

THE LANGUAGE OF TRADE

REVIEW OF THE WEEK
31 MARCH 2025

The US government plans to slap tariffs on virtually all imports to the US as part of ‘Liberation Day’. The details are yet to be revealed, but the most immediate effect is already apparent: higher prices.

Do we shape our language, or does our language shape us? As with buildings the best answer is probably that we shape it first, then it shapes us. Shared language helps bring people together. That could be as broad as understanding German, but it also contains an ocean of nuance: accents connect you to a specific place, slang phrases to a specific time, jargon to specific jobs and in-jokes to specific groups.

Some say language has the power to frame your reality. Others say language *is* your reality. It’s how we think, make sense of the world and convey our thoughts to others. This is what George Orwell was getting at when he argued that, by controlling language, you can, in meaningful ways, change people, time, places and the relationships between them all. And while it’s hard to convince someone that something as simple as black is actually white, it’s much easier to do the persuading when you’re talking about something abstract and complicated. Finance and economics are fertile ground.

Now, it’s fair to point out that finance and economics haven’t been solved. They contain more than a bit of psychology, irrationality and *je ne sais quoi*, being as they are amalgamations of the countless decisions of countless people. They often surprise us, sometimes for the better, sometimes for the worse. It’s easier to predict the weather than the fortunes of markets or the weekly moves of prices and interest rates. That’s because of the infinite chains of cause and effect that constantly ripple across society and markets. Yet first-order moves generally work like clockwork. For instance, when you add a tax to something, all else remaining equal, its price will rise. How that affects people’s behaviour – whether importers will pass on the cost, whether customers will pay more or switch to something else, whether local manufacturers will start making more – is harder to determine.

The Trump administration has been touting tariffs as a fix for the US since before it won in November. They argue that tariffs will be paid by foreign exporters, that the tax revenue raised will help reduce the big gap between what the government spends and what it receives and create better jobs for Americans. All of this is possible. Not *probable*, but possible. What is almost guaranteed, though, is that the first-order effect will be higher US prices for those tariffed products and materials.

Take copper as an example. It’s an important metal used in all sorts of industries and products the world over. It trades on the London Metal Exchange and also on the New York Metal Exchange. Both are exactly the same grade and both are priced in dollars. The only difference really is which side of the Atlantic you’d like to trade on. And so the difference in price tends to be very low. Between the start of 2020 and the end of 2024, the difference between them has averaged about \$97, or 1% of the price of a metric tonne. However, after Trump’s threats of stiff tariffs on virtually everything, copper now costs much, much more if it’s on the US side of the ocean because of threatened tariffs due to come into force this week.

US COPPER PRICE DIVERGES FROM UK AS TARIFFS LOOM



A metric tonne of copper is now about \$1,400 more expensive in New York than it is in London. That implies traders expect the US government to levy a tariff of roughly 15%. That’s a big hike in the price of an important input for everything from infrastructure and plumbing to consumer gadgets, telecommunications and motors. Now, that higher price could encourage US companies to mine and refine copper at home, rather than ship it in from abroad. The US has stacks of it in under the ground. But the question is how much will it cost to extract it? How easy will it be to increase production or set up new mines? What are the risks? Will it make economic sense? And it will take time. In the meantime, the US must pay 15% more.

Trump says he plans to reveal a wave of tariffs on Wednesday this week. If he does what he says, some will be 10%, some 25%. Some will be different amounts aiming to “reciprocate” tariffs and other barriers to trade that other nations currently levy on US imports. The US market for each product will react differently depending on how easy it is to substitute, whether with something else or a locally made alternative. But almost all will end up increasing costs and reducing choices for businesses and households today.

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Trump says it is the foreign companies paying the tariffs, not US businesses and households. He has dubbed Wednesday “Liberation Day”, you must surmise because it will be the day that Americans are freed from the tyranny of lower prices and greater choice. Tariffs, like anything, are just a tool. They are neither good nor bad. It's how you use them. You may want to protect your domestic production, despite it being a more expensive alternative, for national security reasons or to protect a nascent industry that would be crushed by established foreign competitors. You may want to ensure your local employers aren't undercut by foreign businesses that exploit their staff. But there are trade-offs. Number one is that your consumers will pay for it. And in a modern economy, dominated by services, you have many, many more consumers than you do manufacturers, farmers and their staff. As of 2023, about 20% of the US workforce was employed by industry, 1.6% in agriculture and 79% in services.

Will words change that reality?

An understated Autumn Statement

UK Chancellor Rachel Reeves kept her Autumn Statement deliberately low key last week. She was insistent that she wanted to get away from tinkering with taxes and rules every six months, as became the habit in recent years.

She kept her promise, as far as she could. While there were no changes to taxes, there were cuts and reforms to government spending to ensure that the government's finances stayed on track for meeting her fiscal rules by the end of this Parliament. With borrowing costs much higher and economic growth much lower than were forecast when Reeves set out her Budget in October, the government **found the roughly £10 billion headroom** it had given itself between its tax revenue and its expenses had vanished. After a range of cuts, most notably to sickness and disability benefits, the headroom was reinstated. But the root problems haven't been addressed. The UK is still struggling to grow, the increase in Employer National

Insurance Contributions are yet to take effect (they come in next week) and government bond yields remain high. Investors remain dubious that the government will be able to avoid either borrowing more, taxing people more, or both in the next Budget.

The Chancellor is in a bind: there's no money for tax cuts to stimulate the economy by putting more cash in the pockets of people and businesses. And borrowing costs, for all nations, are higher than they've been for decades. The only real route, it seems, is reform: by liberalising some of the laws and processes that could be holding the UK back.

Planning is the main one in the government's sights, given the evidence that the UK's complex and often arbitrary system has contributed to the country's chronic failure to build houses and infrastructure. The government's Planning and Infrastructure Bill has now been through its second reading in the House of Commons. It includes measures to streamline the approval process for key infrastructure projects, to ensure that local planning authorities operate more effectively, and to reform compulsory purchase powers. Given the government's large parliamentary majority, it should have little difficulty passing significant changes here.

The government's fiscal watchdog, the Office for Budget Responsibility, estimates these reforms will eventually add 0.4% to the UK economy each year, which is meaningful. Otherwise, the government is likely to press ahead with its nascent 'regulating for growth' agenda, in which it aims to address the 'complexity and burden' of regulation and to challenge 'excessive risk aversion' from regulators. These changes are commendable in principle, but their ultimate impact on growth is uncertain and won't be evident for years.

If you have any questions or comments, or if there's anything you would like to see covered here, please get in touch by emailing review@rathbones.com. We'd love to hear from you.

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