EVALUESERVE

Looking into **2025:**

Growth in the shadow of (geo)politics

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Summary:

The 2025 global economic outlook presents significant challenges shaped by trade wars, geopolitical tensions, and commodity market dynamics. President Trump's announced tariffs (25% on Mexico and Canada, 10% on China) could potentially reduce global growth by 0.8% in 2025 and 1.3% in 2026. The automotive and electronics sectors are expected to be most impacted by these tariffs, with automotive representing 47% of tariff discussions and electronics 39%. Geopolitical tensions, particularly the Ukraine-Russia conflict and Iran-Israel tensions, are already affecting global shipping routes and energy supplies. The shipping industry faces dual challenges from geopolitical tensions affecting key routes and new environmental regulations, especially the EU's Emissions Trading System. In the commodities sector, oil markets are predicted to maintain a surplus, while natural gas prices are expected to decline in Europe but rise in the US. This document covers the key risks and offers a few recommendations to help businesses navigate these challenges in the evolving global economic landscape.

From Trade Wars to Commodity Risks

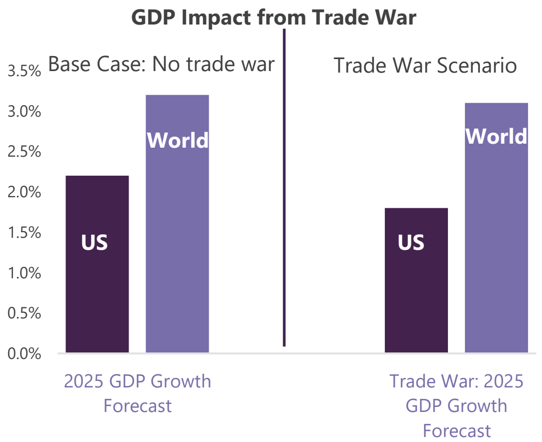
As we stand at the crossroads of unprecedented global change, 2025 presents a complex web of challenges and opportunities that will redefine the future of global markets. Following President Donald Trump's inauguration, the looming threat of trade tariffs and shifting geopolitical alliances indicate rapid changes in the economic landscape. What risks lie ahead for global markets? What dramatic shifts await the commodity markets? And how will the global economy navigate these turbulent waters? The brief below provides an overview of these critical questions that will shape our economic future.

Key Risks Impacting Global Markets

Trade Wars

Trade wars involving US tariffs on Mexico, Canada, China. And Europe could hurt the global economy and possibly reduce growth by 0.8% in 2025. The automotive and electronics sectors are at the highest risk due to price hikes and supply chain issues.

Trade wars pose a significant risk as they can potentially drive tariffs to their highest level in over a century. On February 1, 2025, US President Donald Trump **announced 25% tariffs on Mexico and Canada (except Canadian energy resources exports, which will face a 10% tariff) and 10% on China** to take effect on February 4, 2025. However, he has since granted a **one-month suspension of the tariffs on Mexico and Canada**. He also **pledged** to raise tariffs on **European Union (EU) nations** unless they increase their purchases of American oil and gas to narrow the trade gap with the US and has also issued tariff threats against Denmark in a bid to have the US absorb Greenland.



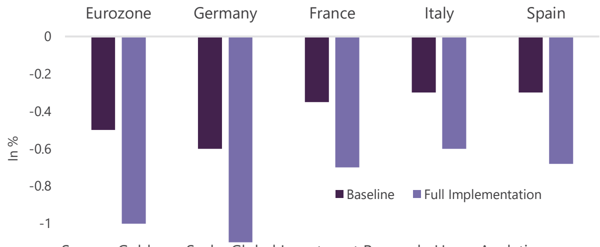
Source: IMF. World Economic Outlook. The trade war scenario assumes 10% U.S. tariffs on all imports, plus full-scale retaliation by Europe and China equivalent to 10% tariffs on US exports, and on all trade between China and the European Union implemented by mid-2025.

According to the IMF, due to Trump's tariffs (involving tariffs on Europe), **global growth could decline by 0.8% in 2025 and -1.3% in 2026.** In a 10% tariff scenario, the IMF forecasts a minor 0.1% reduction in global GDP growth to 3.1% in 2025. It foresees a -0.4% hit to the US's growth and a negligible impact on China and Europe; these declines are not significant enough to trigger a recession.

- **Trade Risks and Tariffs-** Potential US tariffs also pose a significant risk to the Eurozone economy. In 2023, the US accounted for 17% of the Eurozone's total exports, making it a critical market. A projected 10% increase in US tariffs could **reduce the Eurozone's GDP by approximately 0.5%,** with Germany being particularly vulnerable. While the immediate impact may be muted, the full effects are expected to become more pronounced after 2025.

Impact of US Tariffs on Eurozone

As per assumed scenario, 0.5% GDP hit from trade tensions in case of baseline and 1% GDP hit in case of full implementation of tariffs



Source: Goldman Sachs Global Investment Research, Haver Analytics
Note: Full implementation assumes a 10% tariff on all US imports (including from Europe) and baseline assumes a more limited set of tariffs on Europe, including on autos-related imports, and tariffs in China

- **Industries most likely to be affected by high tariff**
- Automotive
    - Sentiment analysis indicates that the **automotive sector is expected to be the most impacted,** accounting for **47% of the focus in tariff discussions** and announcements.
    - *Critical exposure:*
        - Commerce Department data shows that in 2024 (excluding December), the **US imported USD87 billion** worth of motor vehicles and **USD64 billion worth of vehicle parts** from Mexico.
        - According to the US International Trade Administration, from January to September 2024, **Mexico exported 41.3%, Canada exported 9.9%, and China exported 9.4%** of the US auto parts.

Industry reports indicate that a **25% tariff on imports from Mexico and Canada** could harm the earnings of major automakers like **General Motors, Ford, and Stellantis.** The financial impact of tariffs at 25% would be USD56 billion, across these three companies.

- Electronics and Technology
    - Sentiment analysis indicates that the **electronics and technology sector is expected to be the second most impacted**, accounting for **39% of the focus in tariff discussions.**
    - Major manufacturers such as **Foxconn, Samsung, and LG have significant operations in Mexico.**
        - Foxconn is currently building a large AI factory in Mexico, while Lenovo produces all its North American data centre products in Monterrey. Samsung and LG both manufacture appliances in Mexico for US customers.
        - A substantial portion of technology hardware is manufactured in China, and tariffs on China can particularly affect **semiconductor** supply chains.
    - *Specific impacts:*

- According to a Consumer Technology Association report published in January 2025, these tariffs could lead to a **46% increase in laptop and tablet prices.** Purchases of laptops and tablets could decline by as much as 68%, consumption of **gaming** consoles could decrease by up to **58%,** and **smartphone** consumption could drop by up to **37% in the US in 2025**.

> Tariffs levied on technology product and parts imports could **reduce** the US consumer purchasing power by a range between **USD90 billion and USD143 billion in 2025.**
>
> ~Consumer Technology Association

- Firms in the technology sector, particularly those based in China, face significant risks due to their **reliance on exports to the US market.**

- Energy and Rare Earth Minerals
  - *Critical exposure:*
    - The US imports the **largest number of barrels per day from Canada.** US imports of crude oil from Canada reached a record of 4.6 monthly million barrels per day (b/d) in October 2024 following the expansion of Canada's Trans Mountain pipeline.
    - **China** controls about **70% of rare earth production and 90% of processing.** Given the US's reliance on China for these materials, it is working to establish a sustainable supply chain, with projects underway domestically and in other countries.
      - However, expanding the supply chain beyond China is challenging due to China's economies of scale, government subsidies, and environmental concerns associated with mining and processing.

> According to industry reports, **estimated gas price increase of 25-75 cents per gallon** under tariffs.

- Consumer Goods and Retail
  - Sentiment analysis conducted reveals that the **consumer goods and retail industry** has the **highest negative sentiment (96%)** despite accounting for **less than 2%** of overall media focus on tariff discussions.
  - *Critical exposure*:
    - In 2024, approximately **75% of toys** imported to the US came from China.
    - In 2023, 29% of US furniture imports were from China, with **30-40% of US production still requiring 50% imported materials.**

> The Toy Association of the US says that Trump's tariffs **could increase the cost of toys by up to 56%.**

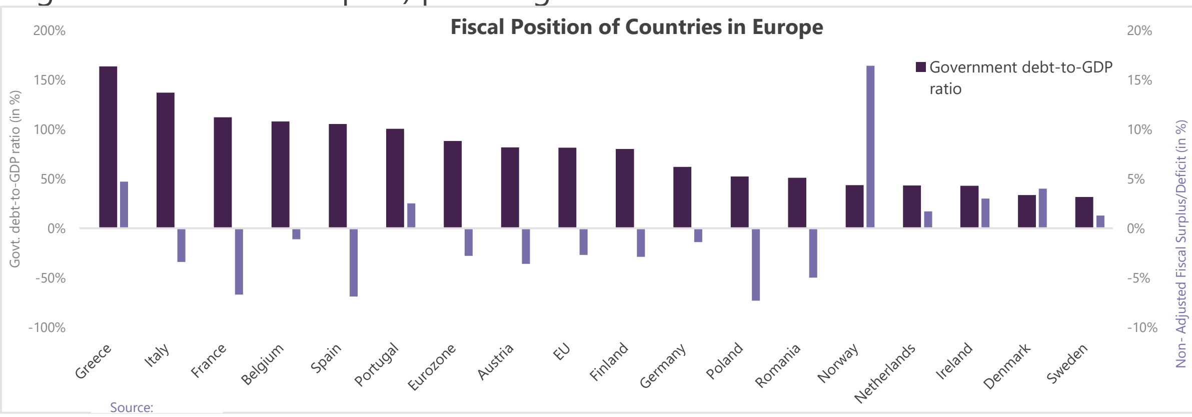
Geopolitical Tensions

Geopolitical tensions like the Ukraine-Russia war and Israel-Iran conflict could harm global economic stability, disrupting oil and gas exports. European countries face financial strain due to high debt, and key shipping routes like the Red Sea and Strait of Hormuz are at risk, potentially affecting global trade and energy supplies.

Geopolitical risks, particularly in Eastern Europe and the Middle East, have the potential to impact regional stability and global energy supply.

- **Ukraine-Russia War**

  With the possibility of the US withdrawing support for Ukraine under Trump, European countries which have significantly increased their military budgets to 2% of GDP could witness higher strain on public finances. This could curtail growth, which is being projected at only 0.9% in 2025. The high government debt-to-GDP ratio in European countries (112.2% in France, 163.6% in Greece, 137% in Italy, 108% in Belgium and 105.3% in Spain) poses significant risks to these nation's fiscal health.



Source:

  - The Ukraine-Russia conflict has led to a **disruption** in **Russian oil and gas** exports, particularly through the Baltic Sea. Reports indicate a 10% decline in oil exports over the last four months of 2024 due to EU sanctions. This reduction has affected global oil supply chains, leading to increased prices and supply uncertainties.

- **Iran and Israel conflict**

  The ongoing conflict between Iran and Israel has the potential to impact the regional as well as the global economy. Trump could levy sanctions on Iran in the future, potentially **removing 1.5 million barrels of the country's** daily oil exports from the market, thereby tightening global supply. Global dependence on oil imports from Iran, especially by China, makes countries **vulnerable to price shocks**.

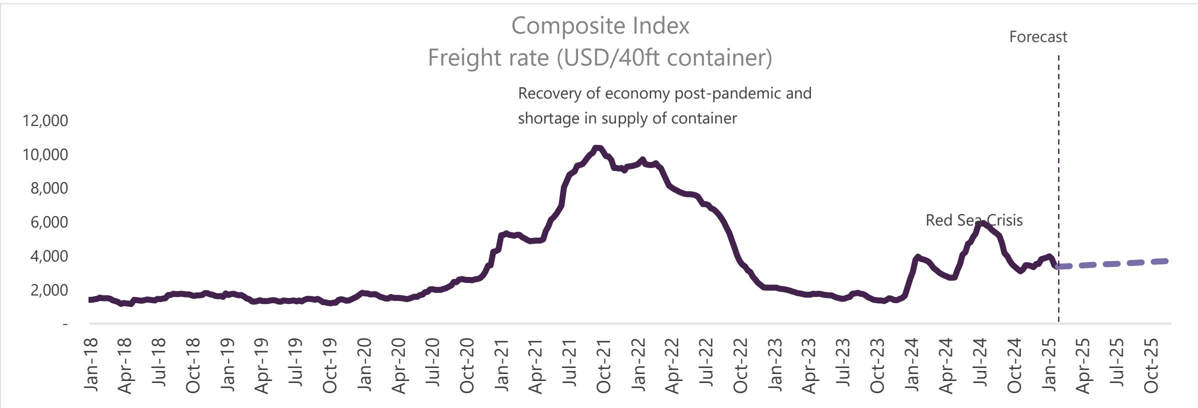
  The Israel-Iran conflict has heightened risks in critical maritime routes such as the Red Sea and the Strait of Hormuz. While the Houthis have signalled that they will limit their attacks to Israel-linked vessels, the fragility of the situation and potential for aggression could lead to a disruption in these vital shipping corridors. **Shipping, insurance, and retail industry executives** believe that the risks are too high to resume voyages through the Bab al-Mandab strait in the Red Sea, through which exports to Western markets from the Gulf and Asia must pass before entering the Suez Canal.

Shipping Industry Dynamics

Global shipping costs will remain high due to market tensions and new regulations. The expansion of the Emissions Trading System (ETS) will make shipping companies buy more carbon allowances, possibly doubling ETS surcharges and raising shipping costs for businesses.

Global

- Freight rates remain significantly above **pre-crisis levels**, particularly in the context of the COVID-19 pandemic, despite a slight decline. Rates were elevated in mid-January due to the **2025 Chinese New Year** as businesses rushed to fulfil orders before widespread factory closures and limited operations.
- Market uncertainties are **compounded by ongoing negotiations related to labour agreements at US ports.** Potential strikes or disruptions could further complicate logistics and elevate costs. Although a recent agreement averted immediate strikes, concerns remain about future labour actions and their potential impact on shipping operations.



Source: Drewry, Evalueserve

Rising Shipping Costs in Europe

- **Expansion of the Emissions Trading System (ETS):** Starting January 1, 2025, shipping companies have to purchase allowances for 70% of their greenhouse gas (GHG) emissions. The requirement will further increase to 100% by 2026. This will likely result in higher costs for shippers as carriers pass on the increased expense of purchasing these allowances. Carriers have warned that their ETS surcharges could nearly double under the updated regulations, leading to costs for shippers.

Commodity Price Outlook

Oil markets are expected to remain in surplus with Brent crude averaging USD 71 per barrel, driven by non-OPEC supply growth and weak global demand. Natural gas prices will diverge, with European prices declining while US prices rise to USD 3.50/MMBtu. Industrial metals like copper, aluminum, and nickel will face pricing pressures due to weak demand, surplus supply, and shifts in market dynamics, particularly from the EV sector.

Oil

- Oil markets are expected to **remain in surplus**, with non-OPEC supply exceeding demand. Experts believe prices will trend lower, **averaging USD71 per barrel for Brent in 2025.** Some analysts also believe that OPEC+ production cuts may be extended to stabilise prices, but weaker global demand and geopolitical risks could persist. The recovery in demand is expected to largely depend on Asia, especially China, while sanctions and geopolitical instability could lead to short-term price spikes.
- However, risks such as stricter enforcement of sanctions on Iran, extended OPEC+ production cuts, or sudden geopolitical disruptions could impact this surplus outlook.

Natural Gas

- **European** natural gas prices are expected to **decline** in 2025, assuming a normal winter and continued LNG growth. The **US** natural gas market, on the other hand, is forecast to **tighten** due to robust demand for LNG exports and power generation, which will drive prices higher to an average **of USD3.50 / MMBtu**.

Steel

- In 2025, steel prices are expected to **remain under pressure due to weak demand and high inventories**, particularly in China, the world's largest steel consumer. China's steel demand is projected to decline further due to a slowdown in the property market, which accounts for approximately 40% of steel demand in the country.

Industrial Metals

The rise of EVs is likely to shift demand patterns, with **lithium and cobalt becoming more critical than traditional industrial metals like copper and aluminium**. The global supply of industrial metals is expected to outpace demand. For example, the International Copper Study Group (ICSG) forecasts a surplus of approximately 200,000 metric tons in the copper market in 2025 due to increased production by major mining countries like Chile and Peru.

- **Copper**: Prices are likely to face downside risks due to trade tensions, a strong US dollar, and weak demand from China. However, green energy initiatives could provide some support. Prices are forecast to average USD 8,900 per tonne in 2025.

- **Aluminium**: A modest aluminium deficit is expected in the global market due to slower production growth and high alumina costs. Prices will likely find support at higher levels, averaging USD 2,625 per tonne in 2025.
- **Nickel**: Nickel markets are expected to remain in surplus in 2025, driven by strong production growth in Indonesia. Weak demand from the stainless steel and EV sectors, coupled with high inventories, will likely keep prices under pressure. The average price is expected to be USD 15,825 per tonne during the year.

Strategies to Navigate Turbulent Waters

In 2025, global markets may face major risks from trade wars and geopolitical tensions. With supply chain disruptions and rising costs, key sectors like **automotive, technology, and energy could be heavily impacted**. **The world economy might see below-average growth**, and US tariffs could worsen the situation by reducing global GDP. Commodity markets are also at risk of volatility, causing price fluctuations and supply chain challenges.

To mitigate these risks, the following strategies could be assessed:

Reshoring Strategies

In 2025, trade tariffs on Mexico, Canada, and China, and potential tariffs on Europe will make industries rethink their supply chains and consider bringing production back home.

The US automotive industry is at risk, with the US importing USD87 billion in vehicles and USD64 billion in parts from Mexico. A 25% tariff will cancel out cost savings from cheaper labour in Mexico, pushing manufacturers to explore reshoring strategies.

The US agriculture sector relies heavily on USD46 billion worth of Mexican imports and would face price hikes due to tariffs, leading producers to rethink sourcing.

With 18% of global corporate revenue at risk from tariffs, especially in capital goods and technology hardware, companies are looking to diversify supply chains and invest in domestic production to reduce dependency on foreign suppliers and enhance resilience.

Establishment of Mitigation Mechanisms

Companies should assess reshoring and establish long-term contracts. Regular monthly or quarterly supplier check-ins facilitate early identification of issues. Concurrently, continuous market intelligence, advisory, and risk monitoring are crucial. Organisations should strive to understand current market dynamics, supply chain vulnerabilities and emerging risks before planning. This approach will enable them to develop more informed and adaptable strategies based on thorough analysis.

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