

## China-US trade ceasefire offers a welcome boost to the outlook

A 90-day ceasefire was agreed upon after China-US trade talks in Switzerland, with the US dropping tariffs on China to 30% and China dropping tariffs on the US to 10%. This was a larger-than-expected de-escalation and represents an upgrade to the outlook, though the negotiation process will likely remain challenging



US Trade Representative Jamieson Greer and US Secretary of the Treasury Scott Bessent at a press conference following US-China trade talks in Switzerland

30%

US tariffs on China during 90-day ceasefire

Back to pre-'Liberation Day' levels

Lower than expected

### Trade war de-escalation is a win-win as parties bring tariffs back to pre-'Liberation Day' levels

The Chinese and US governments released a joint statement following trade talks in Switzerland,

announcing a 90-day ceasefire of sorts on the trade war, bringing US tariffs on Chinese products back to 30%, and Chinese tariffs on US goods to 10%. It remains uncertain if the de minimis exemption for products shipped from China and Hong Kong will be restored, or if the minimum fees will remain. These rates return tariffs to pre-'Liberation Day' levels and represent a better-than-expected de-escalation. Many market participants expected a de-escalation to near the post-'Liberation Day' tariffs of around 50-60%, which would have been a smaller boost to Chinese exports.

Although the de-escalation of the trade war benefits both economies, the agreement, which significantly lowers tariffs without any concessions, is likely to be viewed as a particular victory for China. China had previously demanded a reduction in tariffs before negotiations, and this now seems to have been achieved.

China's response following the April escalations showed that it was prepared for an extended test of endurance if necessary.

As we wrote in last Friday's note, China's [April trade data may have strengthened its hand](#) heading into the Switzerland negotiations. The data showed that despite the 145% tariff hike, and talks of a de facto embargo and hard decoupling, exports to the US only fell to -21% YoY in April, implying that significant tariffs were being paid by US importers. This is consistent with anecdotal evidence that many Chinese exports do not necessarily have an obvious or easy substitute product.

Before Trump's Liberation Day surprise prompted a retaliation, we noted that China's [prior responses](#) to US tariff escalations had been quite measured to preserve the possibility for negotiations. Restoring tariff levels to this state has once again opened the door for those negotiations to continue. We previously believed that the fentanyl issue was one where there could be an area of cooperation, and indeed this was an area highlighted by US Treasury Secretary Scott Bessent after the Switzerland talks.

## Tariff de-escalation to upgrade China's outlook

In our view, the reduction of tariffs on China back to 30% is a sufficient enough reduction to allow for a more or less return of normal trade – at this level, we suspect exporters, importers, and consumers will share in absorbing the impact of the tariffs, and overall business will likely resume. Looking back, the 20-30% tariff level through the first quarter saw exports to the US rise around 5.0% YoY, though this may be skewed to the upside due to trade frontloading.

In terms of impact on China's growth, the 90-day ceasefire will upgrade our second and third quarter growth outlook. We suspect that China's May and June exports to the US will bounce back sharply as importers with depleted inventories will take advantage of the ceasefire to resume imports. Depending on how talks proceed, we could see a frontloading of exports again in July and August, especially if there is not much clarity on a longer-lasting bargain being struck heading into the later stages of the 90-day period.

We are reverting our forecast for the year back to 4.7%, with further upside possible if a bilateral agreement is reached within the 90-day period.

The market's immediate reaction to the yuan has been a modest strengthening of the CNY against the dollar, with the USD/CNY and USD/CNH both at 7.21 at the time of writing. The USD/CNY is now trading at a lower level than pre-'Liberation Day' levels, despite the People's Bank of China easing

and the back-and-forth tariff developments. Positive news flow could encourage capital inflows and support further strengthening of the CNY in the near term, though how this will balance out with what may also be conditions for a recovery of the USD remains difficult to gauge at this point. Our forecast band of 7.00-7.40 remains unchanged.

## More risk premium leaves the dollar

Today's news of a temporary reduction in US-China tariffs has been very much welcomed by the dollar. With global equity markets rallying 1-2%, it has been the defensive Japanese yen and Swiss franc which have suffered the heaviest losses against the dollar – effectively reversing their gains seen in the aftermath of the chaos of 'reciprocal' tariffs. In terms of positioning in FX markets, long yen has been one of the most crowded trades and the USD/JPY rally could have further to run – perhaps to 150.

EUR/USD has also fallen hard. Remember the euro's strength in April was seen to be a function of its liquidity as dollar aversion grew. The current EUR/USD correction could extend below 1.1100 to the 1.10 area, but we suspect any moves sub-1.10 will not be sustained. After all, we're still waiting to find out what impact the tariff story has had on US consumption. And perhaps more importantly, the German fiscal stimulus story is real.

At present, our base is that EUR/USD trades out a rough 1.10-1.15 range for the rest of the year, helped in part by lower energy prices.

## Rates markets: euphoric

We've seen quite the market euphoria on the back of a potential deal between the US and China.

The 2Y swap rate is up almost 10bp, bringing the ECB landing zone back to 1.75%, which we think is fair. The 10Y Bund yield is up some 7bp today, now above 2.6% again. That level is still far from the 2.9% yield from pre-'Liberation Day', however. Whilst we structurally think we could head back to those yields, there is still too much uncertainty outstanding to head there in the near term.

In US markets, we see the 5Y UST yield jump up almost 10bp in Asian and European trading hours, reflecting improved sentiment on the economic outlook in the medium term. US CPI numbers are expected to come in quite hot on Tuesday, keeping US rates supported. The rest of the data calendar is relatively empty, which means positive headlines can remain the main driver of global rates. Until told otherwise by data or headlines, the upward pressure on rates can hold for now.

## Credit: Welcome news for issuers

A positive move in EUR credit with low beta tightening by 2-3bp already this morning, and high beta up to 10bp tightening. This brings credit spreads back down towards the previous range where spreads had been before the tariff turbulence a month ago. We will likely see credit continue to perform well, but uncertainties still linger, so proceed with caution.

Last week we already began to see more inflows into the credit space. This adds additional support to the market, as today the credit market is also filled with new issues. May is set to be a very busy month for supply, and now even more so with spreads tightening further. There is still plenty of cash ready to be put to work and we expect new issues will continue to be met with large demand.

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