

Economic Situation and Strategy

30 October 2024

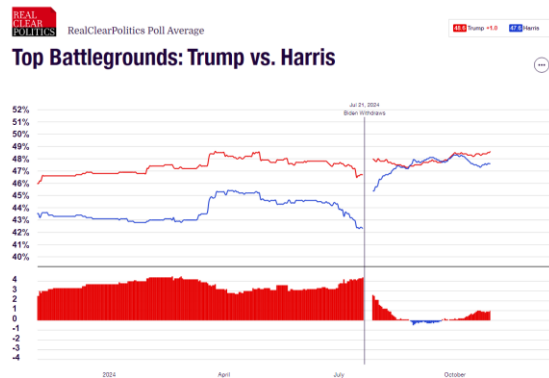
What a Trump election means for the German economy

In just a few days, on November 5, a new president will be elected in the USA. According to the polls, Democrat Kamala Harris and Republican Donald Trump are running neck-and-neck. In many opinion polls, Kamala Harris is leading by a wafer-thin margin, but this is a statistical blur and does not provide a reliable indication of the outcome of the election. Following her nomination at the Democratic Party convention at the beginning of August, Ms. Harris made significant gains in the polls and overtook Donald Trump. Things also looked good for her in the important “swing states”, where both major political parties have an equal chance of winning the majority of votes because voters do not traditionally vote Democrat or Republican by a clear majority. Since the beginning of October, however, the momentum in voters' favour seems to have shifted back in Trump's favour. In six of the seven “swing states”, including Michigan, Pennsylvania, Arizona, Wisconsin, Nevada, North Carolina and Georgia, the polarizing former president is now ahead of his challenger again. The verdict of the betting agencies is even clearer: Here, Trump's probability of victory is even over 60 percent.

What if?

If the US elections were held in Germany, the result would probably be clear: Kamala Harris would win the election and become the new US president. This is because Donald Trump's rhetoric and his way of doing politics does not go down well with us (and in many other countries). However, politics is not a concert of wishes, especially not when the decisions are made elsewhere. That is why the German economy, politicians and the public should prepare themselves for the fact that we will

have to deal with Trump again from January 20, 2025, the day the new president is inaugurated.



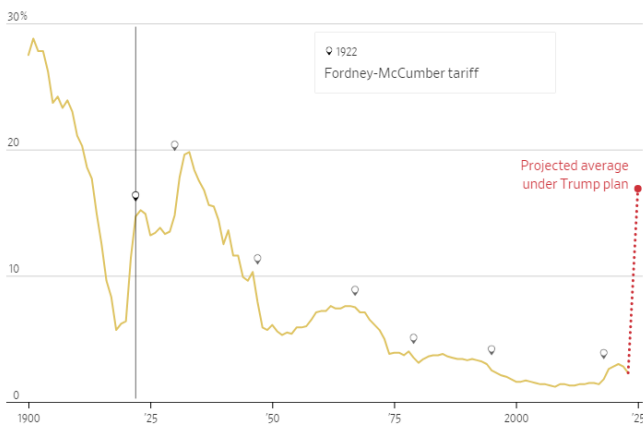
Source: <https://www.realclearpolling.com/elections/president/2024/battleground-states>, 30 October 2024

Donald Trump's re-election would be particularly bad news for the export-dependent German economy. Although a “technical” recession, i.e. two consecutive quarters of declining real gross domestic product, has so far been miraculously avoided, this could change next year at the latest with Trump as the new US president. Most economic forecasts still assume that the German economy will achieve at least mini-growth in the coming year. In its recently published World Economic Outlook, the International Monetary Fund forecasts economic growth of 0.8% for 2025. However, this forecast is based, among other things, on the assumption that global trade growth will accelerate in the coming year.

Should the Republican Trump move into the White House, however, this expectation is unlikely to be fulfilled. This is because one of Trump's clearly formulated political ideas is to promise Americans low taxes on the one hand, which he wants to finance through higher tariffs on the other. He recently said that “tariff” is the most beautiful word in the dictionary, apart from “faith” or

“love”, and he seems to be consistent in this belief. We should therefore take seriously his campaign promise to impose a flat tariff of 10 or 20 percent on all goods imported into the U.S. and to impose tariffs of at least 60 percent on imports from China. According to the Tax Foundation, the average tariff rate on all US imports is currently around two percent. If Trump implements his plans as announced, the average US tariff rate could rise to almost 20 percent, the highest level since the Great Depression in the 1930s.

Average weighted tariff rate on U.S. imports



Source: Evercore ISI (average)

Source: The Wall Street Journal, 16 October 2024

Trump has announced his intention to reduce the high US foreign trade deficit of just over one trillion US dollars in 2023 (equivalent to 3.8% of US GDP) through high tariffs. This could lead to enormous growth potential, at least in terms of balance sheet mechanics, as all goods that are no longer imported but produced domestically theoretically lead to more economic growth. Trump's simple, albeit economically incorrect, calculation is that without US foreign trade, the deficit would fall to zero and the US economy would therefore grow significantly faster. However, he overlooks the fact that without trade, jobs and purchasing power would also be lost in the US, as higher US import tariffs would certainly lead to countermeasures by trading partners, meaning that US exports would also fall. There would not be much left of the hoped-for growth boost from fewer imports. In addition, the price level in the USA could be expected to rise, as the higher costs of more expensive imports would be passed on by companies to consumers.

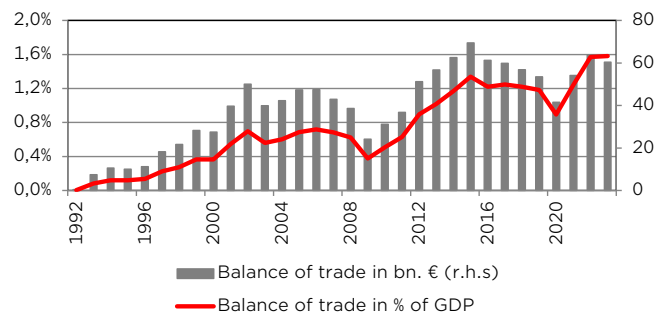
Recession in Germany becomes more likely

Germany's net exports have often been a source of economic growth in recent years, as exports have grown more strongly than imports. In 2023, net exports contributed 0.2 percentage points to real economic growth, and this year it could even be slightly more. Exports to the

USA, in particular, make a significant contribution to the surplus in the German trade balance. With an export volume of 157 billion euros last year, the USA is our most important export country, far ahead of France (120 billion euros), the Netherlands (115 billion euros) and China (97 billion euros). Imports from the USA amounted to EUR 95 billion in 2023, meaning that the trade surplus with the United States amounted to more than EUR 63 billion; this corresponds to 1.5% of Germany's (nominal) gross domestic product.

Around 75% of German exports to the USA in 2023 were accounted for by five sectors. By far the most important export goods to the USA are German cars (34 billion euros), followed by machinery (32 billion euros), pharmaceutical products (25 billion euros), electrical engineering (15 billion euros) and optical products (12 billion euros). Of the total German trade surplus with the USA of 63 billion euros, 24 billion euros is attributable to the automotive sector alone. This is likely to be a particular thorn in Trump's side, making the introduction of punitive tariffs on cars very likely in our view, which could further exacerbate the crisis in the German automotive industry. It seems that neither German politicians nor German companies are prepared for such an apocalyptic scenario.

Germany: External trade with the USA

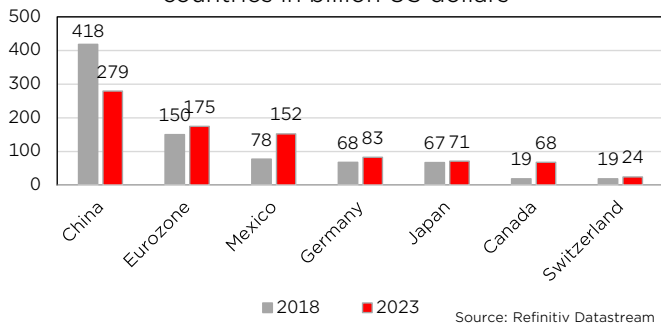


Which other countries are at risk?

If Trump becomes president, he will certainly take a close look at with which countries the US has particularly high trade deficits. US trade with China has the largest negative balance, with a deficit of USD 279 billion in 2023. Compared to 2018, the year with the highest deficit to date of USD 418 billion, the situation has improved from the US perspective due to the protectionist measures introduced by Trump and seamlessly continued by the Biden administration. This becomes particularly clear when the trade deficit with China is set in relation to gross domestic product: in 2018, it amounted to 2% of GDP; in 2023, it will be just 1%, which is the lowest value in more than 20 years.

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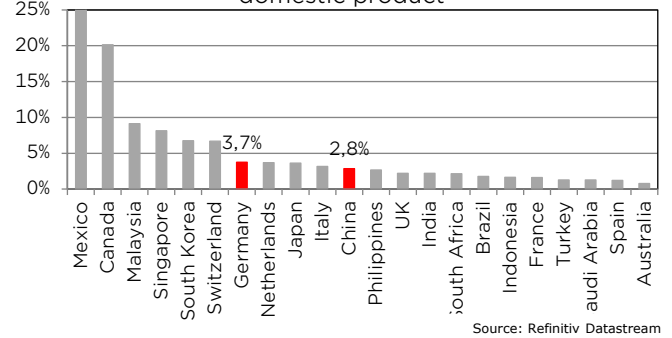
USA foreign trade deficits with various countries in billion US dollars



The US trade deficit with Mexico and Canada has grown particularly strongly in recent years. This is also likely to bring Donald Trump onto the scene, who ensured that the old free trade agreement NAFTA (North American Free Trade Agreement) was replaced by the new USMCA (United States-Mexico-Canada Agreement) in 2018. The fact that US exports account for around 25 percent (in the case of Mexico) and 20 percent (in the case of Canada) of both countries' total GDP is particularly sensitive for Mexico and Canada. Higher tariffs could therefore have a particularly devastating impact on the economic performance of these two countries. Similar high-risk countries with a high level of foreign trade dependency on the USA include Malaysia and Singapore as well as Switzerland

and South Korea. In all these countries, the US elections and their outcome are likely to be watched closely. As the saying goes: expect the worst, hope for the best. Hopefully we will know more next week.

Share of USA exports in the respective gross domestic product



Carsten Klude

Market data

	As of	Change versus				
	01.11.2024 11:43	25.10.2024 -1 week	30.09.2024 -1 month	31.07.2024 -3 months	31.10.2023 -1 year	29.12.2023 YTD
Stock markets						
Dow Jones	41763	-0,8%	-1,3%	2,3%	26,4%	10,8%
S&P 500	5758	-0,9%	-0,1%	4,3%	37,3%	20,7%
Nasdaq	18095	-2,3%	-0,5%	2,8%	40,8%	20,5%
DAX	19168	-1,5%	-0,8%	3,6%	29,4%	14,4%
MDAX	26436	-3,0%	-1,6%	4,2%	10,0%	-2,6%
TecDAX	3312	-3,2%	-3,0%	-1,4%	16,4%	-0,8%
EuroStoxx 50	4857	-1,7%	-2,9%	-0,3%	19,6%	7,4%
Stoxx 50	4344	-2,1%	-2,5%	-3,3%	13,9%	6,1%
SMI (Swiss Market Index)	11885	-2,5%	-2,3%	-3,5%	14,4%	6,7%
Nikkei 225	38054	0,4%	0,4%	-2,7%	23,3%	13,7%
Brasilien BOVESPA	129713	21421,1%	20717,2%	1,6%	14,6%	21482,8%
Indien BSE 30	79389	6879,6%	6879,6%	-2,9%	24,3%	7227,2%
China CSI 300	3890	76,2%	74,4%	13,0%	8,9%	91,9%
MSCI Welt	3647	-1,6%	-2,0%	2,1%	31,7%	15,1%
MSCI Emerging Markets	1120	-1,4%	-4,4%	3,2%	22,3%	9,4%
Bond markets						
Bund-Future	131,80	3631	3614	-193	281	3564
Bobl-Future	118,11	-1499	-1681	60	182	-1911
Schatz-Future	106,57	-1248	-1349	49	139	-1272
3 Monats Euribor	3,06	212	212	-59	-91	214
3M Euribor Future, Dec 2024	2,83	-9232	-9232	-28	-31	-9158
3 Monats \$ Libor	3,16	-1	-26	-235	-249	-73
Fed Funds Future, Dec 2024	4,52	177	168	-25	-22	222
10 year US Treasuries	4,30	6	51	24	-61	43
10 year Bunds	2,41	12	35	16	-36	41
10 year JGB	0,95	3	8	-9	2	32
10 year Swiss Government	0,43	-669	-659	-2	-69	-667
US Treas 10Y Performance	561,04	-0,8%	-2,0%	-7,4%	2,0%	-0,8%
Bund 10Y Performance	106,54	-0,3%	-0,6%	-81,1%	-79,9%	0,0%
REX Performance Index	448,93	-95,3%	-95,4%	0,2%	3,5%	-94,7%
IBOXX AA, €	3,13	15	16	-6	-81	6
IBOXX BBB, €	3,60	14	13	-10	-119	-15
ML US High Yield	7,51	10	30	-28	-199	-29
Commodities						
MG Base Metal Index	430,42	0,2%	-2,7%	6,8%	14,8%	10,1%
Crude oil Brent	74,29	-2,1%	3,3%	-7,9%	-15,1%	-4,4%
Gold	2746,30	0,2%	4,3%	13,4%	37,6%	33,0%
Silver	3279,82	-0,6%	-1,7%	11280,4%	14079,9%	10,2%
Aluminium	32,69	-3,3%	4,8%	-98,5%	-98,5%	34,8%
Copper	2591,61	-2,0%	-0,7%	-71,5%	-67,7%	10,5%
Iron ore	103,78	-77,0%	-77,2%	-2,0%	-12,7%	-76,8%
Freight rates Baltic Dry Index	1388	-1,6%	-33,4%	-18,7%	-4,9%	-33,7%
Currencies						
EUR/ USD	1,0853	#DIV/0!	#DIV/0!	0,2%	2,2%	#DIV/0!
EUR/ GBP	0,8407	-22,3%	-24,9%	-0,2%	-3,5%	-23,9%
EUR/ JPY	165,76	19781,3%	19821,9%	1,8%	3,4%	19028,7%
EUR/ CHF	0,9420	-99,4%	-99,4%	-1,2%	-1,9%	-99,4%
USD/ CNY	7,1235	-93,2%	-92,4%	-1,4%	-2,7%	-94,8%
USD/ JPY	152,04	-0,2%	5,9%	1,4%	0,2%	7,8%
USD/ GBP	0,77	638998,2%	638077,0%	-0,5%	-6,0%	599050,8%

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