FX, Fixed income, Econon, Facts & Fallacies

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US announces new tariffs - Thailand's cut to 19% helps ease economic pressure in 2H25

- **Trump has announced a new reciprocal tariff rate, most of which will take effect on August 7.** Several countries saw tariff reductions, including Thailand, whose rate was cut from 36% to 19%. **The latest tariff increases have raised the average US tariff rate to around 15%, the highest level since the 1930s,** up from just 2.3% before Trump took office. However, **we believe this will not lead to a sharp rise in US inflation, as feared, and continue to expect the Fed to cut rates twice this year.**

- **For Thailand, the new 19% tariff rate is a welcome development, as it is comparable to other countries in the region and even slightly lower than Vietnam's**. This outcome should help ease pressure on the Thai economy. As a result, **we maintain our outlook for the BoT to cut the interest rates only once more this year, in October, and continue to project the baht at 33.70 per US dollar at the end of 2025.**

Trump announces new tariff rates effective in August

US President Donald Trump has announced new reciprocal tariff rates, most of which will take effect on August 7. This announcement follows an extension granted since early April, when the reciprocal tariffs were first announced, allowing time for negotiations with trade partners. The delay also allowed tariff rates to be reduced from their initially announced levels if mutual agreements could be reached. **Several countries have seen their new tariff rates lowered (Figure 1), including Thailand, whose new import tariff rate is now 19%, down from the previous 36%. This rate is similar to those applied to other countries in the region,** such as Cambodia, Malaysia, Indonesia, and the Philippines, all subject to a 19% tariff. Meanwhile, Vietnam and Taiwan are subject to a 20% tariff.

Figure 1: US reciprocal tariff rate

Country	Prior % (9 April)	Latest % (1 Aug)	Change
Laos	48	40	*-8*
Myanmar	44	40	*-4*
Switzerland	31	39	*8*
Serbia	37	35	*-2*
Bangladesh	37	35	*-2*
Canada	25	35	*10*
South Africa	30	30	-
Bosnia & Herzegovina	35	30	*-5*
Mexico	25	30	*5*
Kazakhstan	27	25	*-2*
Tunisia	28	25	*-3*
Brunei	24	25	*1*
India	26	25	*-1*
Vietnam	46	20	*-26*
Taiwan	32	20	*-12*
Malaysia	24	19	*-5*
Cambodia	49	19	*-30*
Thailand	***36***	***19***	*-17*
Philippines	17	19	*2*
Indonesia	32	19	*-13*
Japan	24	15	*-9*
South Korea	25	15	*-10*
EU	20	15	*-5*
New Zealand	10	15	*5*
UK	25	10	*-15*

Source: Bloomberg, Whitehouse, and KBank

Several major trading partners have reached agreements with the US and received reduced tariff rates:

1. **United Kingdom** – The first country to finalize a deal, with its tariff reduced to 10% from 25%.
2. **Japan** – Now subject to a 15% tariff, down from 25%, which includes automobiles, a key export sector.

3. **EU** – Tariff set at 15%, lower than the previously threatened 20–50% range. This tariff includes automobiles, although it remains unclear whether pharmaceuticals, a major export for the bloc, are also covered.
4. **South Korea** – Received a tariff reduction to 15% from 26%, including automobiles.
5. **India** – Tariff reduced slightly to 25%, from the previous 26%.

Neighboring US countries such as **Canada now face a higher tariff of 35%, up from 25% (with exceptions for goods under the USMCA agreement),** as negotiations have yet to be successfully reached. Meanwhile, the **US has postponed the 30% tariff on Mexico for 90 days.**

China is still in negotiations with the US, and there's a likelihood that the high tariffs scheduled for August 12, 2025, will be delayed further.

Several other countries have also not yet reached agreements with the US. Tariff rates are divided into three categories based on trade balance:

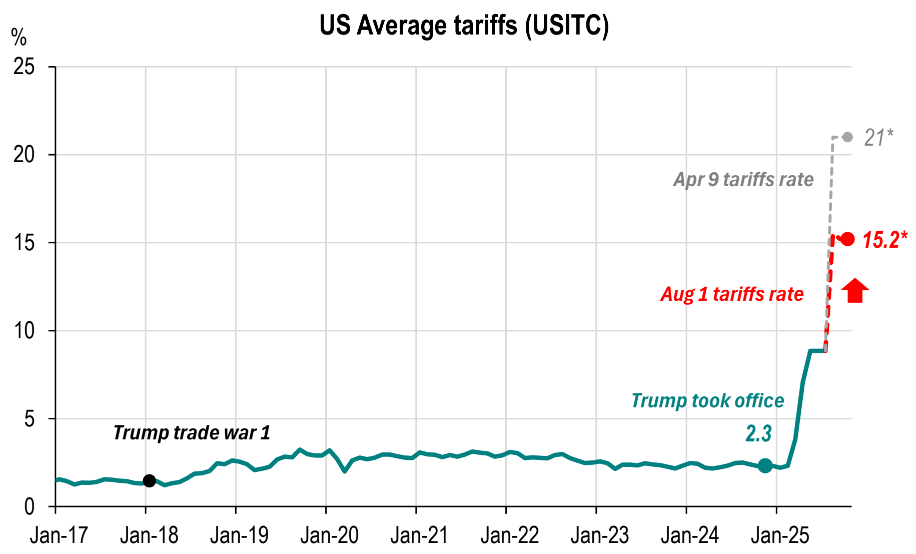
1. 10% for countries with which the US has a trade surplus
2. 15% for countries that have agreements in place and where the US has a small trade deficit
3. Higher rates for countries where the US has a significant trade deficit

The **US is also considering additional import tariffs on specific goods,** including semiconductors, pharmaceuticals, rare earth minerals, lumber, heavy trucks, commercial aircraft, and engines. These would follow previous tariffs imposed on products like steel, aluminum, copper, and automobiles, citing national security concerns under Section 232.

US average tariffs are at the highest since WWII, but inflation may not spike

The recent round of tariff hikes across nearly all trading partners has pushed the average US tariff rate to around 15% (according to Bloomberg Economics), the highest since the 1930s or World War II. This move is a significant increase from the 2.3% level before Trump took office (Figure 2). Although it is below the earlier projected peak of 21% after the initial announcement in April, the current level is still high. Naturally, this has raised concerns about a potential spike in US inflation, especially when the economy is showing signs of weakness and facing the threat of stagflation (a combination of high inflation and stagnant growth). **However, we believe this will not lead to a sharp rise in US inflation as many in the market fear.**

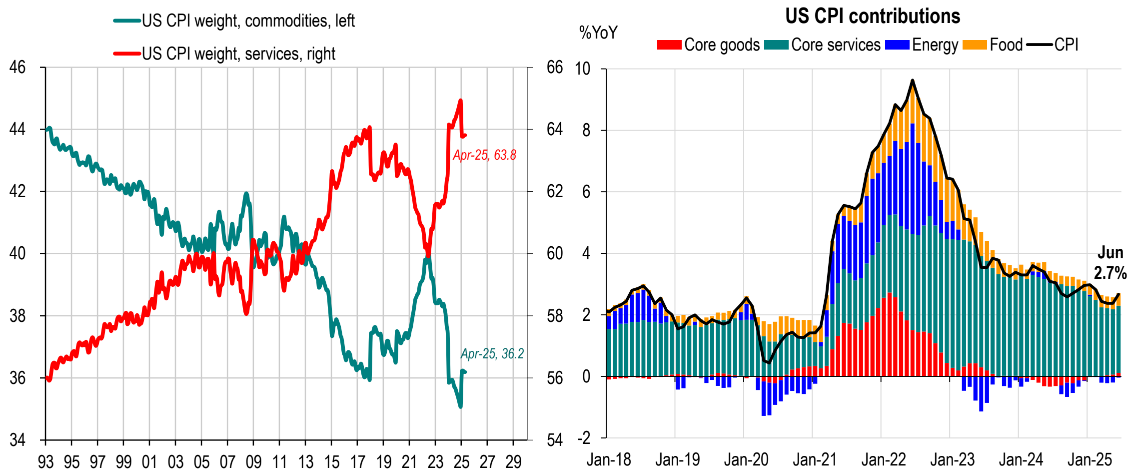
Figure 2: US average tariff rate



Source: Bloomberg, KBank; * According to Bloomberg Economics.

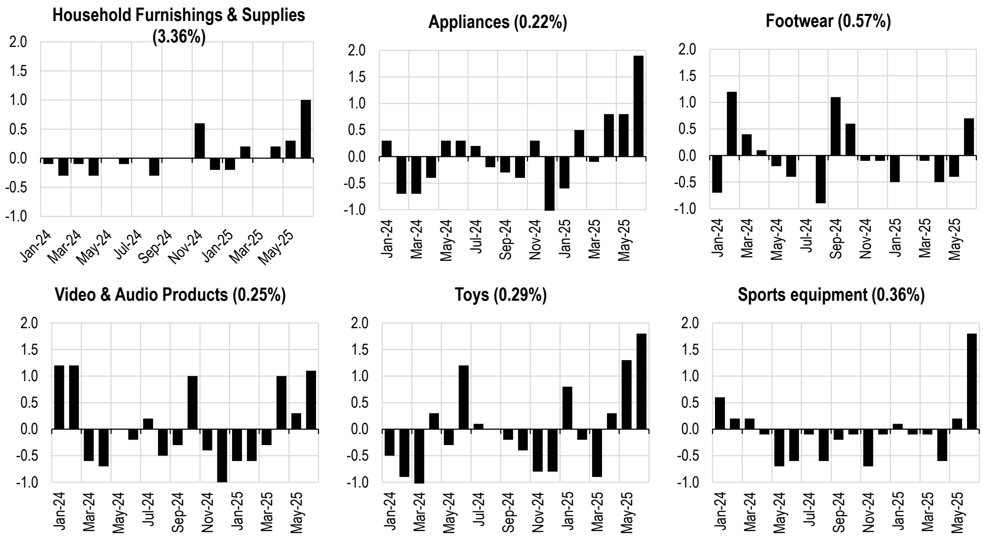
One of the main reasons we hold this view is because of the composition of the US inflation basket: over 60% consists of services, while goods and commodities, which are directly affected by import tariffs, make up less than 40%. In June, US inflation accelerated to 2.7%YoY (Figure 3), but the main driver was still the services category, especially rising housing rental costs. The goods category contributed only slightly to inflation, even though prices for some products have increased (Figure 4). Their weight in the inflation basket is relatively small. Hence, **we maintain our view that the Fed will cut interest rates twice this year—in September and December.**

Figure 3: US inflation compositions



Source: Bloomberg, KBank

Figure 4: Prices for some products have clearly increased

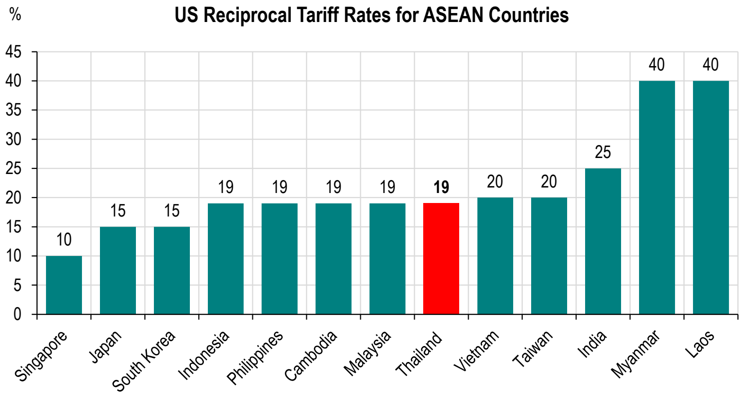


Source: Bloomberg, KBank; ( ) indicates weight in US CPI basket.

Thailand's tariff cut to 19%, close to neighbors, easing economic pressure in 2H25

The US has reduced import tariffs on Thailand to 19%, down from 36%, which is very positive news. The new rate is now in line with other countries in the region (Figure 5) and slightly lower than Vietnam, which faces a 20% tariff. As a result, Thai exports are not losing competitiveness as previously feared, **helping ease the economy's pressure in the second half of the year. Kasikorn Research Center is now expecting Thai exports to contract less severely in the second half of 2025, at -7.4% YoY,** compared to the previous forecast of -10.0% YoY. **For the entire year, Thai exports are now projected to grow 3.4% YoY,** up from the earlier forecast of 1.5%. Nevertheless, exports in the second half are still expected to contract, as export growth in the first half reached 15.0%, due to the rush to ship goods before Trump's tariffs took effect.

Figure 5: US reciprocal tariff rate for ASEAN countries



Source: Bloomberg, Whitehouse and KBank

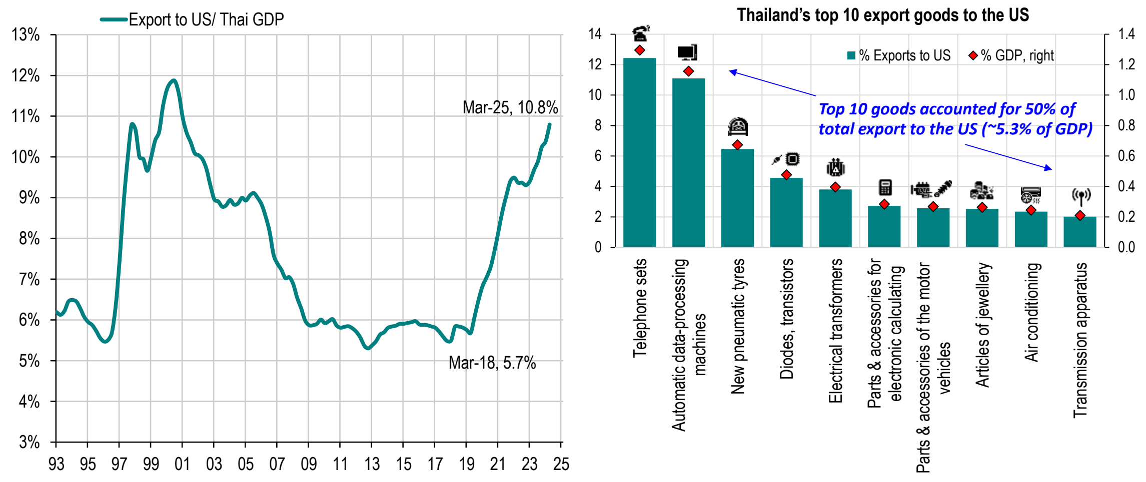
Like the case of Vietnam, the **US will impose a 40% tariff on products suspected of transshipment—i.e., goods rerouted through Thailand to circumvent tariffs.** The US will assess this based on the products' local content (use of Thai-made components). Further negotiations are still needed on this matter. Nonetheless, this may benefit Thailand, as it could reduce pressure on the country's weakening manufacturing sector.

On the monetary policy front, **we maintain our call for the BoT to keep the rate unchanged at 1.75% at its upcoming meeting on August 13,** following the recent tariff reduction agreement with the US. Meanwhile, Thailand's overall economic outlook has not changed significantly since the previous meeting in June. **We expect only one additional rate cut this year, bringing the policy rate down to 1.50% at the October 8 meeting.**

However, to secure the US import tariff reduction, Thailand had to agree to several trade-offs, including greater market access for the US, increased openness to investment, and widespread import tariff exemptions. Key concessions include:

1. Exempting tariffs on approximately 90% of US imports, mainly products Thailand does not produce domestically, such as medical equipment and advanced automotive parts.
2. Reducing non-tariff barriers (NTBs) to trade.
3. Allowing fast-track US investment in the Eastern Economic Corridor (EEC) and infrastructure projects, and BOI (Board of Investment) incentives.
4. Increasing purchases of US energy products, such as liquefied natural gas (LNG).
5. Purchasing additional Boeing aircraft.
6. Committing to reducing Thailand's trade surplus with the US by 70% within 3 years. (Thailand recorded over USD 43 billion trade surplus with the US in 2024.)
7. Accepting Rules of Origin protocols allows the US to verify the origin of goods to prevent the transshipment of Chinese products through Thailand and avoid tariffs.
8. Reducing digital service taxes.
9. Expanding import quotas for US agricultural products, including corn, soybeans, and barley.
10. Complying with terms related to the Thailand-Cambodia ceasefire agreement.

Figure 6: Exports to the US accounted for more than 10% of Thailand's GDP



Source: Bloomberg, Trademap, Trading Economics, Flaticon, and KBank

For the Thai baht, **we maintain our forecast for the Thai baht to end 2025 at 33.70 baht per US dollar**. **The baht is expected to remain highly volatile, especially in the near term, as the US dollar fluctuates in response to economic data and growing expectations of Fed rate cuts.** The likelihood of a Fed rate cut in the September meeting has increased significantly following much weaker-than-expected US labor market data for July, along with downward revisions in job creation for May and June totaling over 258,000 positions. Meanwhile, Trump's import tariff policies have become clearer. However, once the Fed rate cut is behind us, market attention is likely to shift back to Thailand's economic fundamentals, particularly foreign tourist numbers, which are expected to slow in 2025 compared to 2024, due to a sharp decline in Chinese tourists and a weaker global economy.

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