EM Macro Strategy
US AND CHINA: SEEK TO DE-ESCALATE THE TRADE STAND-OFF

Following a meeting in Geneva, the US and China reached an unexpected temporary agreement to substantially reduce reciprocal tariffs for a 90-day period. We interpret this development as a positive signal towards a potential broader and long-lasting trade agreement between the two countries. Based on this, we believe tariffs on Chinese goods could be reduced to an effective range of 45–55%, down from 145% after Liberation Day. Consequently, we are raising our baseline growth forecast for China in 2025 to 4.7% from 4.2%, as we now expect exports to pose less of a drag on growth. However, we caution that the outcome of this 90-day “grace period” remains uncertain: the bar to achieve a meaningful and lasting trade deal is high, and it may take longer than 90 days.

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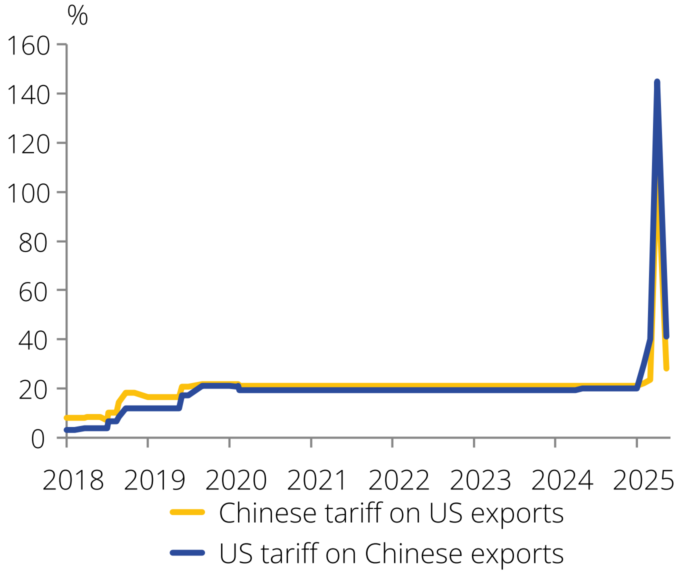
1. US-China trade: 90-day grace period to strike a deal

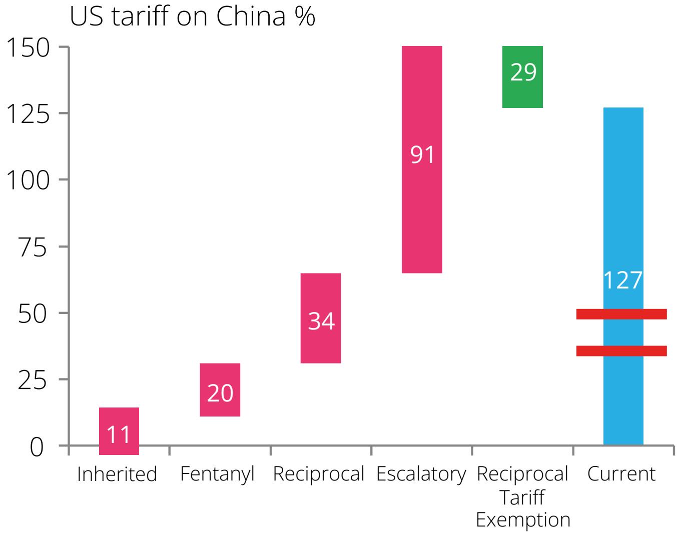
The US and China have reached a temporary agreement to significantly reduce tariffs for a 90-day period. Both countries have unexpectedly agreed to ease tariffs on each other's goods. Under the terms of the agreement, the US will lower tariffs on most Chinese imports from 145% to an effective 40%, while China will cut duties on American products from 125% to an effective 28% (**Figure 1**). This coordinated action is aimed at easing trade tensions and offers both sides a 90-day window to continue negotiations on economic and trade issues. A framework has also been established to support ongoing dialogue. While the agreement represents an unexpected step forward in de-escalating the trade conflict, it remains unclear what outcomes would be acceptable to both parties or how long a permanent solution may take. China has previously demanded the removal of all US tariffs imposed this year, a condition we believe is unlikely to be met.

FIGURE 1
US & China de-escalated reciprocal tariffs to 40% and 28% respectively



Source: Haver Analytics, ANIMA Research

FIGURE 2
We expect US tariffs to China to be lowered in the 40-50% range



Source: Haver Analytics, ANIMA Research

2. US-China trade: the deal we expect

We view the current dialogue as a sign of potential progress towards a trade agreement between the US and China. Although the likelihood of meaningful de-escalation has improved, we caution that the final outcome of the 90-day "grace period" may still fall short of delivering a substantial deal. The threshold for a lasting agreement remains high, and it may take longer than 90 days to reach a durable solution. Nevertheless, we believe both parties are now better positioned to make sensible reductions in reciprocal tariffs.

With regard to the US, we expect tariffs on Chinese goods to be reduced to an effective range of 45–55%. There is a growing probability that the US will lower its overall tariff rate on Chinese imports to around 50% which is still elevated, but significantly lower than previously anticipated. As such, we now believe there is a greater chance of specific tariffs being rolled back or suspended. In particular, we now expect (**Figure 2**):

1. **The removal of the 20% fentanyl-related tariffs.** China's Minister of Public Security, Wang Xiaohong, participated in recent discussions in Switzerland, suggesting the fentanyl issue could be resolved relatively easily, potentially through the establishment of a joint cooperation mechanism, similar to the arrangement Trump implemented with Mexico. We expect this tariff to be removed.

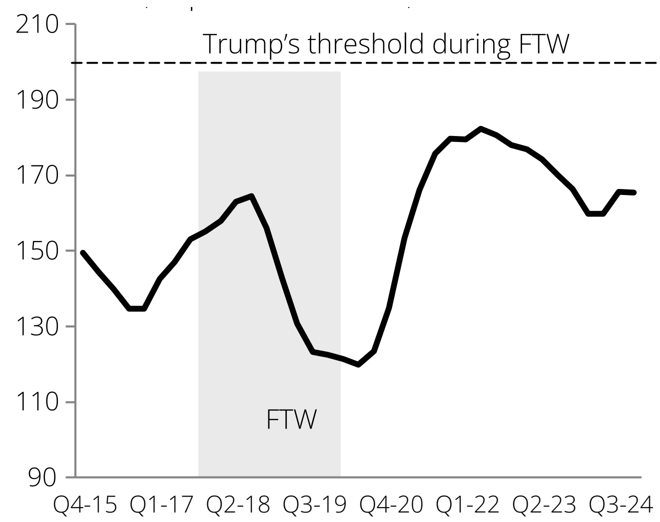
2. **A significant, though not complete, reduction of the "residual" 91% in escalatory tariffs.** If implemented, and taking into account the "reciprocal tariff exemption", totaling 29%, this would lower the effective tariff rate to approximately 50%, which includes the inherited "pre-Trump" base of 11% . While still elevated, this would be considerably less restrictive than the current tariff structure.

As for China, we anticipate significant easing on rare earth exports, a reduction in reciprocal tariffs, and a renewed commitment to "import more". We expect China to respond by withdrawing its retaliatory tariffs and making further concessions. Specifically, we anticipate:

1. Relaxation of rare earth export limits. China may ease restrictions on the export of critical minerals, particularly if the US scales back its controls on high-tech exports.

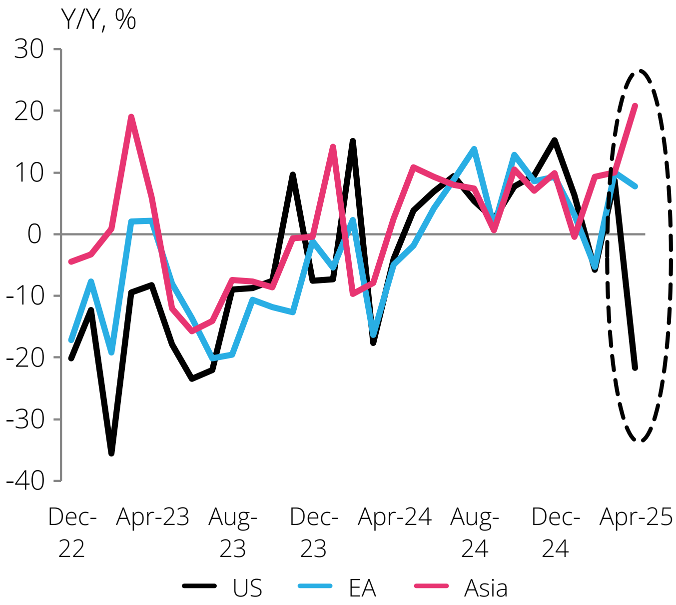
2. Commitment to increase purchases of US goods. The US Trade Representative has stated that recent discussions have made progress in addressing the country's $1.2 trillion trade deficit (25% of which is with China). As such, we believe China is likely to ramp up imports of US goods as part of ongoing talks, echoing promises made during the previous trade war under Trump (**Figure 3**).

FIGURE 3
During FTW Trump asked China to import more US goods



Source: Haver Analytics, ANIMA Research

FIGURE 4
Exports to ASEAN jumped in April, offsetting plunging exports to the US.



Source: Haver Analytics, ANIMA Research

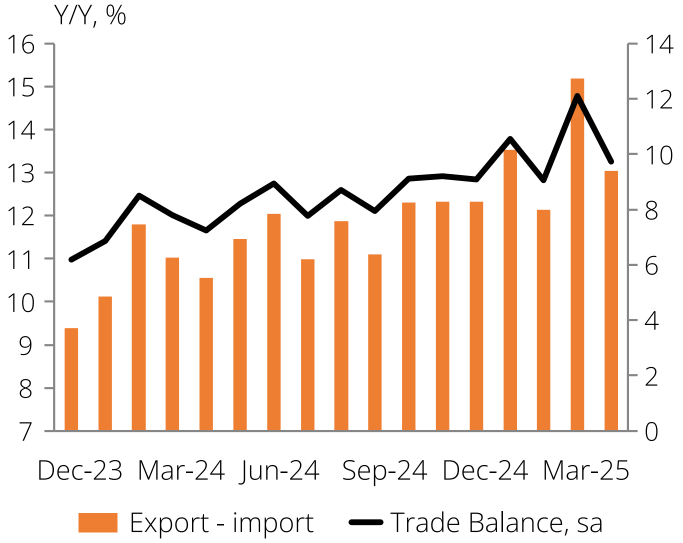
3. We see positive spillovers on China's exports and GDP

Following the "truce", we are moderately revising our growth baseline for China upwards. This revision is driven by two key factors:

1. **We now expect Chinese exports to exert less of a drag on 2025 growth than previously anticipated.** China's economic growth has proven more resilient than expected in early 2025. Official data show real GDP growing by 5.4% year-on-year in Q1, driven in part by stronger-than-forecast trade figures. In April, Chinese exports rose by 8.1% year-on-year, significantly surpassing market expectations. We believe this performance reflects Chinese exporters' ability to reroute shipments initially destined for the US through third countries, rather than relying solely on price cuts (**Figures 4–5**). Moreover, we expect that front-loading activity during the 90-day "grace period" will help to cushion and delay the full impact of US tariffs on China's total exports. As a result, we anticipate continued export support through the first half of the year and into the summer. Consequently, we are raising our GDP forecast for Q2 to reflect a temporary "export rebound" and we do not rule out further strength in Q3, should trade negotiations maintain momentum. However, this front-loading effect may result in a decline in exports later in the year (Q4) and into early 2026.

FIGURE 5

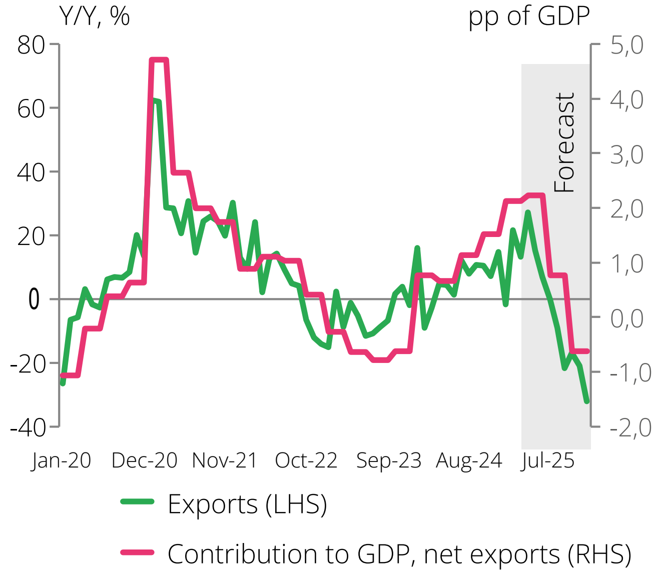
Trade surplus at $ 96bn in April, just slightly lower than in March



Source: Haver Analytics, ANIMA Research

FIGURE 6

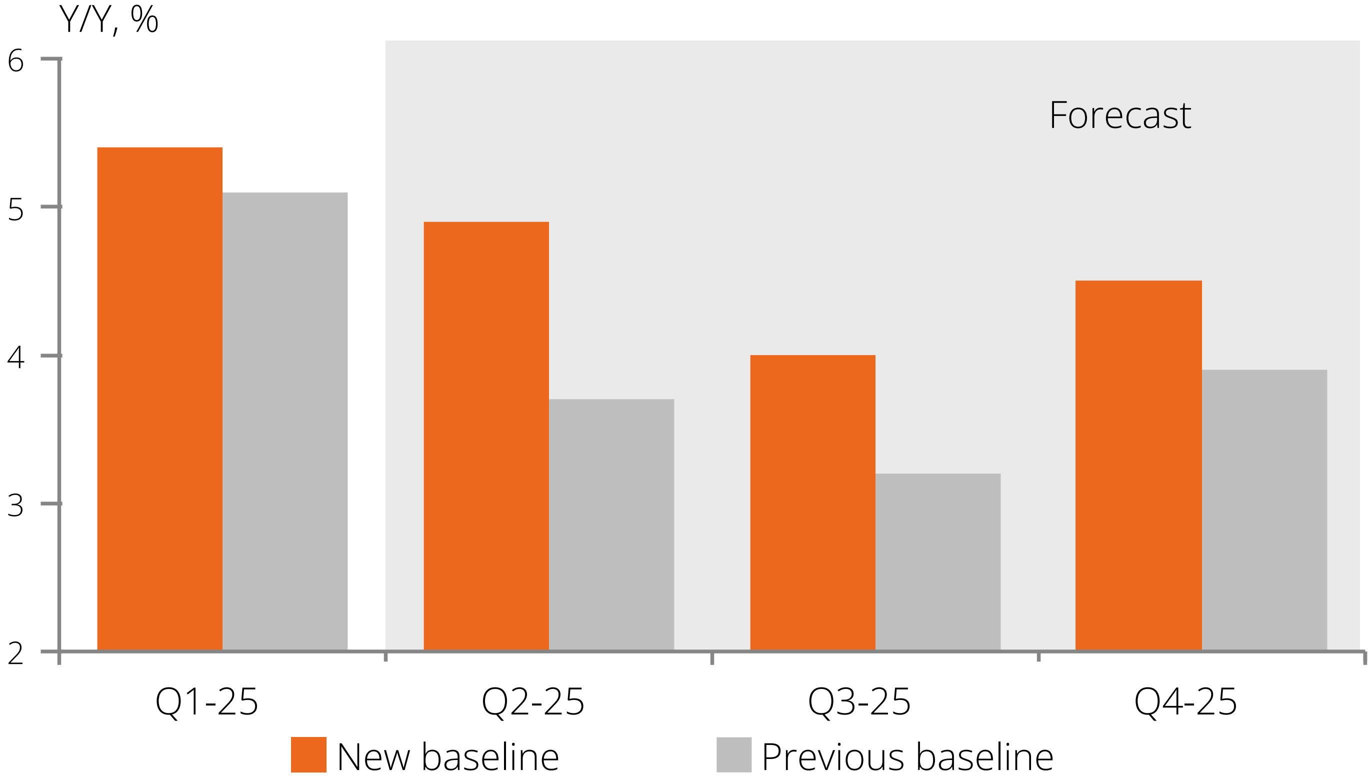
We still project a -0.6pp drag on China's GDP due to falling exports



Source: Haver Analytics, ANIMA Research

2. **Tariff de-escalation has eased immediate pressure on Beijing to implement further stimulus measures.** Following the Geneva talks, which produced a more constructive outcome than anticipated, we believe the Chinese authorities now face reduced urgency to support growth through additional fiscal stimulus. As a result, we no longer expect the government to introduce a large-scale fiscal package (previously estimated at up to one trillion yuan) later this year.

FIGURE 7
We revised our annual GDP forecast upwards to 4.5%, from 4.2%



Source: Haver Analytics, ANIMA Research

Bottom line. Against this backdrop, we now forecast China's exports to decline by 2% year-over-year in 2025, an improvement from our previous estimate of a 4% decline, following actual growth of 6% in 2024 (see **Figure 6**). Accordingly, we have revised the expected contribution of net exports to GDP to -0.6 percentage points, up from the earlier projection of -1.7 percentage points. Meanwhile, we expect reduced fiscal stimulus to subtract around 0.3pp. Taken together, we have upgraded our annual growth baseline for China to 4.7%, up from our prior forecast of 4.2% (see **Figure 7**).

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