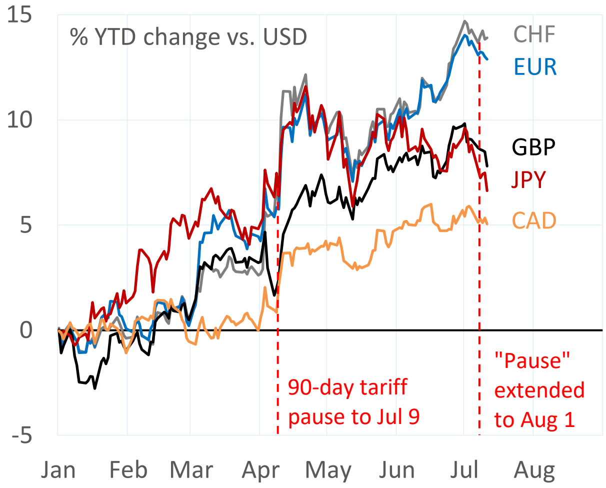
For Alliance Bank clients, please direct your enquiries
Malaysia Research +603 2604 3915 general@alliancedbs.com

- *Confidence in the next phase of the "Liberation Day" tariff pause-and-hope has diminished.*
- *US' trade posture has hardened.*
- *Add to this, tariffs also appear to be used as tools of geopolitical coercion and interference in domestic politics.*
- *Trading partners recognize the importance of proactively preparing for a more demanding global trade environment.*
- *All said, the deadline could shift again.*
- *On FX, expect more correction in the EUR, GBP, and JPY.*
- *On Rates, some amount of complacency is setting in amidst Goldilocks conditions.*

Chart of the Week: Tariff pause extended, but relief is missing for currencies

Currencies came off this year's highs following Trump's second reciprocal tariff deadline to August 1. The previous 90-day tariff pause to July 9 was welcomed as a de-escalation in global trade tensions. Conversely, Trump's tariffs letters to America's trade partners delivered tighter and coercive deadlines with less room for negotiation to achieve trade deals and avoid punishing tariff rates on August 1.

DXY currencies were off their highs on second tariff pause to August



Sources: DBS Research, Bloomberg data

Commentary: Second tariff deadline – reciprocity or retaliation?

Confidence in the next phase of the "Liberation Day" tariff pause-and-hope has diminished. Countries and markets did not embrace the extension of the US tariff pause to August 1 as they did the one to July 9. More nations have become less optimistic about achieving trade agreements with the Trump administration by the new deadline to lower the unilateral reciprocal US tariffs, while legally blocked, are still politically operative.

US President Donald **Trump's trade letters to countries were not personal diplomacy and signalled a hardening of the US trade posture instead.** Each mass-produced unilateral tariff notice was tailored with a specific levy on August 1, delivered to put maximum pressure on trade partners to extract reciprocal concessions such as lower tariffs, fewer subsidies, and expanded market access for US goods. Every letter warned that any retaliatory tariffs would trigger additional US duties, demanding compliance with US terms without countermeasures. The explicitly transactional "deal or get punished" letters undermine the rules-based global trade environment.

The problem for US trade partners goes beyond coming to terms with the 10% universal tariff becoming the baseline for their goods to retain access into America. China has firmly objected to the containment provisions in the new letters, such as rules of origin and strict traceability provisions, for some countries. The letter's overall approach has made US trade policy more coercive and conditional, blurring the lines between economic cooperation and geopolitical alignments.

Following the Rio Declaration at the BRICS Summit on July 6-7, Trump threatened to impose an additional 10% tariffs on nations that aligned with the group's "anti-American" policy. Brazil rejected Trump's 50% tariff threat as politically motivated, linking it directly to internal Brazilian politics rather than as a trade justification. Taken together, **Trump's second reciprocal tariff threats have raised concerns about US tariffs becoming tools of geopolitical coercion and interference in domestic politics**.

Nonetheless, **more and more countries are increasingly recognizing the importance of proactively preparing for a more demanding global trade environment** for some time to come. For example, ASEAN has become more vocal in rejecting unilateralism and coercive bilateral pressure. However, ASEAN is not pursuing a path of confrontation but is instead responding strategically by strengthening multilateral ties with China, the EU, and the Gulf Cooperation Council (GCC); leveraging regional trade platforms like the Regional Comprehensive Economic Partnership (RCEP), and the ASEAN Economic Community (AEC); and collectively advocating for WTO principles and diplomacy. ASEAN has maintained its long-standing emphasis on neutrality, resilience, and autonomy in navigating US-China competition.

All said, Trump's reciprocal tariff deadline could shift again. The US Court of International Trade's (CIT) legal case against Trump's tariffs under the International Emergency Economic Powers Act (IEEPA) remains unresolved, with a hearing scheduled on July 31.

Philip Wee

FX: More correction in the EUR, GBP, and JPY

EUR/USD has scope to return more of last month's gains after depreciating by 0.8% last week to slightly below 1.17 for the first time in three weeks. **The next support level is around the significant 1.15 level.** US President Donald Trump's latest tariff threat – 30% on all EU goods starting August 1 unless a trade deal is reached – represents a significant escalation from previous proposals. European Commission President Ursula von der Leyen responded that the EU would also suspend countermeasures until early August and affirmed the bloc's preference for a negotiated solution.

Although both sides want to avoid an all-out trade war, the fundamental mismatch in their approaches towards a trade deal remains difficult. The EU prefers trade deals that are rules-based, multilateral, and enforceable via the World Trade Organisation, which clashes with Trump's unilateralism and desire for quick and visible political wins. Internal divisions are also hampering the EU's response. Export-driven members like Germany and Ireland want a deal to protect autos and agriculture, while France and Belgium are resisting any concessions on food standards and digital taxes.

We pay more attention to GBP/USD's downside risks this week. Following its 1.7% depreciation in the first fortnight of July, GBP/USD **could extend its decline below the crucial 1.35 support level towards 1.3250**, around its 100-day moving average. The OIS market is pricing an 85% chance for the Bank of England BOE to lower rates at its August 7 meeting. Last week, **UK GDP growth turned negative month-on-month for a second consecutive month in May**. The Atlanta Fed GDPNow model expects US advance GDP growth to rebound to an annualized 2.6% QoQ saar in 2Q25 after a 0.5% contraction in 1Q25. **This week, UK CPI inflation out on July 16 could halve to 0.1% MoM in June** from 0.2% in May, keeping headline inflation unchanged at 3.4% YoY. On July 17, average weekly earnings are expected to slow for a fourth straight month to 5% YoY in May from 6.1% high in December.

The JPY is bracing for volatility from Japan's Upper House elections scheduled for July 20. Polls indicated that the Liberal Democratic Party-Komeito ruling coalition may lose its majority. On July 18, the expected decline in National CPI inflation to 3.3% YoY in June from 3.5% in May will not temper public frustration over inflation and voter fatigue over the incumbent government's handling of economic issues.

USD/JPY has been bucking the DXY Index's decline in June, when the Bank of Japan prioritized dampening the volatility in the JGB market by halving the bond tapering pace to JPY400 bn from FY2026-27. **USD/JPY rose by 2.1% to 147.43 last week, eyeing the top of its two-month range of 142-149.**

Given how the stronger-than-expected US jobs report lifted the DXY Index this month, another upside surprise in this week's US CPI inflation could have a similar effect by dampening near-term Fed cut expectations. Fed Chair Jerome Powell has been advocating patience in lowering rates, warning that tariffs could lift inflation in the coming months. His case is reinforced by Trump's latest threat to impose higher reciprocal tariffs on August 1 for countries that fail to strike trade deals with the US.

Philip Wee

Group Research

Economics & Strategy

Taimur BAIG, Ph.D.
Chief Economist
Global
taimurbaig@dbs.com

Wei Liang CHANG
FX & Credit Strategist
Global
weiliangchang@dbs.com

Tracy Li Jun LIM
Credit Analyst
USD Credit
tracylimt@dbs.com

Amanda SEAH
Credit Analyst
SGD Credit
amandaseah@dbs.com

Nathan CHOW
Senior Economist
China/HK SAR
nathanchow@dbs.com

Eugene LEOW
Senior Rates Strategist
G3 & Asia
eugeneleow@dbs.com

Daisy SHARMA
Analyst
Data Analytics
daisy@dbs.com

Han Teng CHUA, CFA
Senior Economist
Asean
hantengchua@dbs.com

Teng Chong LIM
Credit Analyst
SGD Credit
tengchonglim@dbs.com

Joel SIEW, CFA
Credit Analyst
SGD Credit
joelsiew@dbs.com

Mo JI, Ph.D.
Chief Economist
China/HK SAR
mojim@dbs.com

Tieying MA, CFA
Senior Economist
Japan, South Korea, Taiwan
matieying@dbs.com

Mervyn TEO
Credit Strategist
USD Credit
mervynteo@dbs.com

Byron LAM
Economist
China/HK SAR
byronlamfc@dbs.com

Radhika RAO
Senior Economist
Eurozone, India, Indonesia
radhikarao@dbs.com

Samuel TSE
Senior Economist
China/HK SAR
samueltse@dbs.com

Violet LEE
Associate
Publications
violetleeyh@dbs.com

Philip WEE
Senior FX Strategist
Global
philipwee@dbs.com

Sources: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations)