

International Commentary — December 16, 2024

China Economic & FX Outlook: Scenario Analysis

Summary

With China particularly sensitive to changes in U.S. trade and tariff policy, we find value in laying out scenarios for how China's economy and currency could evolve going forward. In this report, we outline the policy assumptions underpinning our base case for China GDP growth and the renminbi. We also offer views on how China's economy and currency could perform in a more hostile and retaliatory trade war, but also in a scenario where the U.S. and China reach a more benign "Phase 2" trade deal.

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U.S. & China Policy Assumptions

U.S.-China Tariff & Trade Policy

- Trump administration imposes 30% tariffs on ALL Chinese exports to the United States
 - Balance of Risk: Higher tariffs
- No Chinese retaliatory tariffs, but China continues to restrict exports of select goods
 - Balance of Risk: Tilted toward Chinese retaliatory tariffs

China Fiscal Policy

- Authorities deploy fiscal stimulus, but support is aimed at manufacturing and real estate
 - Direct support for domestic demand (e.g. “helicopter money”, vouchers, tax reductions, enhanced social safety net etc.) is not pursued in any meaningful manner
- Balance of Risk: More aggressive fiscal stimulus

China Monetary Policy

- People’s Bank of China eases monetary policy quicker, but still with a degree of caution
 - Major Bank Reserve Requirement Ratio: YE’25 = 7.50%
 - 1-Year MTLF: YE’25 = 1.25% ; 5-Year LPR: YE’25 = 2.75%
- Balance of Risk: Neutral

China FX Policy

- Policymakers accommodate FX depreciation to offset tariffs and support activity
 - Modest fiscal and monetary stimulus keeps policy focus on maintaining trade competitiveness
- Balance of Risk: Greater FX depreciation

Balance of risk tilted toward downside

Dec-24



Scenario Description: The Trump administration delivers on campaign proposals and applies a 60% tariff on all Chinese exports to the United States. China retaliates with either matching reciprocal tariffs and/or restrictions on critical U.S. imports.

Economic Outlook: Intensifying trade tensions combined with structural challenges weigh more heavily on China's economy. China deploys the same toolkit to offset the economic deceleration, although picks up the pace of monetary easing, deploys larger and broader fiscal stimulus, and allows a greater degree of FX flexibility.

- **2025 GDP Growth:** ~3.5%
- **2026 GDP Growth:** ~3.0%

FX Outlook: Appetite for RMB depreciation rises. Policymakers could opt for a one-off devaluation similar to the FX adjustment in 2015, while peak-to-trough RMB depreciation is greater relative to Trade War 1.0.

- **Q4-2025:** CNH7.75
- **Q1-2026:** CNH8.25

Scenario Description: Trump imposes less aggressive tariffs than proposed and China does not meaningfully retaliate. While trade tensions between the U.S. and China persist, and the trade relationship worsens, Trade War 2.0 is contained.

Economic Outlook: Weak domestic demand and a correcting real estate sector drive sluggish growth, although tariffs also pressure China's economy. Growth slows relative to 2024; however, modest fiscal and monetary stimulus, alongside tariff circumvention and managed FX depreciation, prevent a more material deceleration.

- **2025 GDP Growth:** 4.0%
- **2026 GDP Growth:** 4.0%

FX Outlook: Risk of capital flight and an already weak Real Effective Exchange Rate (REER) results in less space for FX depreciation relative to the original trade war. PBoC orchestrates managed RMB depreciation to maintain trade competitiveness.

- **Q4-2025:** CNH7.60
- **Q1-2026:** CNH7.75

Scenario Description: Either before or shortly after tariffs are imposed on China policymakers, negotiate "a deal." Current tariff rates remain in place; however, stronger commitment to the "Phase 1" deal or a "Phase 2" trade deal prevents new tariffs.

Economic Outlook: Capital inflows surge on reduced trade tensions with the United States, and China's economy experiences a relief rally. Reduced trade tensions cap appetite for aggressive fiscal and monetary stimulus, and while structural issues prevent a material pickup in activity, the economy expands only modestly slower than 2024 growth rates

- **2025 GDP Growth:** ~4.5%
- **2026 GDP Growth:** ~4.0%-4.5%

FX Outlook: Relief rally extends to China's currency and receding trade tensions paves the way for a stable Chinese currency over the next 12-18 months. PBoC policymakers see little economic justification to accommodating RMB depreciation.

- **Q4-2025:** CNH7.25
- **Q1-2026:** CNH7.30

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