3 June 2025

Markets in a Minute

Key highlights

- **U.S. trade court strikes down tariffs:** The U.S. Court of International Trade (CIT) ruled that President Trump's 'Liberation Day' tariffs were illegal and gave the administration ten days to unwind the levies. However, the CIT's decision was paused until 9 June by the U.S. Court of Appeals for the Federal Circuit.
- **American consumer sentiment improves:** U.S. consumer confidence improved in May, reflecting a greater sense of positivity in the U.S. that's reflected in a stabilisation of President Trump's approval rating.
- **OPEC agrees to cut oil production:** Last week, the Organisation of the Petroleum Exporting Countries (OPEC) agreed to cut oil production in the future. However, the latest near-term plan to increase production was approved over the weekend.

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Guy Foster
Chief Strategist

U.S. Court of International Trade strikes down tariffs

There have been dramatic legal twists this week in the ongoing saga over President Donald Trump's trade tariffs. The U.S. Court of International Trade (CIT) ruled that the Trump administration's 'Liberation Day' tariffs were illegal, exceeding the president's authority under the International Emergency Economic Powers Act (IEEPA). As a result, the 10% universal tariff, 20% fentanyl-related tariffs on China, and 25% fentanyl-related tariffs on non-compliant imports from Canada and Mexico (under the U.S.-Mexico-Canada Agreement) were all set to be removed.

That would have led to a reduction in the effective U.S. tariff rate, which would likely remain at 6.5% instead of rising to 15%. It would mean lower tariff revenue, now estimated at around $115bn annually, rather than the previously estimated $360bn. Tariff revenue offset some of the planned increases to borrowing, which are driven by the administration's plans to roll over and extend tax cuts. The U.S. budget deficit would reach around 7% of gross domestic product (GDP) under the House of Representative's plan with a lower tariff income, rather than remaining near 6% of GDP with a higher tariff income.

However, plenty of uncertainty remained over this. The president's authority under IEEPA was deemed an overreach, but he could still use Section 232 investigations, Section 301 tariffs, or other (mostly untested) options to impose tariffs on trading partners.

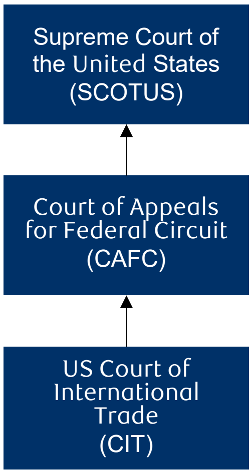
Figure of the week

2.1%

The U.S. Personal Consumption Expenditure Index was only marginally above target, although it may rise depending upon tariff developments.

Section 232 allows the president to impose tariffs on imports that threaten national security, and it was this route he used for steel, aluminium and, more tenuously, car imports. Section 301 allows the U.S. Trade Representative (USTR) to impose tariffs on imports from countries that engage in unfair trade practices. That seems the most appropriate means for reciprocal tariffs, but it requires an investigation into those practices. The USTR did initially conduct an investigation. However, the eventual tariffs were imposed based on trade balances rather than the investigation, and no country was exempted.

Defeat in the U.S. CIT means the case moves to the CAFC but may eventually reach the SCOTUS



The initial CIT decision was seen as good news for the stock market and the U.S. dollar. However, gains faded. There are a few reasons for caution. The most obvious being the risk that the decision could be challenged, which it was.

A U.S. federal appeals court granted a temporary reprieve to the Trump administration's global tariff plans on Thursday, pausing the CIT's ruling. The U.S. CAFC issued a stay "until further notice," effectively putting on hold the CIT's decision that had blocked the tariffs and given the administration ten days to unwind the levies.

There will now be a further pause until 9 June, when the CAFC will decide on the request for a longer-term stay.

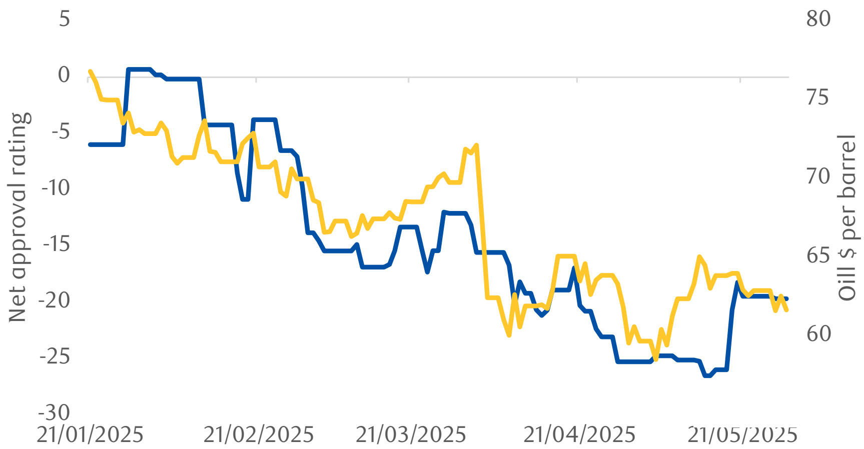
If the Court of Appeals reinstated the CIT decision, it wouldn't be good news across the board. The additional fiscal pressure due to lost tariff income would put the public finances under more pressure, which would be bad for bonds and could undermine stocks. It also adds to the narrative that the administration is being curtailed by 'unelected judges' sowing more division within a polarised nation. The case would likely then go to the U.S. Supreme Court, which currently has a majority of conservative members. Sky-high trade uncertainty would continue to undermine business activity and companies would opportunistically use any temporary stays of the tariff measures to bolster inventories, causing trade to be lumpy and unpredictable.

“If the U.S. Court of Appeals reinstated the Court of International Trade decision, it wouldn’t be good news across the board. The additional fiscal pressure due to lost tariff income would put public finances under more pressure, which would be bad for bonds and could undermine stocks.”

American consumer sentiment improves

U.S. consumer confidence improved during May. This reflects a greater sense of positivity that has developed in the U.S. and that’s reflected in a stabilisation of President Trump’s approval rating.

President Trump’s approval rating on inflation has fluctuated with the oil price



Source: LSEG Datastream

The natural path of presidential popularity is downward, and President Trump was becoming unpopular at a historically fast pace. However, his approval ratings have steadied and recovered during May. This likely reflects the deferral of the highest tariff rates and the prospect of trade deals being announced (like the one with the UK).

Tariffs have yet to wreak the kind of havoc media headlines might have suggested, and other factors have offset them. Most obviously, the price drop in energy markets has offset price inflation in other categories.

OPEC agrees to cut oil production

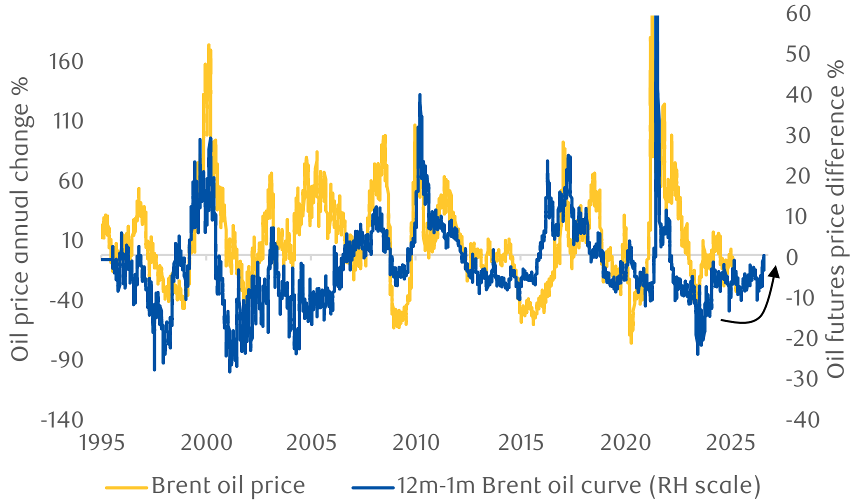
Last week, the Organisation of the Petroleum Exporting Countries (OPEC) agreed to cut oil production in the future. However, the latest near-term plan to increase production was approved over the weekend.

These increases are a means for Saudi Arabia to punish its fellow cartel members for breaking previous production limits. An increase in production will weigh on the oil price, hurting the finances of oil producing companies and nations. However, it will be cheered in the U.S., where the lack of tax on gasoline means that volatile swings in energy commodity markets are felt directly in the pockets of U.S. consumers. Recent falls will feel very much like a tax cut for many Americans, boosting growth and reducing inflation.

Anticipated shortages of crude oil due to production cuts from OPEC and possible disruption in the Middle East had caused the oil futures curve to become ‘backwardated’ (futures prices are below current oil prices). Usually when this happens, it indicates energy prices will be weaker in the future, as seen in this instance. Oil prices fell as OPEC temporarily expanded production, which it’s poised to do again this weekend.

The news for energy investors has been poor due to these production increases. But with a flat-to-upward sloping curve, the outlook seems more balanced. Energy stocks are a useful component for portfolios that are otherwise vulnerable to the growth and inflation impact of an oil price spike.

The futures curve suggests oil prices will be little changed over the coming year



Source: LSEG Datastream

Coming up this week

- **U.S. employment:** The latest non-farm payrolls report is due on Friday.
- **European Central Bank (ECB) to cut interest rates:** The ECB is expected to lower its deposit rate by another 25 basis points to 2.5% in its meeting on 5 June.
- **Global purchasing managers indices (PMIs):** S&P Global released its manufacturing PMIs on Monday which showed a further loss of momentum in the sector. Wednesday will show whether this has bled through into the larger services sector.

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