

May 12, 2025

Policy Points

Steve Pavlick

U.S. – China Trade Quick Hit:

- China and the U.S. released a [joint statement](#) following a two-day trade meeting in Geneva, Switzerland.
- According to a White House [Fact Sheet](#), the two sides agreed to a 90-day pause that reduced their 125% reciprocal tariff rates to 10%.
- U.S. 20% fentanyl tariffs remain in place for a total of 30% tariffs on Chinese imports.
- The pause will allow for further negotiations, with Treasury Secretary Bessent suggesting that the 20% fentanyl tariffs could be reduced if China takes corrective action to address President Trump's concerns.

Steve Pavlick's Take

While the goal of the initial official conversation was to de-escalate, the 115% reduction in reciprocal tariffs from both sides exceeded most expectations of an initial result. It ended what had been an effective trade embargo. In addition, the fact that the two sides issued a joint statement is encouraging because it suggests that there was a common understanding of what was agreed to during the talks.

The remaining 10% reciprocal tariff is consistent with the 10% baseline that the U.S. kept in place with its recent trade deal with the U.S. and may be viewed as the price of admission to the U.S. consumer market in its reciprocal tariff negotiations with other trading partners. It is worth noting that the political utility for preserving that 10% across-the-board tariff diminishes once Republican lawmakers pass their reconciliation package since tariff revenue can assuage concerns from fiscal conservatives whose votes are needed to secure passage, which is more likely to come before the August recess.

Global stock markets responded favorably to the news, with sectors at risk, such as shipping and technology companies, performing particularly well, along with oil based on the assumption of better economic growth in both markets. However, the 90-day nature of the talks means that uncertainty remains, as the prospect of similar levies being reimposed in the future should discussions deteriorate remains. Moreover, critics of the announcement may question whether reducing the triple-digit duties removes an important forcing function to reach an agreement.

China and the U.S. are alike in that any durable agreement will require approval from the highest

levels, specifically Xi Jinping and Donald Trump, respectively. This suggests that talks could go well beyond 90 days, though a further extension of the pause is likely if the dialogue continues to be constructive. It remains to be seen what the U.S. considers a successful outcome. A deal that requires China to honor some of its Phase One purchases from the first Trump administration cracks down on fentanyl precursor production and allows China to reroute exports through third parties, which would show a reduction in the trade balance and should be relatively easy to achieve. A deal that requires significant changes to China's state-based economic model will likely prove more challenging. Factors such as divisions among the Trump administration as to the desired outcome and the receptivity of other trading partners to play a more assertive role in addressing trade concerns with China identified by the U.S. may also play a role.

DISCLAIMER: This document has been prepared by Renaissance Macro Securities LLC, a subsidiary of Renaissance Macro Holdings, LLC. This document is for distribution only as may be permitted by law. It is published solely for information purposes; it is not an advertisement nor is it a solicitation or an offer to buy or sell any financial instruments or to participate in any particular trading strategy. No representation or warranty, either expressed or implied, is provided in relation to the accuracy, completeness or reliability of the information contained in this document. The information is not intended to be a complete statement or summary of the markets, economy or other developments referred to in the document. Any opinions expressed in this document may change without notice. Any statements contained in this report attributed to a third party represent RenMac's interpretation of the data, information and/or opinions provided by that third party either publicly or through a subscription service, and such use and interpretation have not been reviewed by the third party. Nothing in this document constitutes a representation that any investment strategy or recommendation is suitable or appropriate to an investor's individual circumstances or otherwise constitutes a personal recommendation. Investments involve risks, and investors should exercise prudence and their own judgment in making their investment decisions. The value of any investment may decline due to factors affecting the securities markets generally or particular industries. Past performance is not indicative of future results. Neither RenMac nor any of its directors, employees or agents accept any liability for any loss (including investment loss) or damage arising out of the use of all or any of the information. Any information stated in this document is for information purposes only and does not represent valuations for individual securities or other financial instruments. Different assumptions by RenMac or any other source may yield substantially different results. The analysis contained in this document is based on numerous assumptions and are not all inclusive.

Copyright © RenMac 2025. All rights reserved. All material presented in this document, unless specifically indicated otherwise, is under copyright to RenMac. None of the material, nor its content, nor any copy of it, may be altered in any way, or transmitted to or distributed to any other party, without the prior express written permission of RenMac.