

Will Trump tariffs accelerate US inflation?

Our recent visits with customers reveal a frequently asked question (FAQ): Will Trump Tariffs accelerate US inflation? The Trump administration has inked more trade deals with various countries (Table 1). It appears that there is a leaning towards the camp calling for accelerated inflation and hence more hawkish implications for US monetary policy, i.e., the Fed. In our opinion, we are less hawkish for several reasons. After negotiations are done at the government level, negotiations will continue at the business (exporters, importers) and consumer level. Indeed, Trump tariffs are unprecedented; hence, history and regressions are unlikely to provide a high degree of effective guidance. Still, some guidance is better than no guidance.

Table 1: Trump’s tariff rate

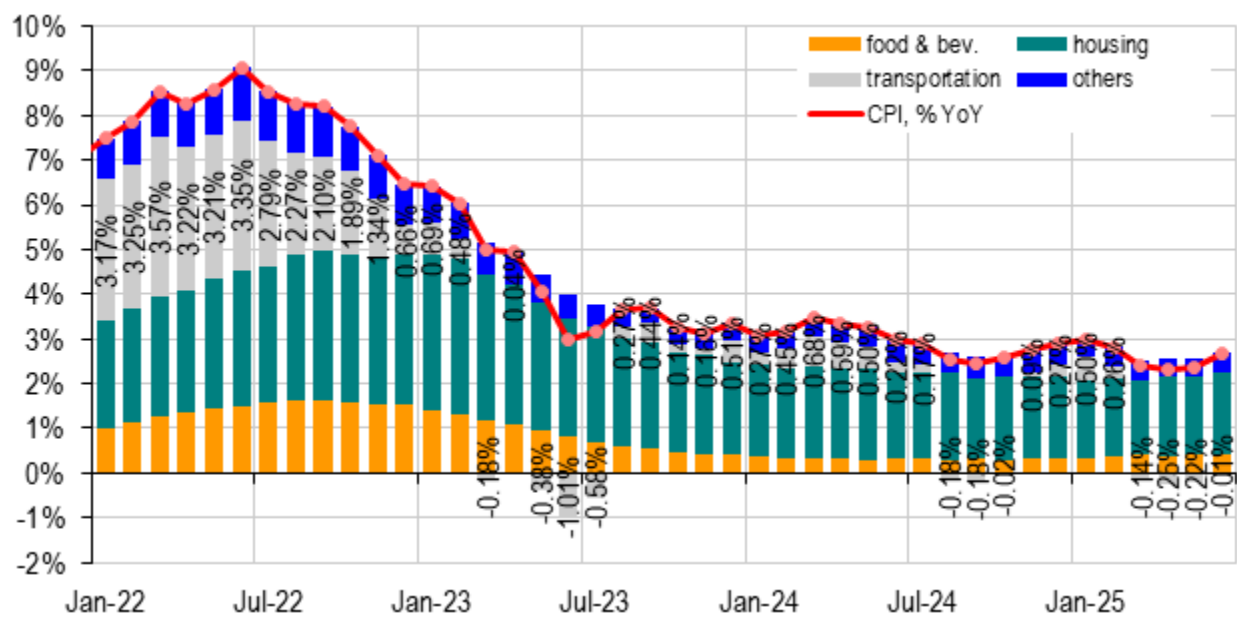
Country	Prior % (9 April)	Latest % (1 Aug)	Change
Laos	48	40	-8
Myanmar	44	40	-4
Switzerland	31	39	8
Serbia	37	35	-2
Bangladesh	37	35	-2
Canada	25	35	10
South Africa	30	30	-
Bosnia & Herzegovina	35	30	-5
Mexico	25	30	5
Kazakhstan	27	25	-2
Tunisia	28	25	-3
Brunei	24	25	1
India	26	25	-1
Vietnam	46	20	-26
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	26	15	-11
EU	20	15	-5
New Zealand	10	15	5
UK	25	10	-15

Source: Bloomberg, KBank

The US inflation basket is more geared towards services than commodities, as a developed economy should be. One primary reason for the prolonged US consumer prices is the American Dream i.e., housing. For example, the latest consumer price reading was +2.67% YoY, +1.82% YoY, which was attributed to housing (Figure 1)

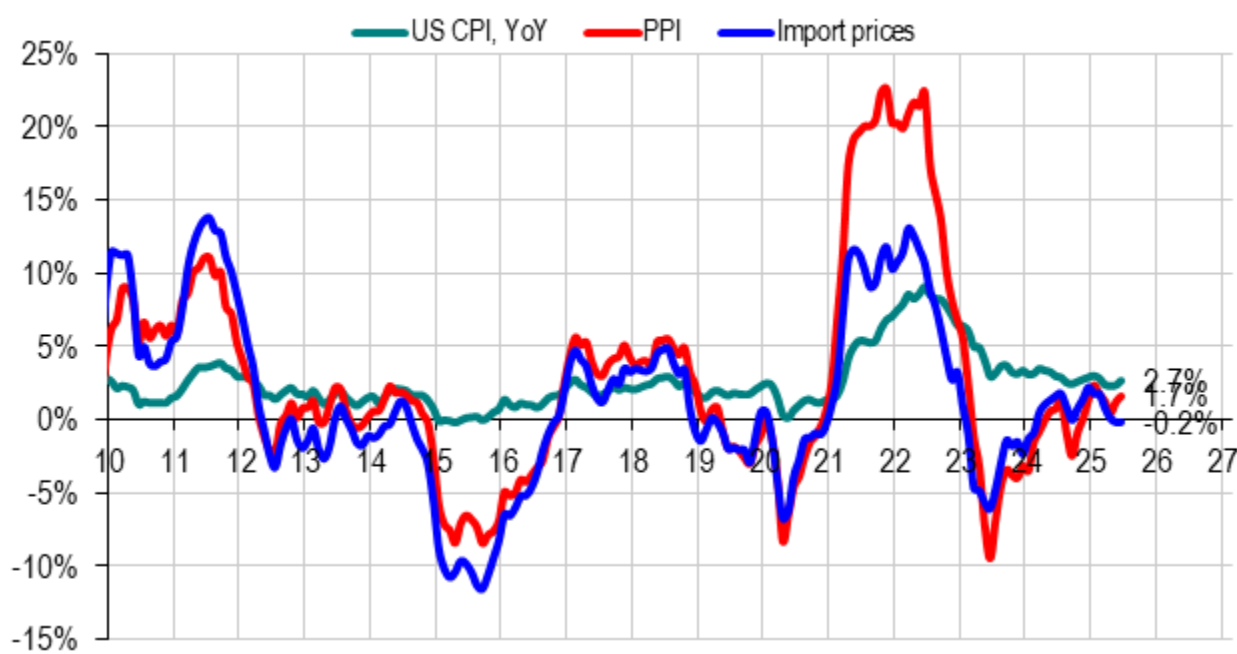
The considerable influence of housing may help explain why US consumer prices (CPI, green line in Figure 2) are not driven by import prices (the blue line represents the effects of tariffs). Import prices seem more influential at the business level, as reflected in the high correlation between import prices and the producer price index (PPI, red line). As Trump famously says, "Let's see" if the "Art of the Deal" will be practiced in the supply chain after the government-to-government negotiations.

Figure 1: US CPI compositions



Source: Bloomberg, KBank

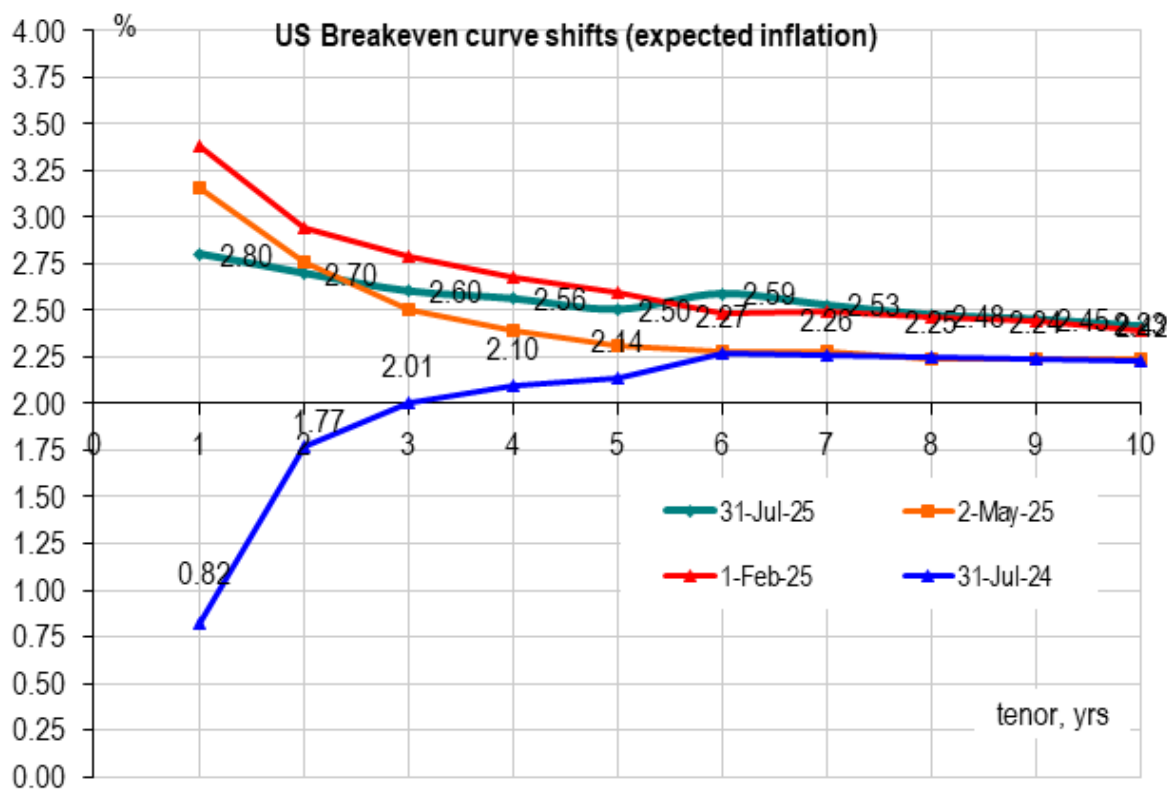
Figure 2: US CPI, PPI and Import prices index



Source: Bloomberg, KBank

When the Fed assesses the inflation environment, it looks at the past, the present, and the future indicators. Future indicators of inflation can be 1) consumer surveys, e.g., University of Michigan, 2) economists' estimates, 3) changes in commodity prices, 4) business expectations surveys, and 5) breakeven inflation rates. The last factor mentioned is interesting as it reflects investors' inflation expectations. The Fed pays considerable attention to this metric, which is derived from the difference in yields between nominal Treasury securities and Treasury Inflation-Protected Securities (TIPS). Figure 3 shows how inflation expectations from 1 year to 10 years have changed within the last 12 months. Before the US elections, investors were banking on 1-year expectations of 0.82%, well below the Fed's mandate of 2%, which supported the view that the Fed might aggressively cut interest rates. After Donald Trump returned to the White House for the second time, inflation expectations rose to 3.2+ % on fears of tariff-induced inflation. Note that inflation expectations of 5 years and beyond are more or less well-anchored, while those 5 years and less tend to swing substantially. The market has been pricing in US inflation at 2.8% for the next 12 months, suggesting that significant inflation jumps due to Trump's tariffs may not materialize. Therefore, this results in a real Fed Fund rate of 1.7% (4.50% less 2.8%), which gives the Fed some room to ease going forward, about 2 times before the end of the year, in our opinion.

Figure 3: US Breakeven curve shifts (expected inflation)



Source: Bloomberg, KBank

**Disclaimer**

"This document is intended to provide material information relating to investment or product in discussion, presentation or seminar only. It does not represent or constitute an advice, offer, recommendation or solicitation by KBank and should not be relied on as such. In preparation of this document, KASIKORNBANK Public Company Limited ("**KBank**") has made assumptions on the financial and other information from public sources, and KBank makes no warranty of the accuracy and/or completeness of the information described herein.

In the case of derivative products, where the recipient of the information (the "**Recipient**") provides incomplete or inaccurate information to KBank, KBank may not be capable of delivering information relating to investment or derivative products in conformity with the genuine need of the Recipient. The Recipient also acknowledges and understands that the information provided by KBank does not indicate the expected profit, yield or positive return in the future. Furthermore the Recipient acknowledges that such investment involves a high degree of risk as the market conditions are unpredictable and there may be inadequate regulations and safeguards for the Recipient.

Before making your own independent decision to invest or enter into transaction, the Recipient must review information relating to services or products of KBank including economic and market situation and other factors pertaining to the transaction as posted in KBank's website at URL <https://www.kasikornbank.com> and/or in other websites including all other information, documents prepared by other institutions and consult with your financial, legal or tax advisors before making any investment decision. The Recipient understands and acknowledges that the investment or transaction hereunder is the low liquidity transaction and KBank shall not be responsible for any loss or damage arising from such investment or any transaction made by the Recipient. The Recipient including its employee, officer or other person who receives information from this document or its copy on the behalf of Recipient, represent and agree not to make any copy, reproduce or distribute any information hereunder whether in whole or in part to any other person and shall keep confidential of all information contained therein. The Recipient acknowledges that there may be conflict of interest under the KBank's services, whether directly or indirectly and should further consider the character, risk and investment return of each product by reading details from relevant documents provided by KBank and the Recipient shall review KBank Foreign Exchange Disclosure at <https://www.kasikornbank.com/th/business/derivative-investments/Documents/KASIKORNBANK-Foreign-Exchange-Disclosure.pdf>

Where there is any inquiry, the Recipient may seek further information from KBank or in case of making complaint, the Recipient can contact KBank at (662) 888-8822."