

China Watch

104%, and now what?

No change of plan to “retaliate, stimulate and negotiate”

Further escalation of the trade war brought US tariffs on Chinese imports to 104% overnight. Will China offer concessions? We think highly unlikely. In our view, China would likely stick to its original plan to “retaliate, stimulate, and negotiate” in that sequence. In our view, for Chinese policy makers, the uncertainty around US tariff policies suggests that any discussion with the US to lower tariffs would, at best, achieve a small, temporary deal, but there could be risk of further tariff hikes in the near-term.

To retaliate: not just about tariffs

In response to further US tariff hikes by another 50% over night, we believe China could expand its retaliatory measures. Media reported China could retaliate by sharp hike on agricultural product tariffs, ban on poultry meat imports, suspension of US-China cooperation on fentanyl, service trade curbs, ban on US movie imports, and investigations on US companies gains from intellectual property right in China, etc. In our view, if China adopts these measures, it could risk triggering even more tariff hikes on Chinese imports, but the marginal impact on bilateral trade would likely be limited, given significant damage is likely done already.

To stimulate: monetary and fiscal easing on the horizon

Investors will likely shift focus to China’s stimulus measures in the near term. The size of the tariff shock is likely unprecedentedly large, which could hit China through direct exports to the US, indirect exports via third countries to the US, as well as weaker exports to the rest of the world due to global trade contraction. While acknowledging large downside risks to our growth forecasts on China at 4.5% for 2025, we expect Chinese policy makers to roll out policy easing measures: monetary easing from the PBoC could be the first step, featuring a RRR cut first and then two interest rate cuts later. In addition, we also expect that China could step up the pace of fiscal expenditure in the next few days, while strategizing on a sizable fiscal stimulus to boost both consumption and investment that could be rolled out as soon as in late April at the Politburo meeting.

To negotiate: potential tariff negotiation with RoW

We expect that China could be actively seeking to negotiate with more trading partners for Free Trade Agreements (FTAs) first, before opening the dialogue to the US administration. With Xi’s trip to ASEAN countries next week, the probability of striking a trade deal to achieve an upgraded version of regional FTA is rising, in our view. Meanwhile, Premier Li’s calls with EU President von der Leyen yesterday suggest China may be willing to make offers to EU on FTA as well. China may open its door wider to more countries so as to maintain access to global trade, we think.

Watch for CNY fixing and press conference next

The gradual depreciation of yuan daily fixings against the dollar implies policy priority shifting away from FX stability towards supporting domestic demand. We would watch out for coordinated press conferences across ministries in the next few days.

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FTA: Free Trade Agreement

EU: European Union

RoW: Rest of the world

[China Viewpoint: Bracing for the tariff shock: retaliate, stimulate, and negotiate](#)

[China Watch: China strikes back: first use of blanket tariffs in tit-for-tat retaliation](#)

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