

Macro Note

US-China: Significant dial back of trade tariffs in 90-day pause

Tuesday, 13 May 2025

Global Economics & Markets Research
GlobalEcoMktResearch@uobgroup.com
www.uob.com.sg/research

Alvin Liew
Senior Economist
Alvin.LiewTS@uobgroup.com

Ho Woei Chen, CFA
Economist
Ho.WoeiChen@uobgroup.com

- US and China announced a sharp reduction in tariff rates by 115%. The mutual tariff revisions to 30% on Chinese goods and 10% on US goods will be imposed by 14 May. It will also lower the “de minimis” tariff rate to 54% from 120% effective from 7 May. The flat fee per item will remain at US\$100 while the planned increase to US\$200 from 1 Jun will be cancelled. While there remain issues that need to be addressed, including the port fees and sector-specific tariffs, the risk of a breakdown in negotiations or significant re-escalation in trade tensions would be lower now due to the establishment of a mechanism to continue discussions.
- This will likely pave the way for a more durable trade agreement between US and China in 90 days. Following the Phase 1 trade deal in 2020, we think this would likely commit China to reduce its trade surplus with the US through increasing its imports from the US. It is likely that the baseline tariff rate of 10% will stay or even be raised for China. The two countries are likely to find some resolution to address the Trump administration's concerns about China's role in the fentanyl trade, potentially leading to a removal of the 20% fentanyl-related tariff, in the optimistic scenario.
- With the pause, Chinese exporters are expected to resume frontloading of production and shipments to the US in the 90-day window, which would provide a near-term boost to its economic outlook. Suffice to say, we now see some upside potential to our 2025 growth forecast for China of 4.3%, although we will wait for further data and developments before making any changes. Despite the near-term reprieve, China is expected to continue its strategy to boost its domestic resilience and diversify its export markets with continued policy support in these areas.
- **Central Bank Outlook:** We premised our Fed policy call on the impact of US trade policies leading to weaker growth (but not a US recession) with higher one-time US inflation outturns. Given that the Fed is advocating patience amidst tariff uncertainty and this is a 90-day extension, we see this as reinforcing our call for a delay in the Fed rate cuts in the later part of 2025, specifically to Sep, Oct and Dec FOMC meeting, bringing the upper bound of the Fed Funds Target Rate (FFTR) to 3.75% by end-2025. We are also keeping our view for two rate cuts in 2026, implying a lower terminal FFTR of 3.25% in 2026.
- For China, considering the new [stimulus measures](#) on 7 May and the 90-day dial back in US' tariff on Chinese imports, we think that the PBOC is likely to hold back from further easing in the near term. As such, we only expect an additional 10 bps rate cut in 4Q25 compared to our previous forecast of 20 bps cut in 2H25. Our revised forecasts for the 7-day reverse repo rate, 1Y LPR and 5Y LPR are at 1.3%, 2.9% and 3.4% respectively at end-4Q25.

US and China de-escalate trade tensions

US and China achieved a significant breakthrough during the two-day (10-11 May) trade talks held in Geneva, Switzerland, six weeks after the start of the escalation in trade tensions [since 2 Apr Liberation Day's](#) "reciprocal tariffs". The talk was led by US Treasury Secretary Scott Bessent and US Trade Representative Jamieson Greer, with China Vice Premier He Lifeng. This is the first high-level meeting between the two countries since US President Trump began his second term in Jan.

In the [joint statement](#) released by the White House (Chinese government's statement [link](#)) on Mon (12 May), the two countries announced a sharp reduction in tariff rates by 115%, comprising the cancelling of 91% tit-for-tat tariff and a pause in 24% reciprocal tariff for an initial period of 90 days (while retaining 10% of the baseline tariff). The mutual tariff revisions to 30% (from 145%) on Chinese goods and 10% (from 125%) on US goods will be imposed by 14 May. The White House issued another [statement](#) on Tue (13 May) where it lowered the "de minimis" tariff rate that applies to small packages shipped from China and Hong Kong worth less than US\$800, to 54% from 120% effective from 7 May. The flat fee per item will remain at US\$100 while the planned increase to US\$200 from 1 Jun will be cancelled.

As a result, US' tariffs on Chinese imports will be slashed to 30% (including 20% fentanyl-related levy) from 145%, while China will cut its tariffs on US goods to 10% from the 125% announced since 2 Apr on Liberation Day. China will also suspend or remove the non-tariff countermeasures taken against the US since 2 Apr, which includes the addition of seven rare earths to its export control list and investigations on various US companies as "unreliable entities". As part of the agreement, the two countries "will establish a mechanism to continue discussions about economic and trade relations".

Looking ahead, there will likely be more discussions on topics including US' plan to start charging fees on all Chinese-built and -owned ships docking in the US starting from 14 Oct, as well as US' plans for sector-specific tariffs, including on semiconductors and pharmaceuticals and its existing tariffs on autos, aluminum and steel. The road ahead will remain twisty and uncertain, and could turn abruptly. However, the risk of a breakdown in negotiations or significant re-escalation in trade tensions would be lower now due to the establishment of a mechanism to continue discussions about economic and trade relations, led by US Treasury Secretary Scott Bessent and US Trade Representative Jamieson Greer, and China Vice Premier He Lifeng.

The announcement on Mon has significantly de-escalated the US-China trade war with the outcome much better than many had expected especially after Trump hinted at only lowering the tariff rate on China to 80% just ahead of the Geneva meeting. This will likely pave the way for a more durable trade agreement between US and China in 90 days. Following the Phase 1 trade deal in 2020, we think this would likely commit China to reduce its trade surplus with the US through increasing its imports from the US. It is likely that the baseline tariff rate will stay or even be raised for China as US Treasury Secretary Scott Bessent said that "it is implausible" that US tariffs on China will drop below 10%. Meanwhile, the two countries are likely to find some resolution to address the Trump administration's concerns about China's role in the fentanyl trade, potentially leading to a removal of the 20% fentanyl-related tariff, in the optimistic scenario.

The mutual tariff reductions by US and China and the prospect of a trade agreement after 90 days are likely to reduce the downside economic risks for both economies. With the pause, Chinese exporters are expected to resume frontloading

of production and shipments to the US in the 90-day window, which would provide a near-term boost to its economic outlook. Suffice to say, we now see some upside potential to [our 2025 growth forecast for China of 4.3%](#), although we will wait for further data and developments before making any changes. Despite the near-term reprieve, China is expected to continue its strategy to boost its domestic resilience and diversify its export markets with continued policy support in these areas.

The outcome of the US-China trade talk (as well as the [US-UK trade deal](#) that kept the baseline reciprocal tariff rate of 10%) will likely act as a template for what US' trade negotiations with the rest of its trading partners will look like. It does suggest that US is looking for quick-win deals with its trading partners rather than a prolonged standoff.

Central Bank Outlook

FOMC: Keeping faith with the three 25-bps rates cut view for 2025 albeit delayed till Sep, Oct and Dec FOMC meeting. We premised our Fed policy call on the impact of US trade policies leading to weaker growth (but not a US recession) with higher one-time US inflation outturns. Given that the Fed is advocating patience amidst tariff uncertainty and this is a 90-day extension, we see this as reinforcing our call for a delay in the Fed rate cuts in the later part of 2025, specifically to Sep, Oct and Dec FOMC meeting, bringing the upper bound of the Fed Funds Target Rate (FFTR) to 3.75% by end-2025. We are also keeping our view for two rate cuts in 2026, implying a lower terminal FFTR of 3.25% in 2026.

PBOC: Considering the new [stimulus measures](#) on 7 May and the 90-day dial back in US' tariff on Chinese imports, we think that the PBOC is likely to hold back from further easing in the near term. The probability for aggressive policy measures has diminished with the positive outcome of the US-China trade deal. **As such, we only expect an additional 10 bps rate cut in 4Q25 compared to our previous forecast of 20 bps cut in 2H25.** Our revised forecasts for the 7-day reverse repo rate, 1Y LPR and 5Y LPR are at 1.3%, 2.9% and 3.4% respectively at end-4Q25.

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