



No S.W.A.K., Just Flak

Trump's Tariff Strategy Update

| MacroMicro Research Team



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Preface

About MacroMicro

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About This Report

Following “Judgment Day,” a new round of Trump’s tariff list has been announced. This report breaks down the evolving situation from five key angles:

- What are the three key focal points in the ongoing trade negotiations?
- Have we reached the ceiling of tariff reciprocity?
- What are the three core demands embedded in Trump’s true agenda?
- What unique bargaining chips and strategies are different economies using?
- Market reactions have faded—what are the real watchpoints for the second half of 2025?

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Dear all,

Since Trump announced his reciprocal tariffs on April 2, MacroMicro promptly published a [30+ page deep-dive report](#) analyzing the likely scenarios. In that report, we pointed out three contradictions that undermine the US position, leading us to conclude that the tariff stance would likely soften—a view we’ve since updated in subsequent reports.

Now in July, we’ve compiled this slide-based briefing to offer you the latest insights.

On July 7, Trump unveiled a new tariff list and simultaneously extended the negotiation deadline to August 1—exactly in line with our July CEO House View projection that the US would “adjust tariff intensity + extend negotiation timelines.” This reinforces our view that high tariffs are proving to be self-damaging to the US economy, and that Trump still sees negotiations as his core strategic tool.

In this briefing, we start from the latest developments in negotiations and unpack Trump’s demands and bargaining logic across three dimensions: **country-level tariffs, industry-specific tariffs, and non-tariff agreements.**

- First, on country-level tariffs, we can observe from two countries that have already finalized trade agreements with the US—the UK (a pro-US ally) and Vietnam (a China-friendly country)—that subsequent tariffs are likely to fall within the **10–20%** range. As outlined in our April 2 report, this aligns with our projected scenario of an effective tariff rate increase of **10–15%**.
- Second, industry-specific tariffs appear more bark than bite. Most are “conditional tariffs”—steel and aluminum tariffs apply only to their core components; auto parts are exempt if they comply with USMCA rules. The much-anticipated semiconductor tariffs have yet to materialize, largely due to the US semiconductor industry’s dependence on foreign-sourced critical inputs (about 60%). Imposing tariffs in this area would end up harming the US the most.
- Finally, looking beyond tariffs to broader agreements, Trump’s true objectives become even clearer through ongoing bilateral negotiations: market access (e.g., Vietnam reducing import tariffs on US goods to 0%), US-directed investment (e.g., countries placing large orders for Boeing aircraft, US beef, and LNG), and the strategic containment of China.

These demands are repeatedly emphasized in talks with various countries, revealing the core “real agenda” behind Trump’s policy.

....(Continued on the next page)



In our recent reports, we've provided a clear interpretation of what we see as Trump's "real versus fake" issues. High tariffs, while often front and center in public discourse, are largely a fake issue—a tool rather than a goal. In contrast, foreign investment into the US is a real issue, reflecting a key economic objective. Similarly, the much-hyped concern over US debt default is another fake issue, whereas the Federal Reserve's interest rate policy, particularly rate cuts, is a real issue with tangible economic implications. Media distractions such as the Mar-a-Lago scandals fall into the fake category, while US dollar hegemony remains a real and strategic priority (for more, see our Q3 MEO).

From these observations, Trump's core policy strategy becomes clear. **1) Domestically, it centers on expanding fiscal stimulus, while 2) internationally, the priority is to maintain sustained pressure on China.** Tariffs serve as a crucial instrument within this strategy: they help bridge fiscal gaps created by tax cuts and simultaneously exert leverage on foreign governments. However, it's critical to note that this strategy is only sustainable under the condition of moderate tariff levels. If tariffs rise too aggressively, they risk driving up inflation, complicating the Federal Reserve's path to cutting interest rates, exacerbating the US debt burden, and provoking retaliatory actions from trade partners. Once the market internalizes this trade-off, its sensitivity to tariff news will likely diminish.

This report also offers a deeper look into the challenges currently facing major US trade partners—Taiwan, the EU, Japan, and China—and outlines potential scenarios going forward. As market sentiment normalizes, we suggest that attention in the second half of the year should return to macro fundamentals: economic growth, inflation trends, and interest rate direction. Regardless of how the tariff situation unfolds, front-loading of imports has already occurred. With economic activity cooling, the key question becomes whether the Federal Reserve can move forward with rate cuts. We continue to expect the Fed to cut rates twice this year, assuming inflation remains within manageable bounds, thereby cushioning downside risks.

The tariff drama is far from over. But in the face of noise, we encourage readers to stay focused: analyze the data, understand Trump's underlying moves, and continue moving forward with clarity and confidence.

A handwritten signature in black ink that reads "Rachel Chu".

Agenda

1

The Latest Developments of Trump's Tariff Strategy

- “Judgment Day” extended to August 1: One-stop update on all key tariff details
- Comprehensive breakdown of Trump's negotiation logic: A preview of how final trade deals may look

2

Key Trading Partner Scenarios

- Taiwan, Japan: What's stalling the talks? Pinpoint the turning points ahead
- EU, China: Three-way struggle with the US—How the tariff war is reshaping global supply chains

3

Summary & Key Watchpoints

- One chart to understand global tariff trends: Exclusive forecast of effective rate changes
- Macro trend snapshot: Track growth, inflation, and interest rate dynamics at a glance



The Latest Developments of Trump's Tariff Strategy

1

Trump Turns Up the Heat—Tariff Negotiation Window Officially Extended

- On July 7 and July 10, Trump successively announced new import tariffs on 22 countries, while also extending the negotiation deadline to August 1—meaning there remains a window for adjustments through dialogue before that date.
- This move aligns with what we identified in our July CEO House View as the “second-best case scenario” for Judgment Day: a temporary hike in tariffs on select countries, followed shortly by a rapid extension of the negotiation period—indicating a high probability that the tariff move was primarily a bargaining tactic.

Trump Releases Initial Pressure List, But Extends Deadline

Country	Imposed Tariff Rates	
	7/7	4/2
Brazil	50%	10%
Laos	40%	48%
Myanmar	40%	44%
Cambodia	36%	49%
Thailand	36%	36%
Bangladesh	35%	37%
Serbia	35%	37%
Indonesia	32%	32%
Libya	30%	31%
Algeria	30%	30%
Sri Lanka	30%	30%
Iraq	30%	39%
Bosnia & Herzegovina	30%	35%
South Africa	30%	30%
Japan	25%	24%
Kazakhstan	25%	27%
Malaysia	25%	24%
South Korea	25%	25%
Tunisia	25%	28%
Moldova	25%	31%
Poland	25%	24%
Philippines	20%	17%

Latest as of July 10
Source | Compiled by MacroMicro

Tariff Negotiations Are Unfolding in Line With Our Second-Best Case Scenario

Exceptionalism Under Fire: Navigating Through Trump-Era Policy Noise

Global Outlook Turns Neutral, Deep Recession Averted

	Scenario 1 Unified Tariff Rate (Most Optimistic) 25% Probability	Scenario 2 Post-Negotiation Tariffs 60% Probability	Scenario 3 Comprehensive Tariffs (Most Pessimistic) 15% Probability
Projected Outcomes	Except for China, all countries' tariffs uniformly reduced to 10%. Key focus and strategic industries given exemptions	Effective tariffs fall to 10–15% after negotiations. Certain origin-based exemptions granted for key and strategic industries	April 2 announced tariff rates remain (effective rate rises to nearly 25% with China's 145% rate, impact is even more severe). Additional tariffs introduced on industries like semiconductors and pharmaceuticals
Impacts	Weak Global Economic Growth; Accelerated Supply Chain De-Sinicization; Increased Incentives for Manufacturing to Relocate to the US	Short-term stagnation in the US and global economies; Supply chains undergo brief restructuring	Global economy falls into recession; International trade volume shrinks; Non-US markets face comprehensive impact beyond tariffs
Interest Rates	Fed maintains wait-and-see approach; preventive rate cuts after inflation stabilization	Fed enacts preventive rate cuts	Fed initiates recession-driven rate cuts
Equity Markets	Only a technical bear market; medium to long-term rebound expected	Sideways trading at low levels until negotiations clarify; medium to long-term rebound	Prolonged bear market

Source | Compiled by MacroMicro 18



Paul Cavey
Economist

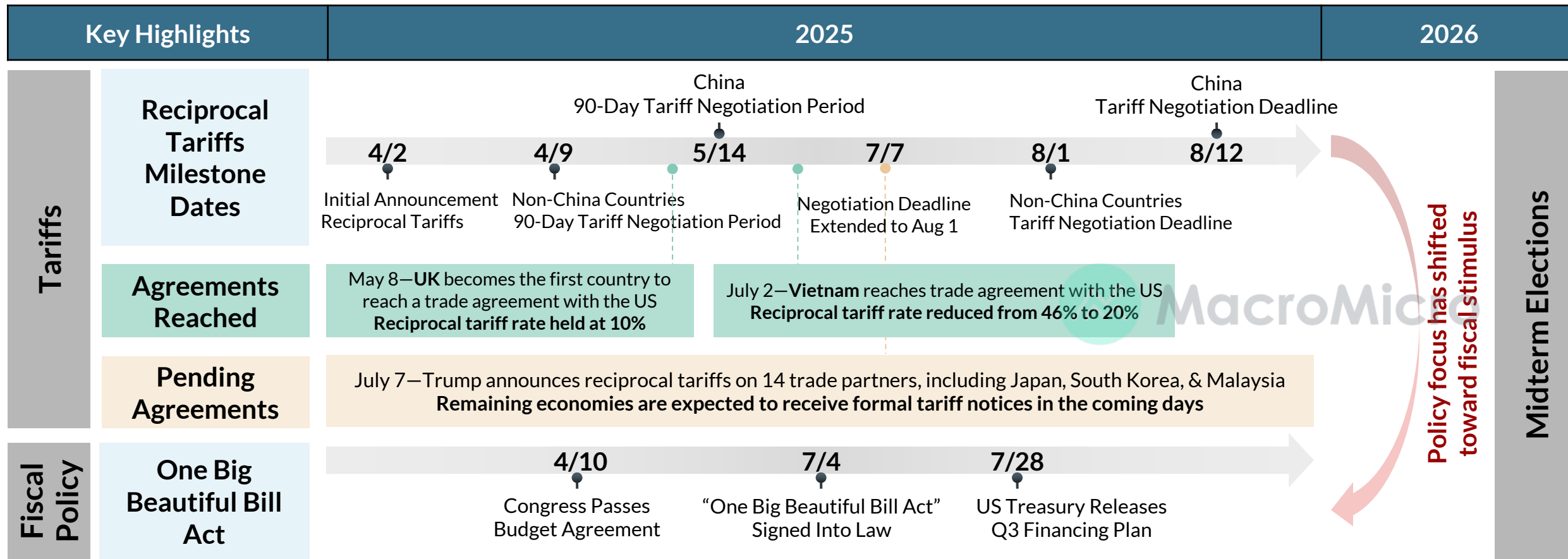
MacroMicro Economic Outlook

Q3 MacroMicro Economic Outlook, Aired on 6/30

On the same day, Trump signed an executive order: The effective date for the reciprocal tariffs and the negotiation deadline were postponed from July 9 to August 1.

Negotiation Deadlines Approaching—Trump Faces Time Pressure Too

- Looking at the overall timeline, Trump has centered his 2025 strategy around tariffs. Following the announcement of reciprocal tariffs on April 2, a 90-day negotiation window was opened. So far, only the UK and Vietnam have successfully reached trade agreements with the US, while negotiations with other countries remain stalled. In response, Trump extended the original negotiation deadline from July 9 to August 1.
- However, with the 2026 US midterm elections on the horizon, Trump cannot afford indefinite delays. To maintain a congressional majority, the administration must accelerate negotiations and work toward closing deals to ease mounting public pressure. On the fiscal front, Trump is also pressing ahead—most notably, the “One Big Beautiful Bill Act” centered on tax reductions was officially signed into law on July 4.



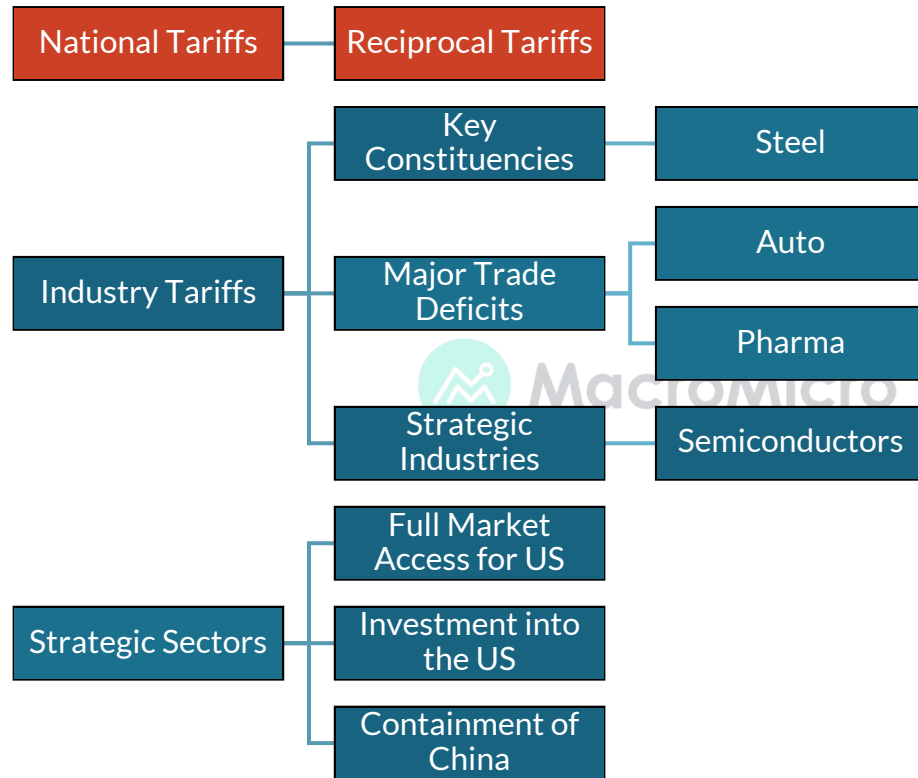
Overview of Tariff Negotiation Progress by Country

	Original Tariff (April)	Post-July 9 Status	Agreement Details or Ongoing Negotiation Points
UK	10%	Agreement Reached (10%)	<ul style="list-style-type: none"> Total tariff on US-bound exports remains at 10%; quota system applied to specific sectors \$5B increase in US agricultural imports; \$10B Boeing purchase commitment
Vietnam	46%	Agreement Reached (20%)	<ul style="list-style-type: none"> Overall tariff reduced to 20% for US imports; re-exported goods face a 40% penalty tariff First-time implementation of 0% tariffs on US products, full market access granted
Cambodia	49%	Letter Sent (36%)	<ul style="list-style-type: none"> Government unilaterally declared consensus with the US, but few details have emerged
Thailand	36%	Letter Sent (36%)	<ul style="list-style-type: none"> Proposal to expand US agricultural market access; increased purchases of US energy and Boeing aircraft Pledged to reduce \$46B trade surplus with US by 70% within 5 years—faster than the previous 10-year commitment
Indonesia	32%	Letter Sent (32%)	<ul style="list-style-type: none"> Signed a \$34B MOU: US investments, agricultural and energy purchases Considering 0% tariffs on 1,700 US goods, including electronics, machinery, steel, agriculture, and autos
Philippines	17%	Letter Sent (20%)	<ul style="list-style-type: none"> Philippine Trade Secretary stated plans to expand imports of US soybeans and frozen meat.
Brazil	10%	Letter Sent (50%)	<ul style="list-style-type: none"> The BRICS summit held in Brazil on July 6 issued a joint statement subtly criticizing the US for “unreasonable tariff policies,” prompting backlash from Trump.
Japan	24%	Letter Sent (25%)	<ul style="list-style-type: none"> Demands elimination of auto tariffs; rejects UK-style export quotas; domestic sentiment during election season prevents concessions to US
South Korea	25%	Letter Sent (25%)	<ul style="list-style-type: none"> Officials confirmed intense negotiations with the US, but said there wasn’t enough time to resolve all issues
Taiwan	32%	Under Negotiation	<ul style="list-style-type: none"> Hard to reach consensus on semiconductors; willing to purchase more US weapons, LNG, and agricultural products
EU	20%	Under Negotiation	<ul style="list-style-type: none"> In late May, Trump announced tariffs on the EU would rise to 50%, with implementation delayed to July 9, now extended again to August 1 Still significant differences with US in autos and pharmaceuticals; expected to make initial concessions to avoid the 50% tariff
India	26%	Under Negotiation	<ul style="list-style-type: none"> Trump said a deal is near, but India remains firm—resisting concessions on autos and agriculture
China	34%	Under Negotiation	<ul style="list-style-type: none"> 90-day exemption period began after the May 12 Geneva agreement; Core issues include US semiconductor export restrictions and critical minerals controls

Negotiation Focus: The Ceiling for Reciprocal Tariffs Has Already Emerged

- We break down the tariff negotiation framework into three key dimensions: national (reciprocal) tariffs, industry-specific tariffs, and non-tariff agreements. Starting with national tariffs, we observe a clear pattern: among the two countries that have reached agreements, the US-friendly UK maintained its reciprocal tariff at a low 10%, establishing a clear bottom line that likely won't be breached.
- On the other hand, Vietnam—closely aligned with China—cut its tariff rate nearly in half, from 46% to 20%, after offering significant concessions aligned with US demands. This suggests that once countries present sufficient bargaining chips, a 20% tariff level may serve as a reference ceiling for most final deals.

Tariff Negotiation Logic – Key Breakdown



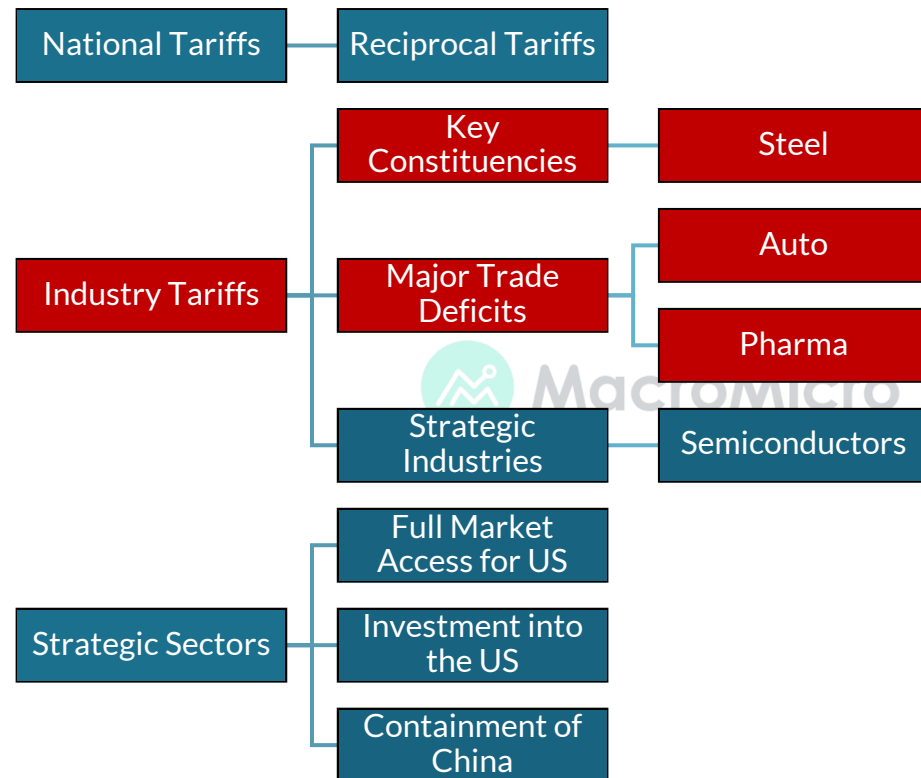
Final Reciprocal Tariffs Expected to Mostly Fall Within the 10%–20% Range

Country	April 2 Reciprocal Tariffs	July 7 Reciprocal Tariffs
Cambodia	49%	36%
Laos	48%	40%
Vietnam	46%	Final Tariff Rate: 20% (Upper Bound)
Thailand	36%	36%
Taiwan	32%	-
India	26%	-
S. Korea	25%	25%
Japan	24%	25%
Malaysia	24%	25%
EU	20%	-
UK	10%	Final Tariff Rate: 10% (Lower Bound)

Negotiation Focus: Industry Tariffs All Bark, Little Bite

- Next, we turn to industry-specific tariffs. The steel and aluminum tariffs primarily serve to appease key Republican voter bases, while auto and pharmaceutical tariffs are aimed at addressing major trade deficits—each with distinct strategic purposes.
- However, a closer look at the current industry tariff measures reveals a common feature: they are all “conditional tariffs.” For instance, steel and aluminum tariffs apply only to the metal content of products, while auto parts that comply with USMCA rules are exempt. Furthermore, most industry tariffs are excluded from the broader reciprocal tariff framework, with additional guidelines established to prevent double taxation.

Tariff Negotiation Logic – Key Breakdown



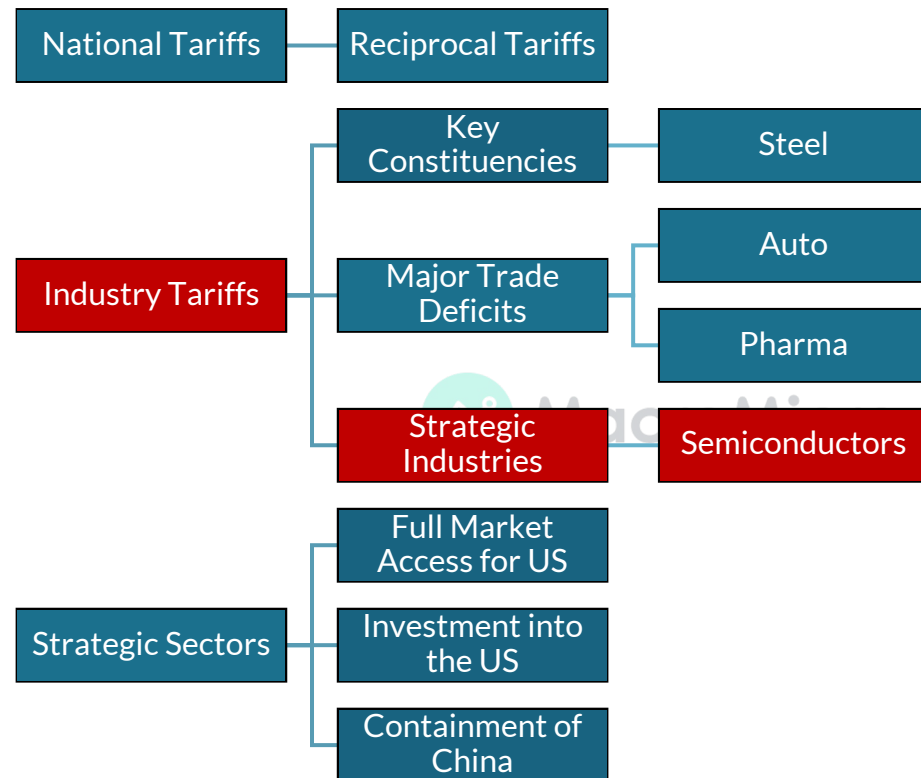
Key Common Trait in Current Industry Tariffs: Conditional Application

Industry	Tariff Measures
Steel	<ul style="list-style-type: none"> • 50% tariff imposed on steel and aluminum, but applied only to the metal content of most related products; non-metal components are subject to other tariffs. • The UK, having reached a trade agreement, maintains a 25% steel and aluminum tariff rate. • Starting August 1, a 50% tariff will be applied to copper. Since 90% of US copper imports come from Chile, Canada, and Mexico, the latter two may be treated under the USMCA framework, while Chile will require separate negotiations.
Auto	<ul style="list-style-type: none"> • 25% tariff imposed; however, if vehicles meet USMCA standards, only non-US portions are subject to tariffs. • Auto parts that meet USMCA standards are fully exempt. • Vehicles assembled in the US are eligible for preferential tariff reductions.
Pharma	<ul style="list-style-type: none"> • A Section 232 investigation was initiated on April 15 • On July 9, it was announced that a 200% tariff would be imposed, but the industry will be given 12 to 18 months to adjust supply chains.
General (All Industries)	<ul style="list-style-type: none"> • Exemption from Reciprocal Tariffs: All of the above industries are exempt from the general reciprocal tariff measures. • Avoiding Double Taxation: Following the sequence of tariffs on autos, steel/aluminum, and Mexican/Canadian fentanyl, if an earlier tariff has already been applied, subsequent tariffs will not be duplicated.

Negotiation Focus: Semiconductor Tariffs—A Special Case with Outsized Consequences

- The semiconductor industry occupies a unique strategic position and is being negotiated separately. The repeated delays in implementing semiconductor tariffs suggest a clear concern: the economic damage to the US would be significantly greater than in other sectors.
- Comprehensive semiconductor tariffs would be all pain, no gain: With 60% of key inputs in the US semiconductor industry currently lacking domestic sources, sweeping tariffs would drastically raise production costs. This would not only undermine the US's tech war against China, but also jeopardize the \$540 billion in private investment projects already announced in the US. Moreover, higher end-product prices would make it harder for the Fed to cut interest rates—running counter to Trump's own policy goals.

Tariff Negotiation Logic – Key Breakdown



Comprehensive Semiconductor Tariffs Would Undermine US Long-Term Growth

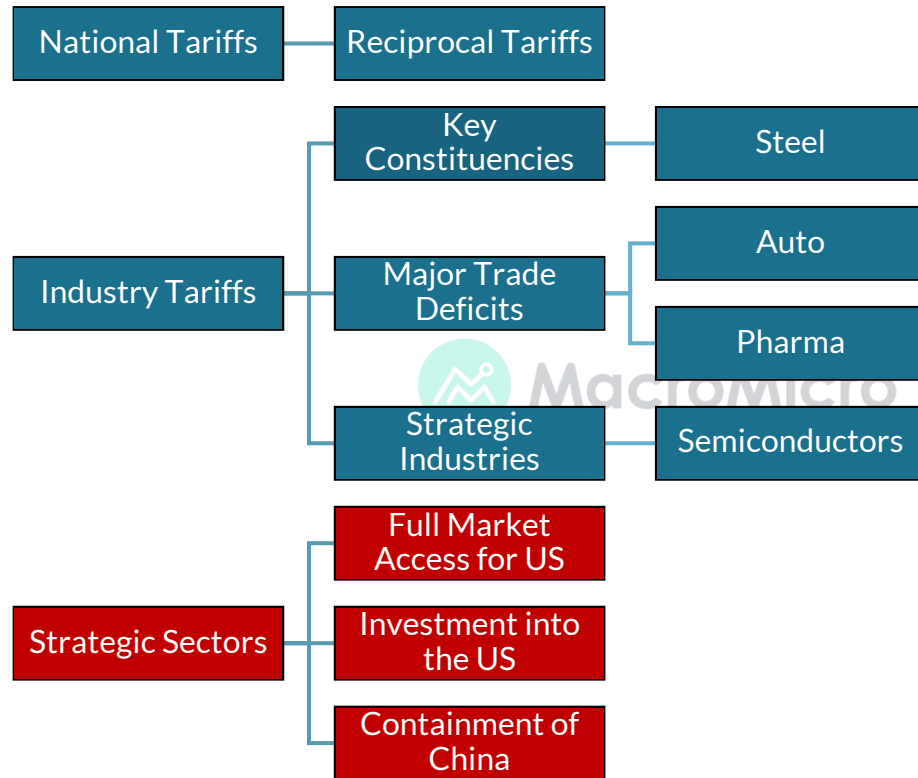
Category	Estimated Economic Loss to the US from Semiconductor Tariffs	
	10% Tariff	25% Tariff
ICT Product Price Increase	7%	22%
Year 1 Impact on ICT Consumption & Capital Stock	-\$3.8 billion	-\$11.8 billion
Year 1 GDP Impact	-0.06%	-0.18%
Year 10 GDP Impact	-0.2%	-0.76%

Note | ICT (Information & Communications Technology) products include smartphones, computers, AI tools, & related technologies
Source | ITIF, compiled by MacroMicro

Negotiation Focus: What Concessions Can Each Country Offer the US?

- Finally, looking beyond tariff adjustments, the real focus in negotiations lies in what each country can offer the United States. These concessions typically fall into three categories: **full market access for US exports**, **direct investment into the US**, and **cooperation in countering China**.
- Investment in the US has emerged as the most commonly offered chip at the negotiating table. This includes commitments to purchase more Boeing aircraft and US energy, as well as expanded manufacturing investments. Vietnam, notably, lowered tariffs on US goods to 0%—its first such move—fully opening its market while also agreeing to impose a steep 40% tariff on re-exported (transshipped) goods. This reflects the fact that smaller economies are unwilling to risk losing access to the US market.

Tariff Negotiation Logic – Key Breakdown



Three Pillars of US Trade Negotiations with Partner Countries

Concession Category	Negotiated Outcomes
Full Market Access to the US	<ul style="list-style-type: none"> • UK: Expanded access for US beef & ethanol; reduced ethanol tariffs to zero • Vietnam: Reduced US tariffs to 0% • Thailand: Expanded access for US agricultural products
Investment in the US	<ul style="list-style-type: none"> • UK: Committed to purchasing \$10 billion in Boeing aircraft • Thailand: Increased purchases of US energy and Boeing aircraft • Japan: Government pledged \$1 trillion in US investment; SoftBank committed \$100 billion to US AI infrastructure • Taiwan: Government pledged to buy 6 million tons of natural gas annually; TSMC committed \$100 billion in semiconductor investments • Saudi Arabia: Pledged \$600 billion in US investments
Countering China	<ul style="list-style-type: none"> • Vietnam: Agreed to a 40% tariff on transshipped goods to prevent Chinese circumvention

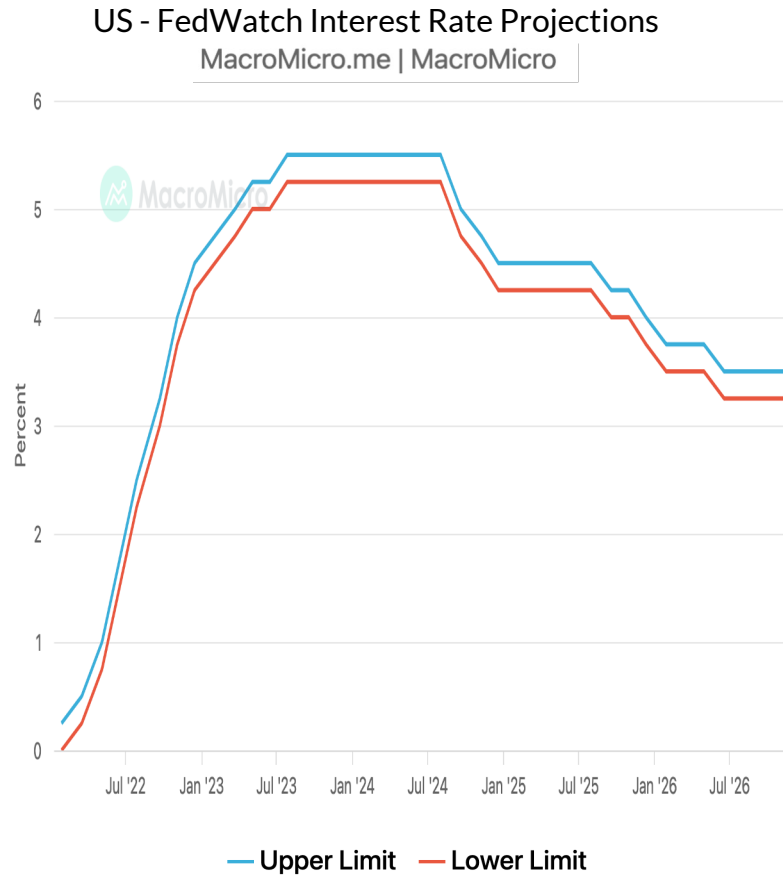
Three Core Issues: Tariffs Won't Rise Indefinitely—These Are the Real US Objectives

1. Boosting Investment in the US

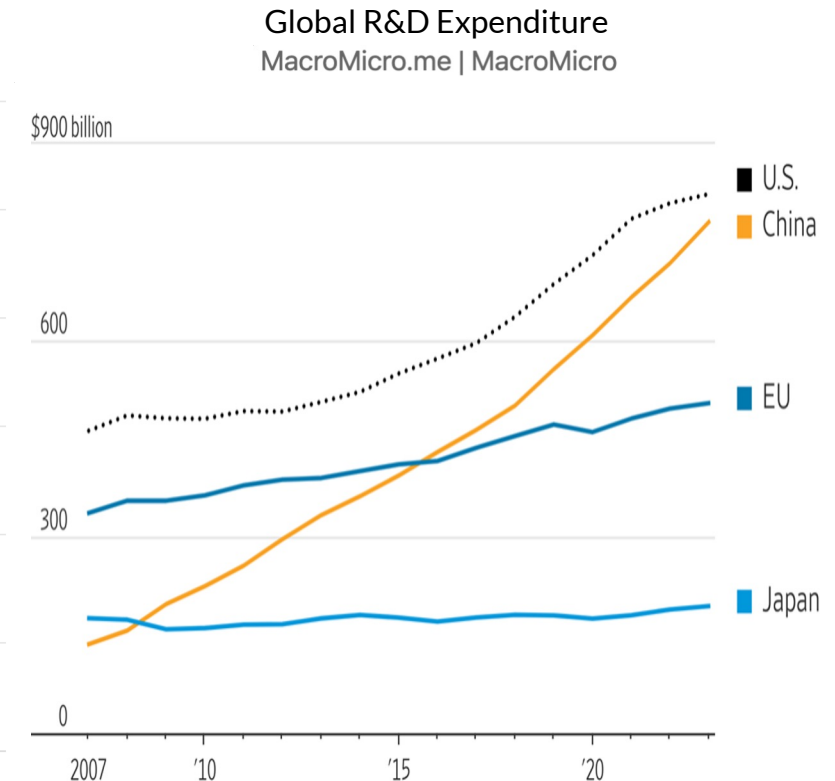
Economy	Category	Proposal
UK	Government	Committed to purchasing \$10 billion in Boeing aircraft
EU	Government	Joint development of data centers, expanded access for US agricultural products, establishment of an energy partnership
Taiwan	Government	Annual purchase of 6 million tons of natural gas
Taiwan	TSMC	Investment of \$100 billion in US semiconductor manufacturing
Saudia Arabia	Government	\$142 billion in arms purchases
UAE	Government	\$1.4 trillion in investments over ten years
UAE	DAMAC	\$20 billion investment in US data centers
UK	NVDA	\$500 billion investment in AI infrastructure
UK	J&J	\$55 billion investment in medical R&D and capacity expansion

*From our 2025 Q3 MacroMicro Economic Outlook

2. Accommodative Monetary Policy



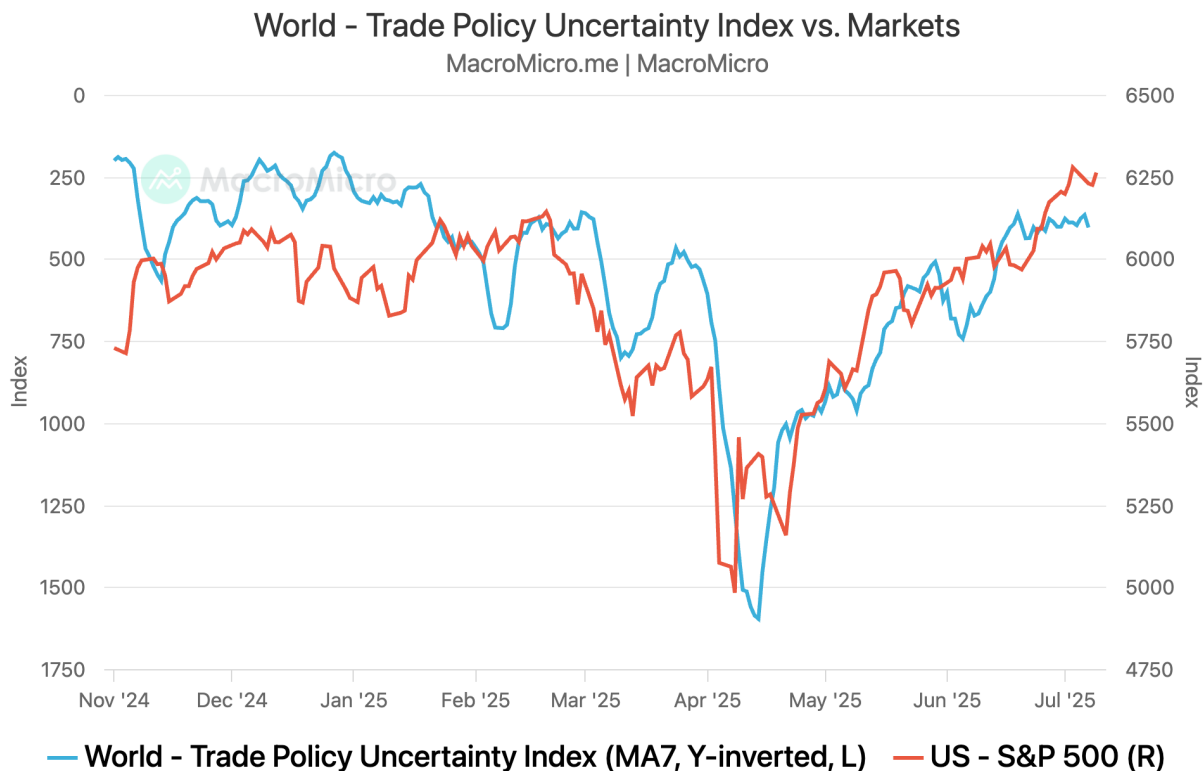
3. Winning the Tech and Military Race Against China



Markets Shrug Off Uncertainty—Awaiting Negotiation Outcomes

- Trade policy uncertainty remains elevated post-‘Judgment Day’, but markets have not experienced renewed volatility—suggesting stabilization rather than escalation.
- Markets show signs of tariff fatigue: US equities hit fresh highs in June, and even after Trump unveiled retaliatory tariffs on 14 trading partners (7/7), stocks held steady. The US Dollar Index also stabilized near 97, avoiding the steep sell-off seen in early April.

Muted Market Response to Post-July Tariff Uncertainty



Dollar Index Holds Firm—No Repeat of April’s Slide





Key Trading Partner Scenarios

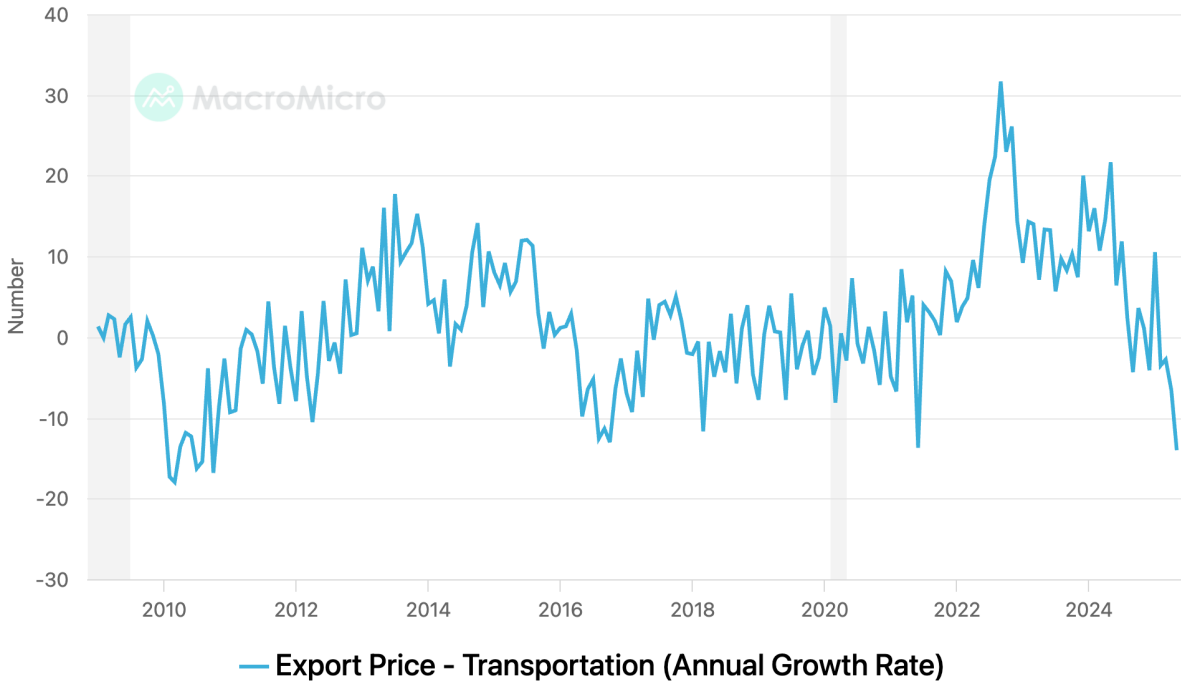
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Japan: July Election Looms—Auto Dispute Stalls US Talks, but Negotiations May Accelerate After Vote

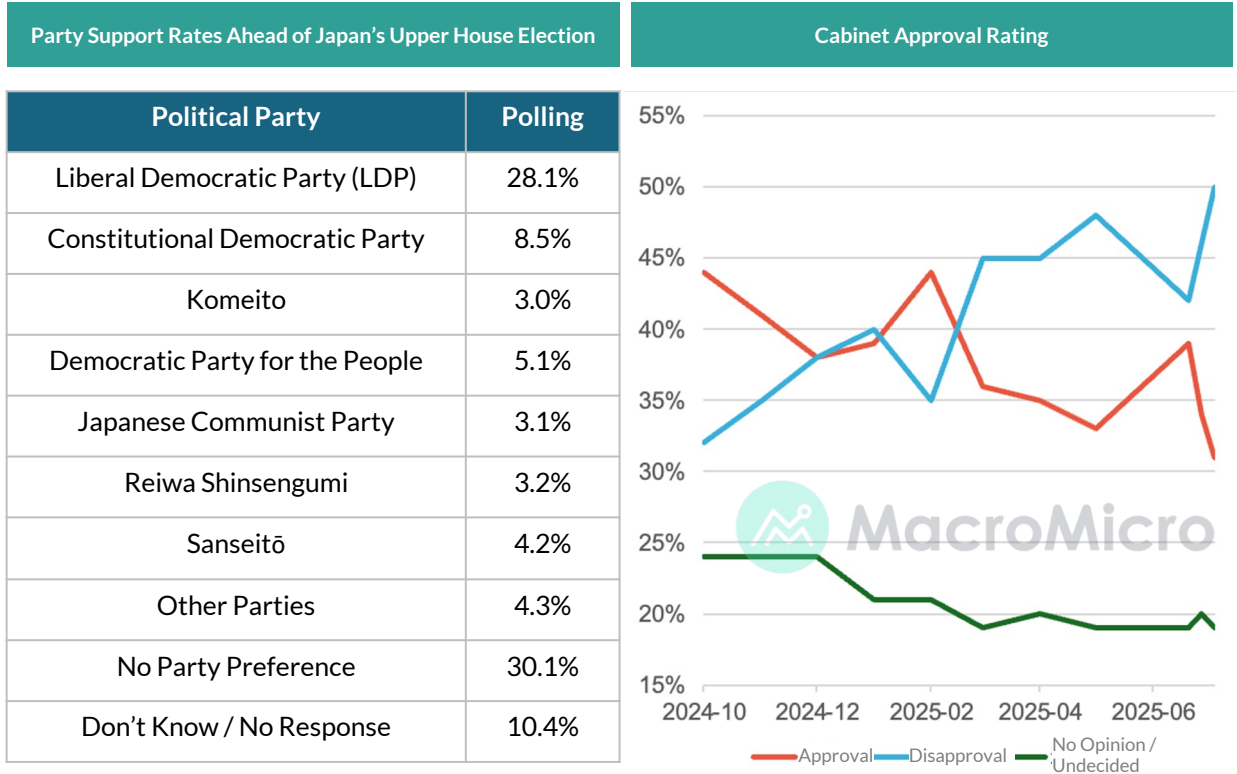
- US–Japan negotiations remain stuck over auto tariffs. PM Shigeru Ishiba has firmly rejected both maintaining US auto duties and the UK-style export quota model.
- Two key factors explain Japan’s hard stance: (1) Auto-related export prices dropped sharply YoY in May, signaling stress for Japanese automakers; (2) the upcoming July 20 Upper House election poses a challenge for the ruling LDP, which may struggle to retain a solo majority.
- We expect Japan to adopt a more flexible posture post-election, potentially accelerating negotiations with the US in late July—keeping a pre–August 1 deal on the table.

Japanese Auto Sector Feeling the Pinch—Export Prices Plunge 14% YoY

Japan - Export Price - Transportation (Annual Growth Rate)
MacroMicro.me | MacroMicro



Ruling Party Faces Electoral Pressure, Supports Hardline US Stance

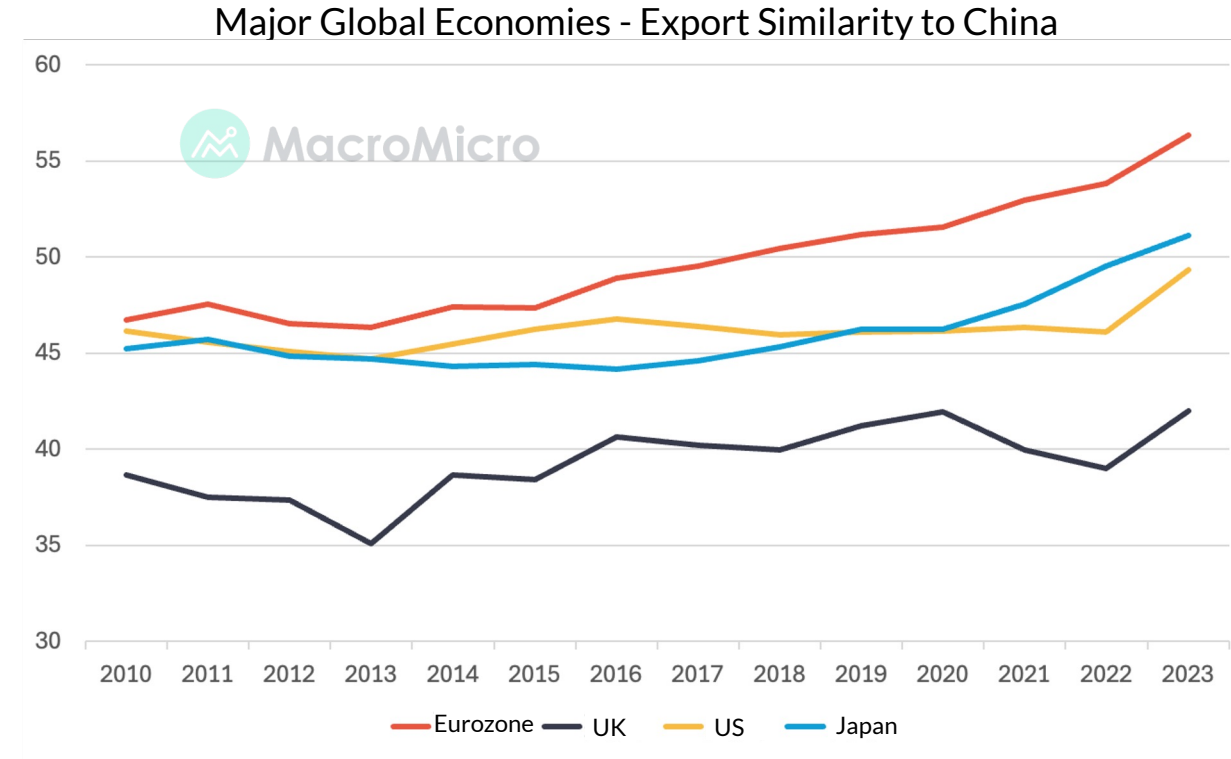
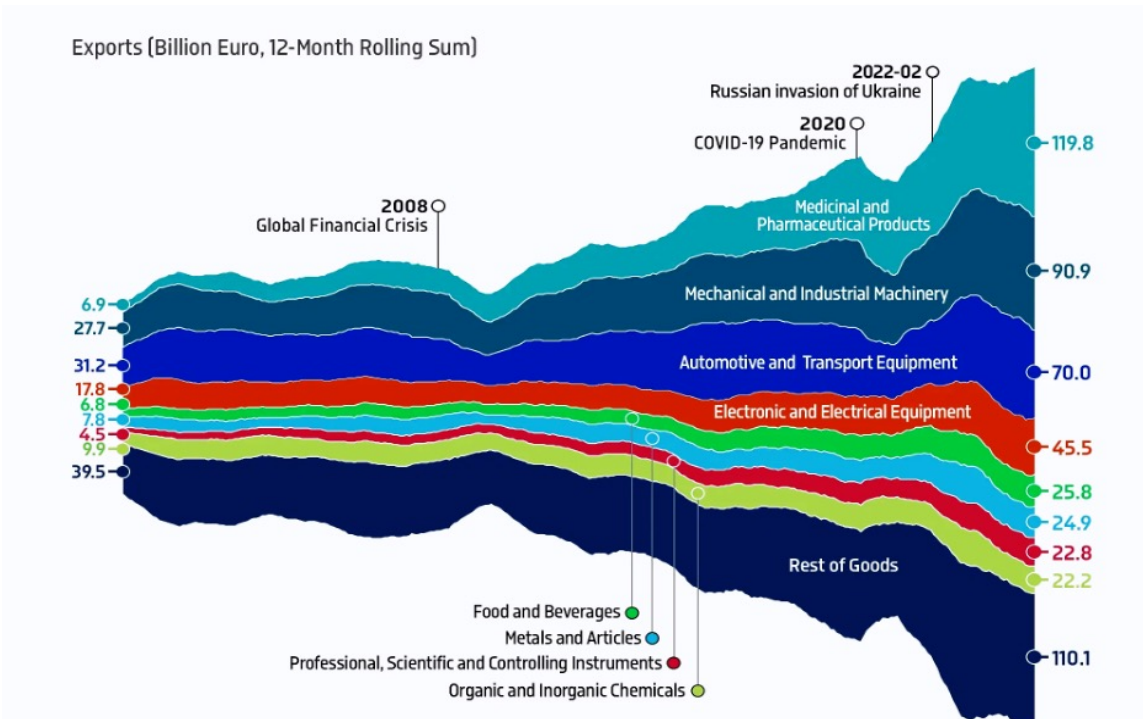


EU: Likely to Reach Preliminary Deal to Avoid 50% Tariffs

- In late May, Trump announced plans to raise EU tariffs to 50%, with the effective date delayed twice (from July 9 to August 1). We expect both sides to reach a preliminary agreement to temporarily avert the 50% tariff.
- Medium to long term: Industry-specific tariffs—particularly on pharmaceuticals and automobiles, two of the EU’s top exports to the US—remain key sticking points.
- However, as the third-largest global economy after the US and China, the EU holds services trade leverage as a critical bargaining chip. While bumpy talks are expected, the EU is likely to compromise over time given its export competition with China.

US Targets EU Autos & Pharma

EU & China Share High Export Similarity—Rivalry Intensifies



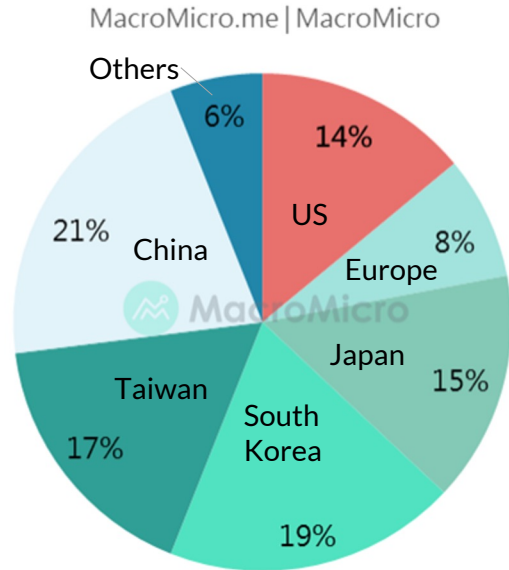
Taiwan: US Concessions Improve Odds of Semiconductor Tariff Agreement

- No official US-Taiwan trade deal has been announced yet, largely due to the unresolved semiconductor tariff issue. Given the highly specialized and globally integrated nature of the semiconductor supply chain, such tariffs can't be settled through bilateral negotiations with just one country. As long as this uncertainty persists, US buyers are likely to accelerate imports of Taiwanese ICT and electronic components as a hedge.
- However, the US has started to show signs of compromise. Under the "Big and Beautiful Act," the investment tax credit for semiconductor fabs has been significantly raised from 25% to 35%, a move that could help pave the way for a tariff resolution and broader US-Taiwan trade agreement.

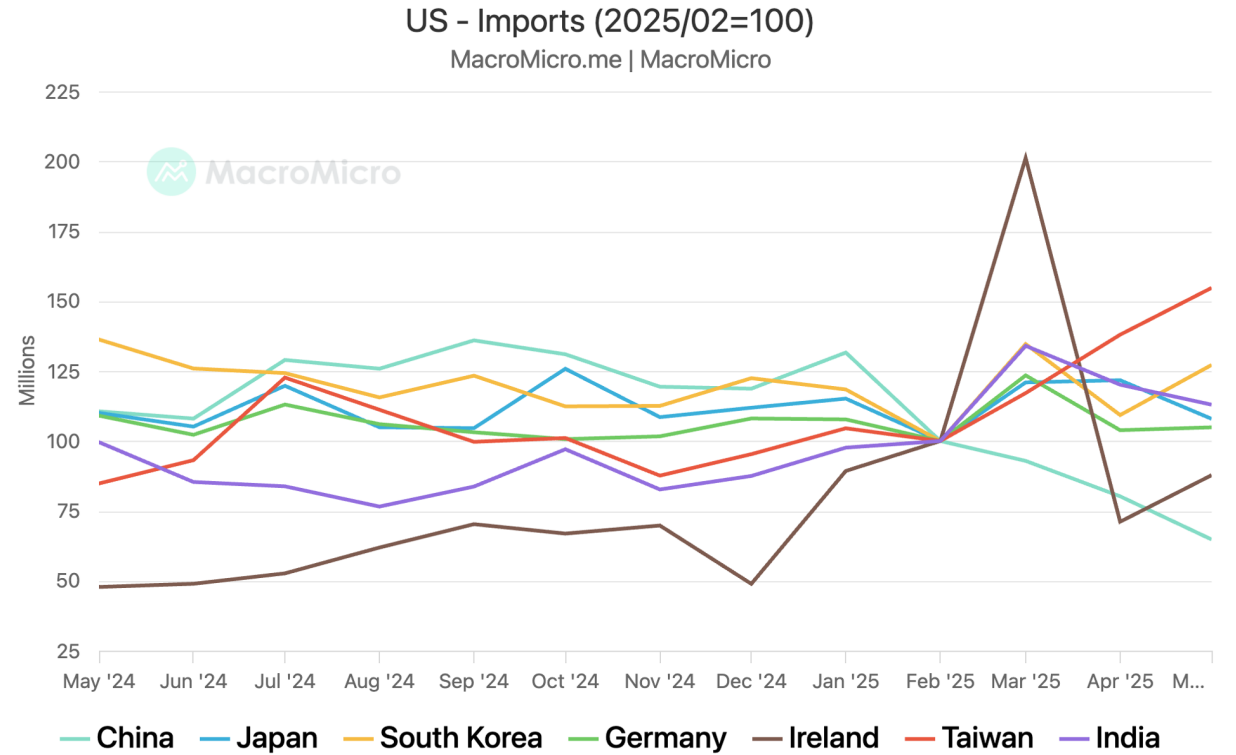
Complex Semiconductor Supply Chains Delay Agreement

AI Demand & Preemptive Stockpiling Drive US Imports from Taiwan to Record Highs

World - Semiconductor Manufacturing Capacity Distribution



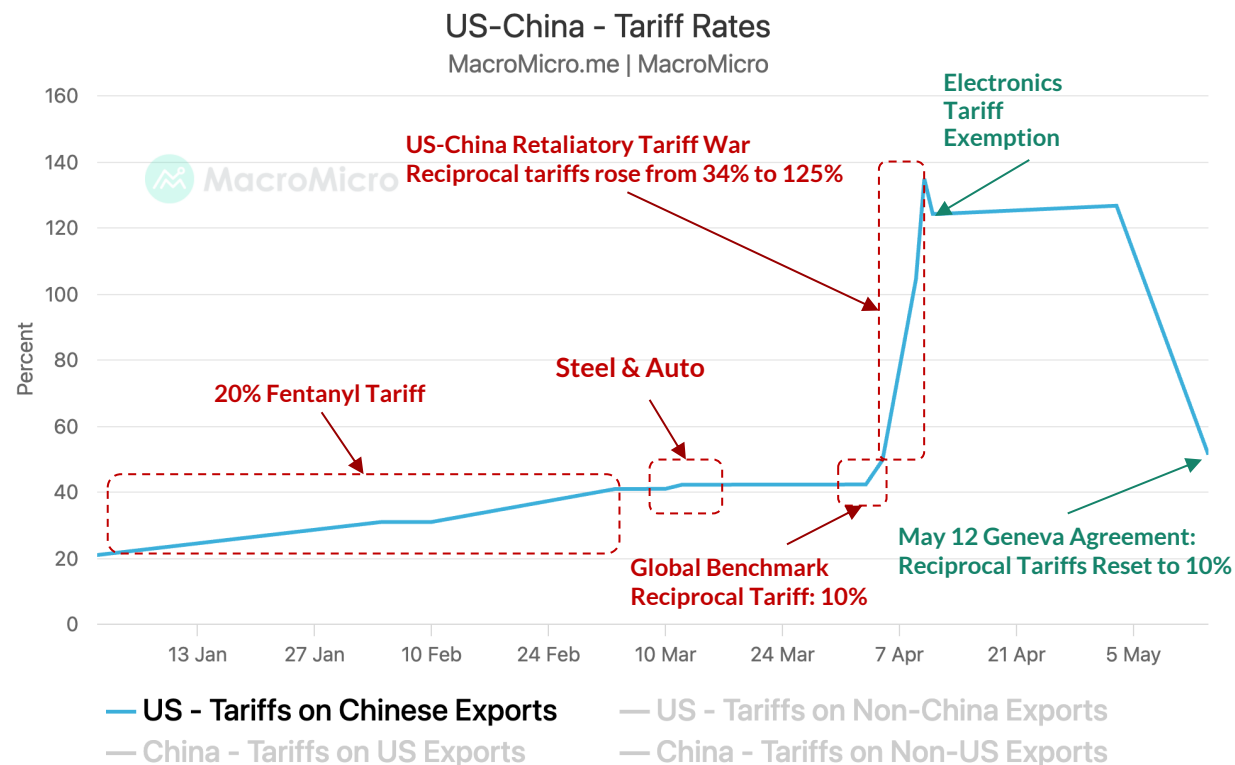
Note | Semiconductor manufacturing includes DRAM, NAND, logic chips, discrete components, optoelectronics, & sensors.
 Source | BCG, SEMI, and MacroMicro.



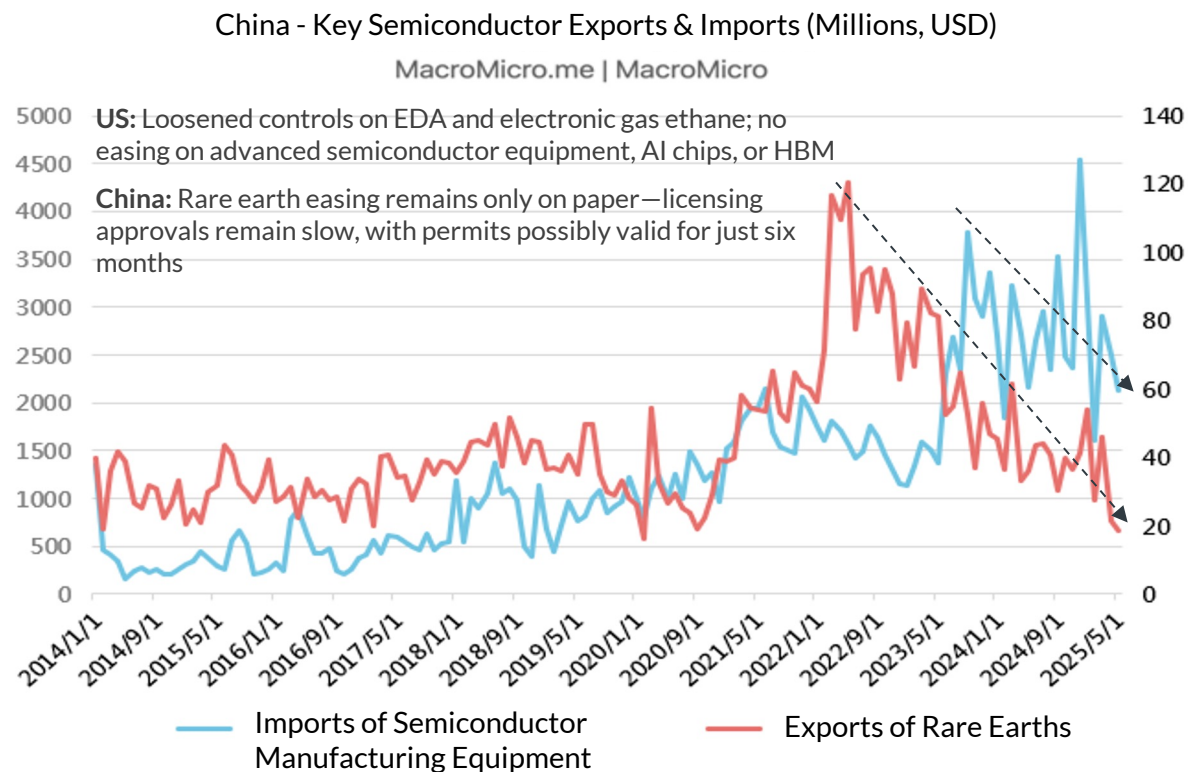
China: Tariffs Return to Rational Levels; Short-Term Talks Focus on Rare Earths & Tech Sanctions

- Following the May 12 US-China meeting in Geneva, the US temporarily lowered tariffs on Chinese goods from 125% to 10% for 90 days, while maintaining a 20% fentanyl-related tariff, bringing the combined rate to 30%.
- During June 8–13 trade talks in London, Trump stated that final tariffs on China could rise to 55%, but no concrete details emerged from the meeting.
- In our view, the key sticking points are semiconductor-related export bans and the relaxation of China's rare earth controls. August 12 has been designated as China's own "tariff judgment day," warranting close watch.

US Tariffs on China Shift from Embargo-Level Back to Rational Range



Rare Earth Controls & Semiconductor Sanctions Remain Core Friction Points

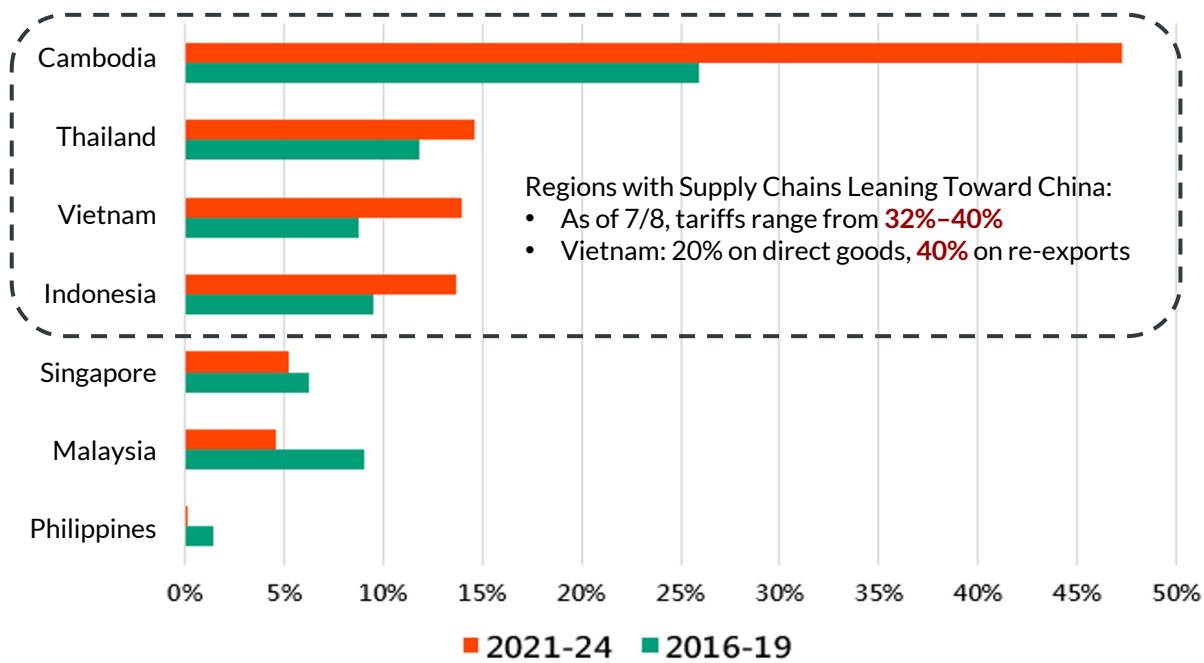


China: Still the primary target of the trade war; decoupling from the US is becoming a long-term trend

- Based on China's rerouting through Southeast Asia, even though Vietnam's tariff rate was halved to 20%, re-exported goods still face a steep 40% rate—suggesting China's eventual tariff level is unlikely to fall below this threshold.
- Under intense tariff pressure, China's exports to the US have plunged, while exports to ASEAN, Latin America, Africa, and Europe have surged—indicating a dual strategy of rerouting goods and developing non-US markets, laying groundwork for accelerated US-China decoupling.

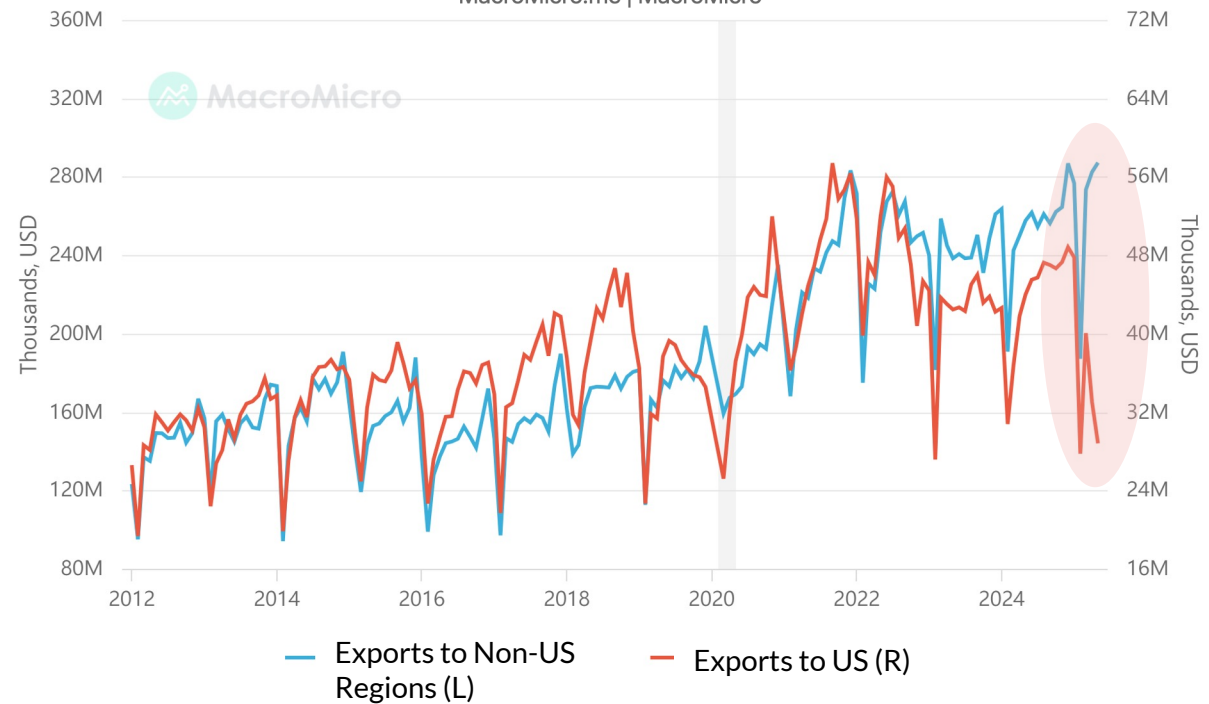
China's Final Tariff Rate Likely ≥ 40%, Based on ASEAN Benchmarking

Foreign Direct Investment (FDI) - Proportion from China
MacroMicro.me | MacroMicro



China's Exports to the US Slump, While Shipments to Non-US Regions Hit Record Highs

China - Total Value of Exports
MacroMicro.me | MacroMicro



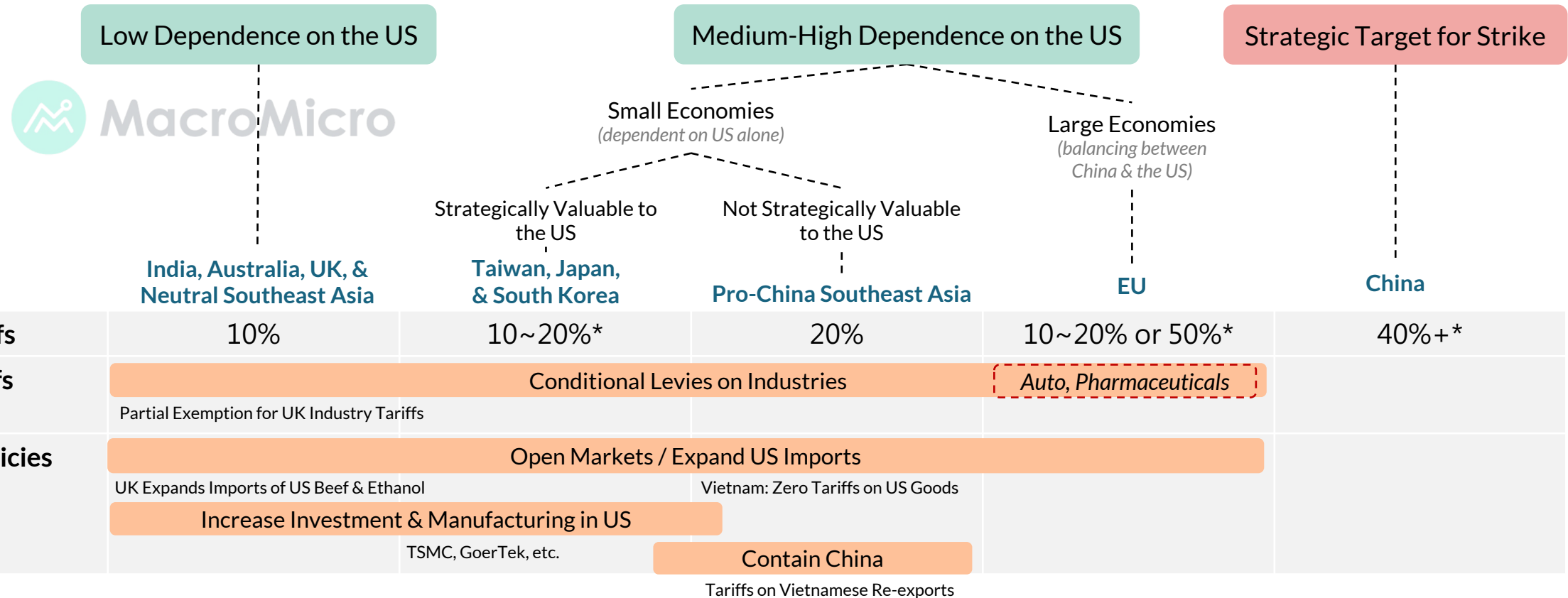


Summary & Key Watchpoints

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A New Phase in the Retaliatory Tariff Landscape

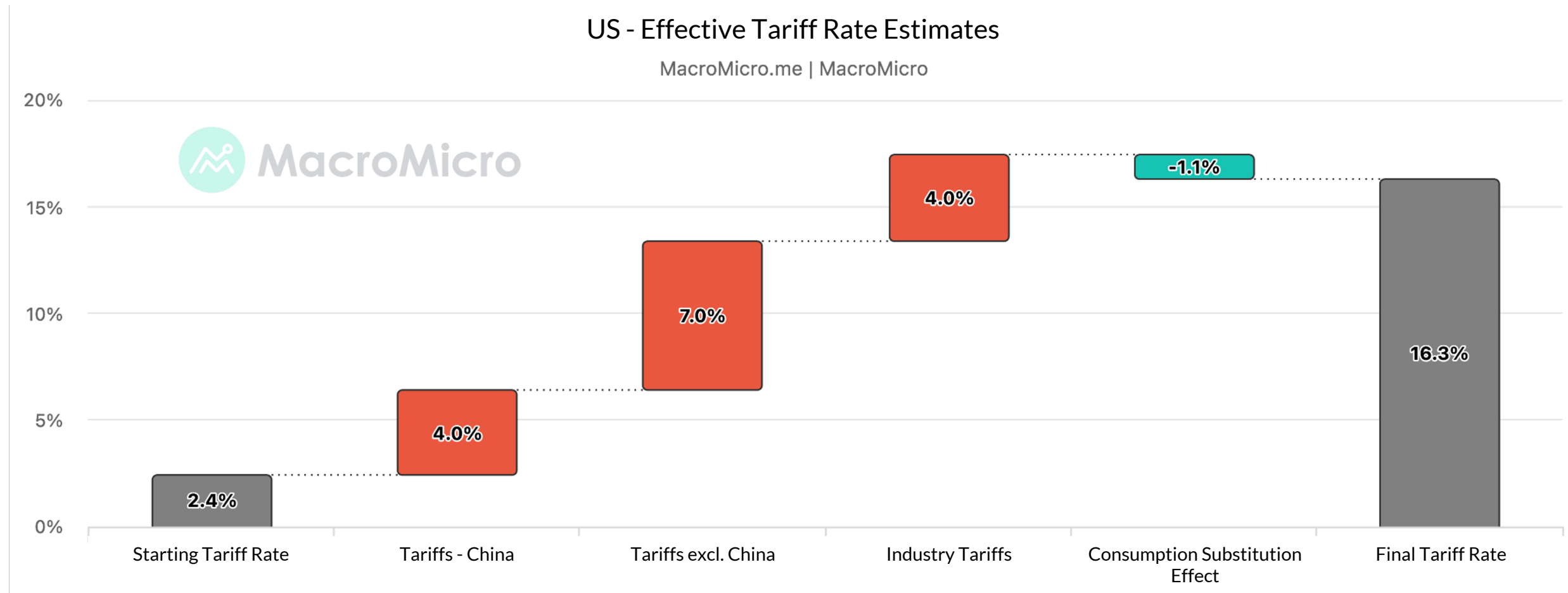
- Ahead of the next “judgment day” on August 1, countries are stepping up negotiations with the US via non-tariff agreements. Beyond market access, economies with lower US dependence but higher strategic value are focusing on investment commitments, while those with lower strategic weight are leveraging alignment with US efforts to counter China. The aim: cap final tariff rates at 10–20%, with sectoral tariffs applied conditionally.
- China and the EU hold distinct positions. China remains Washington’s main strategic target, with final tariff rates likely staying above 40%. The EU, while having greater bargaining power than other economies outside China, may still join the 10–20% tariff band if a preliminary agreement can avert the 50% retaliatory rate.



Note | Asterisks (**) denote projected figures, not actual values.
Source | Compiled by MacroMicro

US Effective Tariff Increase of 10%–15% Remains the Base Case

- The effective tariff simulation below includes regional tariffs—such as fentanyl duties (20% on China; 25% on Canada and Mexico) and reciprocal tariffs (assumed at 20% for China and Vietnam, 15% for others). Sector-specific tariffs cover autos, steel, aluminum, copper, pharmaceuticals, and semiconductors (with steel and copper at 50%, others at 25%).
- Effective US tariffs are projected to rise from approximately 2.5% at the end of 2024 to around 16.3%, aligning with our base case estimate of a 10–15 percentage point increase.



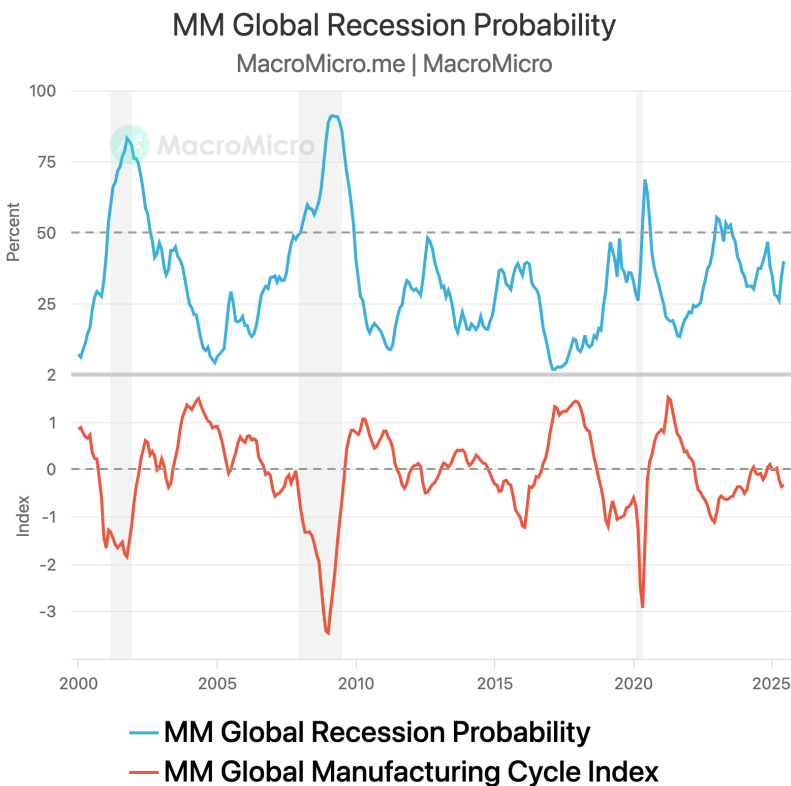
Overall Outcome in Line with Neutral Expectations – Global Recession Averted

	Scenario 1 Unified Tariff Rate (Most Optimistic) 25% Probability	Scenario 2 Post-Negotiation Tariffs 60% Probability	Scenario 3 Comprehensive Tariffs (Most Pessimistic) 15% Probability
Projected Outcomes	Tariffs lowered to 10% for all but China; strategic sectors exempt	Effective tariffs fall to 10–15% after negotiations; certain origin-based exemptions granted for key and strategic industries	April 2 announced tariff rates remain (effective rate rises to nearly 25%; with China’s 145% rate, impact is even more severe); additional tariffs introduced on industries like semiconductors and pharmaceuticals
Economic Impact	Weak global economic growth; accelerated supply chain de-Sinicization; increased incentives for manufacturing to relocate to the US	Short-term stagnation in US and global economies; supply chains undergo brief restructuring	Global economy enters recession; international trade volumes shrink; non-US markets suffer from indirect spillovers.
Interest Rates	Fed cuts rates preemptively once inflation stabilizes	Fed implements preemptive rate cuts	Fed cuts rates in response to recession
Equity Markets	Only a technical bear market; mid-to-long term uptrend resumes	Sideways trading until greater clarity; long-term uptrend resumes	Markets enter full bear phase



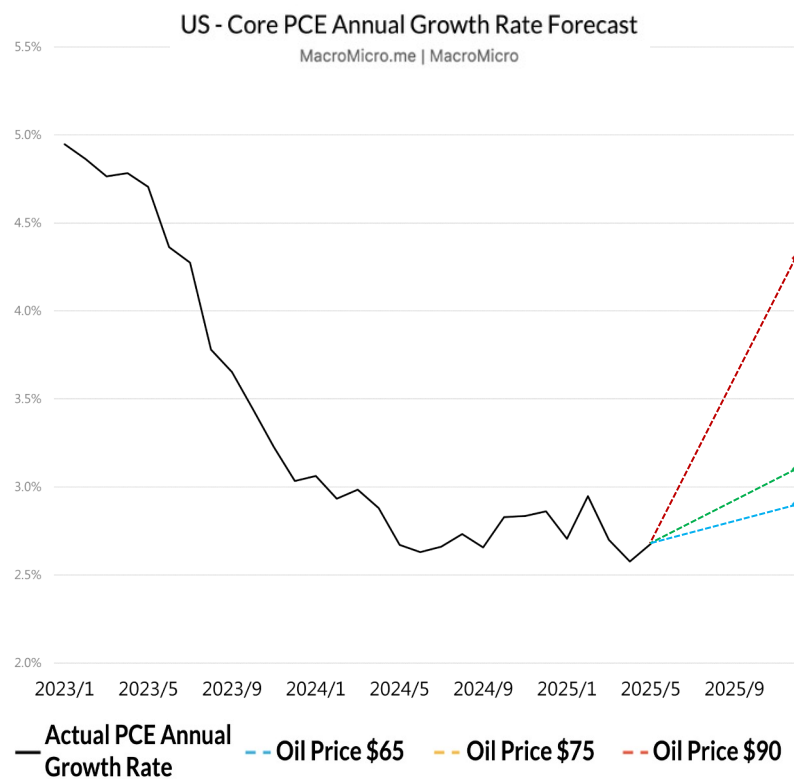
Watch for Inventory Pressures in H2 – Inflation Manageable, Rate Cuts Still on Track

Economy: Growth expected to slow in the second half



Recession probability remains below 50%
Caution: front-loaded orders may lead to short- & medium-term corrections in manufacturing

Inflation: Projected to fall within 2.9%–3.1%



Oil prices fall back below \$70/barrel
With tariffs rising 10%–15%, inflation is expected to remain contained near or below 3%

Interest Rates: Room remains for two rate cuts

US - Taylor Rule Estimated Benchmark Interest Rate
MacroMicro.me | MacroMicro

		Unemployment						
		4.0%	4.2%	4.4%	4.6%	4.8%	5.0%	5.2%
Core PCE	2.4%	3.7%	3.4%	3.4%	3.1%	2.8%	2.2%	1.9%
	2.6%	4.0%	3.7%	3.4%	3.1%	2.8%	2.5%	2.2%
	2.8%	4.3%	4.0%	3.7%	3.4%	3.1%	2.8%	2.5%
	3.0%	4.6%	4.3%	4.0%	3.7%	3.4%	3.1%	2.8%
	3.2%	4.9%	4.6%	4.3%	4.0%	3.7%	3.4%	3.1%
	3.4%	5.2%	4.9%	4.6%	4.3%	4.0%	3.7%	3.4%
	3.6%	5.5%	5.2%	4.9%	4.6%	4.3%	4.0%	3.7%
	3.8%	5.8%	5.5%	5.2%	4.9%	4.6%	4.3%	4.0%
	4.0%	6.1%	5.8%	5.5%	5.2%	4.9%	4.6%	4.3%

The Fed still has room to cut rates under this scenario
Expected to cut rates by 1–2 times in H2 2025

Thank You

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