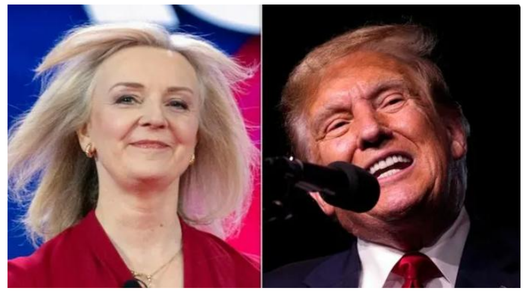
Rosa & Roubini
ASSOCIATES

MAKING SENSE OF THIS WORLD — *14 April 2025*

R&R Weekly Column
By Brunello Rosa



Trump Faces "Liz Truss" Moment and Backs Down On Tariffs

Last week we witnessed one of the most spectacular U-turns in recent policymaking history, with the Art-of-The-Dealmaker-in-Chief Donald Trump backing down from the bombastic announcements on tariffs he made on Liberation Day, on April 2nd. President Trump announced a 90-day moratorium on the application of tariffs for those countries that did not retaliate, while increasing tariffs on China to 145%. He made an exemption for smartphones and other consumer electronics from these so-called "reciprocal tariffs."

What convinced him to carry out such a spectacular change of direction? Behind-the-scenes reconstructions abound, but the key is that Trump had his first true reality check since the beginning of his second term in office, something that clearly his closest advisors and collaborators are unable to provide him with on a daily basis.

Trump and his administration, which live in a sort of "cult of personality" (as evidenced by the mandate to wear a pin shaped as a golden bust of the boss), believe that they can bully everybody and everything (countries, institutions, rules, etc..) because Trump is at the helm of the strongest country that has ever existed, the only true worthy descendent of the Roman empire, which justifies the so-called "American exceptionalism."

But last week, Trump was reminded that something bigger than him and his administration exists, which can dictate the rules even to the most powerful country on earth: the market. Until a few years ago, politicians around the globe thought that this was true only for the weaker countries, such as emerging markets, or weak developed economies such as Italy, which live day in and day out with the fear of market discipline and bond vigilantes – the "dictatorship of the spread", they call it.

But in 2022, the UK learnt that this was true also for the richest and most advanced economies such as the British one. The prime minister Liz Truss presented a "mini budget" comprised of unfunded tax cuts, which was supposed to realise the post-Brexit pipe dream of transforming the economy into a sort of "Singapore on Thames." The market instead thought that this mini budget would have soon led to a debt crisis. UK gilts sold off while also the British pound lost ground.

The speed of these market movements caused the liability-driven investments (LDIs) by pension funds to become unsustainable. Within hours, the Bank of England had to step in with an emergency facility to purchase gilts and restore calm in the market. The BOE governor, Andrew Bailey, said that the facility was temporary and would not be renewed: politicians needed to back down from their unfounded promises, or else the system would have collapse. Liz Truss had little choice but to resign, and make room for Rishi Sunak, the former Chancellor, a much safer pairs of hands to manage the economy. Actually, in a recent interview Truss admitted that she mulled the idea of sacking Bailey over that weekend. Fortunately, she decided otherwise.

In the US, the situation was similar: the raft of fire-sales triggered by Trump's announcement on April 2nd had led to the destabilisation of the delicate arbitrage mechanism between cash bonds and the futures on Treasuries (the so-called "basis trade"). Similar to the UK episode, only two options became possible: the Fed stepping in to purchase US Treasuries and the USD (or equivalently, cutting rates with an emergency inter-meeting move), or Trump blinking and backing down.

Fed Chair Powell did well in resisting the pressure to cut rates coming from the White House. At the time in which the Fed has remained the only credible economic institution in the US, with the White House and the Department of Treasury perceived to be the cause of the market turmoil, if Powell had ceded to Trump's pressures he would have served the country very poorly. He would even have been serving Trump poorly by doing so, as Trump would then have had to deal with a systemic crisis of epic proportions.

What's the difference with the UK case? In the UK, as was the case of Italy in November 2011, when Berlusconi was forced to resign after bringing Italy to the brink of default, the mechanisms existed to force the Prime Minister to resign. In the US, such a mechanism does not exist, which explains why on Friday 11 April markets sold off again. The authors of the disaster are still at the helm of the ship, and the war continues.

Our Recent Publications

- *Global 2025 Outlook After "Liberation Day" Rising Risks of A Global Recession and a Market Collapse by Brunello Rosa and Nato Balavadze, 11 April 2025*
- *A Cyclical Review of the US Economy Amid Trump's Economic Shocks, by Nato Balavadze, 10 April 2025*
- *Major Central Bank Policy Stances Amid Market Turmoil, By Brunello Rosa and Nato Balavadze, 9 April 2025*
- *Entering the Bear Market: Trump's Tariffs Tip Global Markets Into Turmoil, By Nato Balavadze, 8 April 2025*
- *Israel's Strikes on Dahieh and the Larger Picture, By Gulf State Analytics, 7 April 2025*
- *The Impact of the "Liberation" Day Tariffs on the US and Global Economy and Markets, by Nouriel Roubini, 4 April 2025*

Looking Ahead

The Week Ahead: Inflation To Ease Off In EZ And UK; Retail Prices To Shrink In US; ECB To Deliver 25Bps Cut

In the US, in March, retail sales are likely to rise b 1.3% m-o-m (*p*: 0.2%). IP is expected to contract by 0.3% m-o-m (*p:* 0.7%).

In the EZ, in March, headline and core inflation are seen easing off to 2.2% y-o-y (*p*: 2.3%) and 2.4% y-o-y (*p*: 2.6%). In April, IP is likely to contract by 0.4% m-o-m (*p*: 0.8%). In April, ZEW Economic Sentiment Index is expected to drop to 14.2 (*p*: 39.8). Particularly, in Germany, ZEW Economic Sentiment is seen falling to 5 (*p*: 51.6).

In the UK, in March, headline and core inflation rates are likely to ease off to 2.7% y-o-y (*p:* 2.8%) and 3.4% y-o-y (*p*: 3.5%). In February, unemployment rate is expected to remain at 4.4%. In March, retail price index is seen rising by 3.2% y-o-y (*p*: 3.4%). ***CBs To Deliver More Cuts.*** The ECB is seen cutting its main policy rates by 25 bps, i.e *i)* interest rate on the 'main refinancing operations' to 2.40%; *ii)* interest rate on the 'marginal lending facility' to 2.65%; and the key *iii)* 'deposit facility' to 2.25%.

The Quarter Ahead: Trump Exempts Smartphones And Computers From New Tariffs; Trump Envoy Meets Putin

Trump Tariffs. President Trump has exempted smartphones, computers, and various tech components from his new 145% tariffs on Chinese imports. The exemptions aim to ease pressure on companies like Apple and allow time for shifting production to the U.S., according to the White House.

Witkoff meets Putin in Russia. President Trump's envoy, Steve Witkoff, met with Russian President Vladimir Putin in Saint Petersburg to discuss the war in Ukraine. Despite multiple rounds of talks, Trump's push for a ceasefire has yielded no major concessions from Moscow. During the weekend, Russia delivered a massive attack on the Ukrainian city of Sumy.

Last Week's Review

Real Economy: Inflation Eased Off In US And Germany; Retail Sales Increased In EZ

In the US, in March, headline and core inflation rate eased off to 2.4% y-o-y (*c*: 2.6%; *p*: 2.8%) and 2.8% y-o-y (*c*: 3.0%; *p*: 3.1%). In April, Michigan Consumer Sentiment decreased to 50.8 (*c*: 54.5; *p:* 57.0).

In the EZ, in February, retail sales increased by 12.3% y-o-y (*c*: 1.8%; *p*: 1.8%). Among the largest EZ economies, in March, headline inflation rate cooled off slightly to 2.2% y-o-y (*p*: 2.3%) in Germany as expected.

In the UK, in February, IP rose by 1.5% m-o-m (c: 0.0%; *p:* -0.5%) and 0.1% y-o-y (*c:* -2.3%; *p*: -0.5%).

Financial Markets: Stock Prices Increased, Except for EZ Stocks; US Yields Rose; Dollar And Oil Prices Fell; Gold Prices Were Up

Market Drivers: Consumer sentiment fell to a nearly three-year low as escalating trade tensions sparked market volatility. U.S. stocks rebounded after Trump paused new tariffs for 90 days, but Treasury yields surged, with the 10-year rising above 4.5%, as trade war concerns weighed on bonds, while the USD lost ground.

Global Equities: The US S&P 500 index edged up (+5.7% w-o-w, to 5,353.36). In the EZ, share prices declined (Eurostoxx 50, -1.9% w-o-w, to 4,787.23). In EMs, equity edged down (MSCI EMs, -3.9%, to 1,045.20). Volatility rose to 28.89 (VIX S&P 500, 52w avg.: 15.6; 10y avg.: 18.8).

Fixed Income: *w-o-*w, the 10-year US Treasury yields rose (+50 bps to 4.50%). The 2-year US Treasury yields increased (+33 bps to 3.97%). The German 10-year bund yields edged down (-4 bp to 2.53%).

FX: *w-o-w,* the US Dollar Index decreased (DXY, -2.9%, to 100.10; EUR/USD +3.7%, to 1.1). In EMs, currencies are virtually unchanged (MSCI EM Currency Index, -0.0% w-o-w, to 1,756.67).

Commodities: *w-o-w,* oil prices fell (Brent, -1.4% to 64.76 USD/b). Gold prices increased w-o-w (+6.9% to 3,244.60 USD/Oz).

@RosaRoubini Rosa & Roubini Rosa&Roubini Associates

For more information, please call us on +44 (0)207 1010 718 or send us an email to info@rosa-roubini-associates.com

www.rosa-roubini-associates.com

118 Pall Mall, London SW1Y 5ED

Nato Balavadze *contributed to this Viewsletter*

The image in the front page was taken from this website.

Abbreviations, Acronyms and Definitions

a	*Actual*	*LN*	*Northern League, Italy*
AKP	*Justice and Development Party, Turkey*	*M5S*	*Five Star Movement, Italy*
ann.	*annualized*	*m-o-m*	*Month-on-month*
ARS	*Argentinian Peso*	*mb*	*Million barrels*
avg.	*Average*	*mb/d*	*Million barrels per day*
bn	*Billion*	*MENA*	*Middle East and North Africa*
BoC	*Bank of Canada*	*MHP*	*Nationalist Movement Party, Turkey*
BoE	*Bank of England*	*mn*	*Million*
BoJ	*Bank of Japan*	*MPC*	*Monetary Policy Committee*
bpd	*Barrels per day*	*NAFTA*	*North-American Free Trade Agreement*
bps	*Basis points*	*NATO*	*North Atlantic Treaty Organization*
BS	*Balance sheet*	*OECD*	*Organization for Economic Cooperation and Development*
c	*Consensus*	*Opec*	*Organization of Petroleum Exporting Countries*
C/A	*Current account*	*p*	*Previous*
CB	*Central bank*	*P2P*	*Peer-to-peer*
CBB	*Central Bank of Bahrain*	*PBoC*	*People's Bank of China*
CBK	*Central Bank of Kuwait*	*PCE*	*Personal Consumption Expenditures*
CBT	*Central Bank of Turkey*	*PE*	*Price to earnings ratio*
CDU	*Christian Democratic Union, Germany*	*PM*	*Prime minister*
CNY	*Chinese Yuan*	*PMI*	*Purchasing managers' index*
CPI	*Consumer Price Index*	*pps*	*Percentage points*
DJIA	*Dow Jones Industrial Average Index*	*pw*	*Previous week*
DJEM	*Dow Jones Emerging Markets Index*	*QCB*	*Qatar Central Bank*
d-o-d	*Day-on-day*	*QAR*	*Qatari Riyal*
DXY	*US Dollar Index*	*QE*	*Quantitative easing*
EC	*European Commission*	*q-o-q*	*Quarter-on-quarter*
ECB	*European Central Bank*	*RE*	*Real estate*
ECJ	*European Court of Justice*	*RBA*	*Reserve Bank of Australia*
EIA	*US Energy Information Agency*	*RRR*	*Reserve Requirement Ratio*
EM	*Emerging Markets*	*RUB*	*Russian Rouble*
EP	*European Parliament*	*SWF*	*Sovereign Wealth Fund*
EPS	*Earnings per share*	*tn*	*Trillion*
EU	*European Union*	*TRY*	*Turkish Lira*
EUR	*Euro*	*UAE*	*United Arab Emirates*
EZ	*Eurozone*	*UK*	*United Kingdom*
Fed	*US Federal Reserve*	*US*	*United States*
FOMC	*US Federal Open Market Committee*	*USD*	*United States Dollar*
FRB	*US Federal Reserve Board*	*USD/b*	*USD per barrel*
FX	*Foreign exchange*	*UST*	*US Treasury bills/bonds*
FY	*Fiscal Year*	*VAT*	*Value added tax*
GCC	*Gulf Cooperation Council*	*VIX*	*Chicago Board Options Exchange Volatility Index*
GBP	*British pound*	*WTI*	*West Texas Intermediate*
GDP	*Gross domestic product*	*WTO*	*World Trade Organisation*
IMF	*International Monetary Fund*	*w*	*Week*
INR	*Indian Rupee*	*w-o-w*	*Week-on-week*
IPO	*Initial public offering*	*y*	*Year*
IRR	*Iranian Rial*	*y-o-y*	*Year-on-year*
JPY	*Japanese yen*	*y-t-d*	*Year-to-date*
k	*thousand*	*ZAR*	*South African Rand*
KSA	*Kingdom of Saudi Arabia*	*2y; 10y*	*2-year; 10-year*