The Big Three Commentary

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Tariffs continue to dominate headlines

US President Trump has announced a sweeping 50% tariff on copper imports, effective 1st August, aiming to bolster domestic supply. US copper futures surged 13% following the news. Meanwhile, Trump threatened an additional 10% levy on all countries aligning with the BRICS bloc, citing concerns that the bloc seeks to “destroy” the status of the US dollar as the global reserve currency. Also in the pipeline are 25–40% reciprocal tariffs on certain nations, such as Japan, South Korea and Malaysia, with letters already sent to 14 countries.

Markets have mostly shrugged off the news - global equity indices rose amid AI optimism, expected rate cuts, and questions surrounding Trump’s ability to enforce such sweeping measures. Industries reliant on copper – such as EVs, electronics, and construction - face higher costs, likely passing through to consumers or squeezing manufacturing margins. Broadly, economists warn these new tariffs could raise US prices by around 1.8%, shave around 0.7% off GDP growth, and increase consumer costs by around $2,400 per household this year.

Source(s): World Economic Forum, CNBC, Reuters.

Significant deflation in China

China’s Producer Price Index (PPI) fell 3.6% year-on-year in June, marking the steepest drop in nearly two years and extending 33 months of wholesale deflation. This signals deepening structural overcapacity, weak global demand, and adverse effects from ongoing US trade tensions.

Despite a modest rebound in Consumer Price Index (CPI) to +0.1%, domestic consumption remains sluggish, weighed down by pressure in housing, employment concerns, and cautious consumer sentiment. Industrial profits have plunged, prompting Beijing to condemn “disorderly price wars”.

On a global scale, deflation in the world’s second largest economy threatens to spill over via export markets - hungry exporters could offload excess goods internationally, pressuring prices in markets abroad. This dynamic could complicate inflation targeting by central banks, especially amid rapidly fluctuating and uncertain trade policies.

China’s central bank has room to ease policy, and analysts anticipate rate cuts later this year. However, without stronger domestic demand, fiscal stimulus, or structural reforms, the country risks a deflationary trap - with broader implications for global growth and stability.

Source(s): CNBC, Reuters, Financial Times.

The second half of 2025 – where is global monetary policy standing?

As we enter the second half of 2025, we see global central banks at dramatically different stages of their rate-cutting cycles.

The Bank of England held steady at a 4.25% base rate in June but signalled imminent easing amid weakening growth and surging unemployment. Certain policymakers favour a more aggressive path – totalling up to five cuts during 2025 - bringing rates closer to 2.25% by the end of 2026. For households, this could reduce mortgage costs but also compress savings yields, with effects on consumption and investment.

Conversely, the US Federal Reserve has held the federal funds rate steady at 4.50% during 2025, citing stubborn inflationary pressures - particularly from tariffs - and a robust labour market. Markets are pricing in two cuts by year-end, potentially lowering rates to 4.00%. But minutes reveal a divided Fed, with several officials pushing back on imminent cuts and favoured timing around September.

Investors remain cautiously optimistic, though broader macroeconomic and trade policy uncertainty tempers expectations.

At the other end of the spectrum, the European Central Bank cut its deposit rate from 2.25% to 2.00% in June, marking the eighth consecutive reduction. Projections suggest inflation falling below the ECB's 2% target later this year and remaining subdued for around 18 months. Although a July pause appears increasingly likely, markets are anticipating at least one further cut during 2025, however the ECB are proceeding cautiously to maintain credibility. This slower, data-dependent approach aims to support growth without reigniting inflation, buffering households and firms via lower borrowing costs.

Source(s): Reuters, Trading Economics.