21 Feb 2025

CMB International Global Markets | Equity Research | Macro Strategy

China Economy

US$/RMB outlook in Trump 2.0 era

Bingnan YE, Ph.D
(852) 3761 8967
yebingnan@cmbi.com.hk

Frank Liu
(852) 3761 8957
frankliu@cmbi.com.hk

We expect US$/RMB to reach 7.48/7.33/7.55 at end of 2025/2026/2027. US$/RMB will be driven by factors including Trump's tariff policies, global economic and monetary policy divergence, China's economic prospect and global geopolitical risk dynamics. Trump's tariff threat may be just a bargaining leverage in the short term as lowering inflation and reducing illegal immigrants are his priorities in 1H25. The tariffs may escalate in 2H25 and de-escalate again with possible trade deals with major trade partners in 2026. US economic advantage over Europe and Japan might expand in 2025 due to tariff shock and narrow again in 2026 as high interest rates, strong US dollar, trade barriers and reduced immigrants will ultimately hurt the US economy. China's economy will continue to recover in 2025 before slowing again in the medium term, and China will not seek RMB depreciation to boost its exports as policymakers consider stable RMB exchange rates as a part of financial stability and a symbol of economic upturn, in our view. Trump 2.0 shock will have a smaller impact on RMB than Trump 1.0 shock.

- **US$/RMB forecasts and key assumptions.** We expect US$/RMB spot rates to reach 7.48 at end-2025, 7.33 at end-2026 and 7.55 at end-2027, compared to the market consensus of 7.45/7.35 for 2025/2026 in a Bloomberg survey. US$/RMB rates move in tandem with the US-Sino interest rate differentials, which reflect the divergence of economic fundamentals and monetary policies between the two countries. In the next two years, US$/RMB rates will be mainly influenced by factors including the evolution of Trump's tariff policies, global economic and monetary policy divergences, China's economic prospect and geopolitical risk dynamics. Key assumptions for our forecasts include: i) Trump's tariff policies will escalate in 2025 and de-escalate in 2026; ii) US economic advantage over Europe and Japan will widen this year but may narrow next year; iii) China's economy may gradually recover in 2025-2026; iv) geopolitical risks may mildly decline.

- **Trump's tariff policy outlook.** Lowering inflation and reducing illegal immigrants should be Trump's priorities in 1H25. Political polls show that living costs and community security are the most important concerns for US voters. From the economic perspective, lowering inflation is a prerequisite for lowering government financing costs, stimulating business investments and pushing forward the tax cut agenda. Massive tariff increases conflict with the disinflation goal as 10% across-border tariffs are expected to push up US PCE inflation by about 0.5ppts. As inflation remains above 2% in 1H25, Trump's tariff threat may be just a bargaining leverage instead of a real plan. To address the immigration issue, Trump has used the tariffs to threaten Canada and Mexico for better cooperation, which is why we have seen tariffs targeting these two countries first since Trump took office. As Trump's policies may bring additional uncertainty for US inflation outlook, the Fed may continue to pause rate cuts in 1H25. High interest rates, strong US dollar and Trump's policy uncertainty may increase US stock market volatility and result in tightening effects on its economy. US inflation may slow down in 2H25 as the Fed may take the opportunity to cut rates and Trump might escalate tariffs against China. The tariff and immigration policies may weaken US economic growth and hurt its business interest as Trump may choose to reach a deal with China in 2026.

- **Dynamics of US economic advantage over Europe and Japan.** US economy may outperform the Eurozone and Japan in 2025 as Trump's domestic tax cuts and deregulation policies will likely boost the US economy and inflation while his tariff policies could suppress economic growth and inflation in Europe, Japan and other trading partners. The interest rate differentials between the US and other economies may increase, which is positive for US dollar and negative for other currencies including RMB. 2026 might see a different trend as the US economic advantage over Europe might weaken. Elevated inflation, high interest rates, strong dollar, trade barriers, immigrant outflow and policy uncertainty may ultimately slow US economic growth. Meanwhile, Eurozone economy may improve thanks to a lower base, substantial rate cuts and the resolution of the Russia-Ukraine war. US dollar may weaken while other currencies including RMB might rebound.

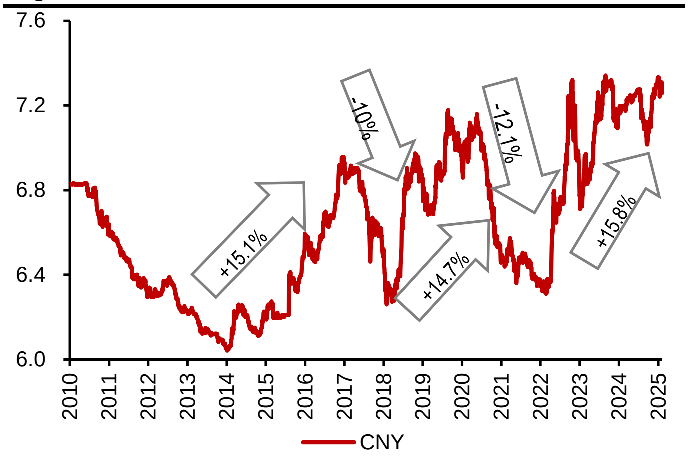
- **China's economic prospect.** China's economy was in a downturn cycle in 2022-2023 due to the pandemic shock, aggressive property deleveraging and hawkish regulation over private entrepreneurship, but may continue to recover in 2025. Since 2023, there has been a dramatic reversal in the zero-Covid policy, property policy and regulatory policy, supporting a cyclical recovery of the economy. However, China's economic recovery has remained weak with lingering deflation pressure due to aftermath of the property bubble burst, sluggish confidence in the private sector and persistent geopolitical risks. The economy may continue to recover in 2025 as both fiscal and monetary policies should remain expansionary. Housing markets in higher-tier cities may gradually stabilize and durable consumption is expected to further rebound. The economy might face slowdown pressure again in 2026 as the effects of domestic policy stimulus diminish and the effects of Trump's tariffs increase. In the medium term, China's economy may continue to face downward pressure due to structural factors including continued decline of working-age population, weakening of market-oriented incentive and persisted geopolitical risks.

- **Geopolitical risks.** Geopolitical risks may decline in 2025-2026 as Trump will end the value-oriented diplomacy and alliance-centered approach in Biden era and accelerate the US's strategic contraction overseas. Trump may push for an end to the Russo-Ukrainian War, and the dawn of peace between Russia and Ukraine will boost the euro and, indirectly benefiting RMB. Sino-US relations may alternate between phases of improvement and deterioration, and the pattern of strategic confrontation is difficult to change. In 2027, the US may once again hype up geopolitical risks in the Taiwan Strait around China's political reshuffle, which may exacerbate capital outflows and downward pressure on RMB.

- **China's FX rate policy.** Looking back, for most of the periods, RMB depreciation is not preferable in the eyes of Chinese policymakers. They regard the stability of RMB as a part of financial stability and a symbol of China's economic upturn. In addition, China intends to maintain stable Sino-US relationship in the Trump 2.0 era. As the US politicises RMB exchange rates, China is reluctant to let the depreciation of RMB worsen the Sino-US relationship. Only in a few periods with intense confrontation between China and US, China may be willing to allow sharp RMB depreciation as a tool to put pressure on the US. China basically adopts a managed floating exchange rate regime. In the medium to long term, the PBOC allows market supply and demand to play a decisive role and use the exchange rate flexibility as an automatic stabiliser to absorb external shocks and rebalance the economy. In the short term, however, the central bank attempts to ease the fluctuations of RMB exchange rate to reduce overshooting risks. Since 2017, the FX position in PBOC's balance sheet has remained stable, indicating minimal direct interventions through FX purchase or sales. Instead, the central bank has guided market expectations by central parity rate fixings, verbal interventions or window guidance for large state-owned banks to influence the market. In practice, these measures have only affected short-term fluctuations but have limited impact on long-term trends for RMB exchange rates.

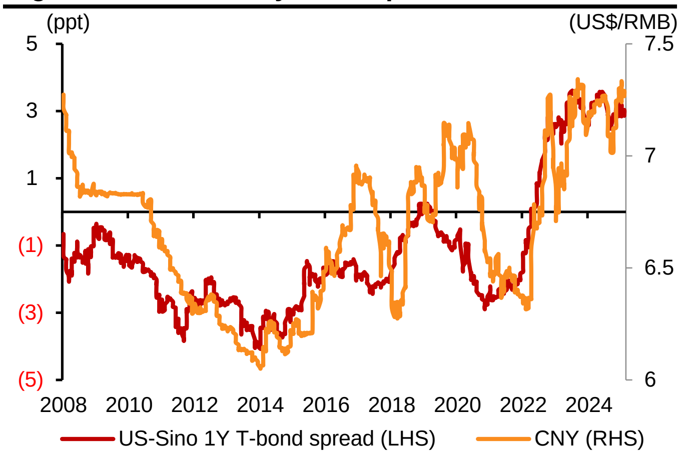
- **The impact of Trump 2.0 on RMB should be smaller than that of Trump 1.0**. While Trump's tariff policies in 2025 will exert downward pressure on RMB, the impact of "Trump 2.0" will be much smaller than that of "Trump 1.0". Firstly, China is better prepared and more experienced to deal with Trump's tariffs as many large companies have established production bases overseas with diversified supplies. Secondly, US dollar is in a rate-cut cycle in Trump 2.0 era while it was in a rate-hiking cycle in 2018. Thirdly, US dollar interest rates and asset valuation are much higher as opposed to RMB interest rates and Chinese asset valuation, which has fully reflected the gap in economic fundamentals. Lastly, the market abhors uncertainty and unpredictability. Having already experienced "Trump 1.0," the market should react more mildly in Trump 2.0 era. After the trade war in Trump 1.0 era, US weighted average tariff rate on Chinese goods increased from 3.1% in 2017 to 19.3% in 2019, leading to a 9.5% rise in US$/RMB in 2018-2019. In Trump 2.0 era with a possible 20%-30% tariff, US$/RMB is expected to rise 4%-6%, in our view.

Figure 1: USD/CNY Trend



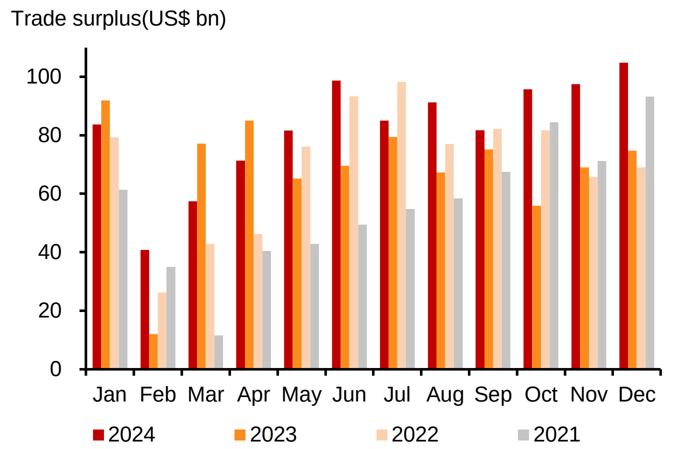
Source: Wind, CMBIGM estimates

Figure 2: 1-Y Treasury Yield Spread & USD/CNY rate



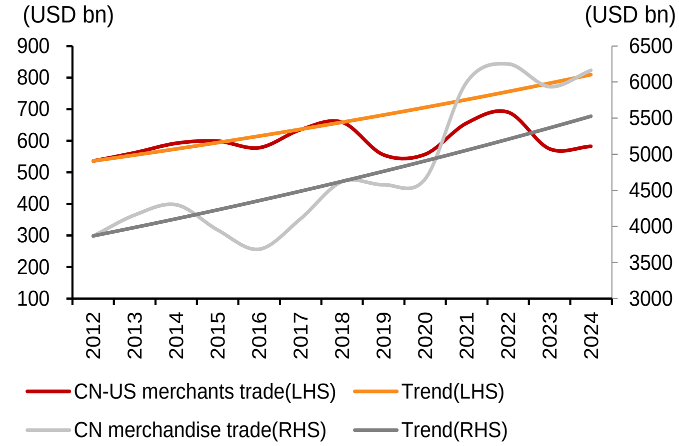
Source: Wind, CMBIGM estimates

Figure 3: China's merchandise trade surplus



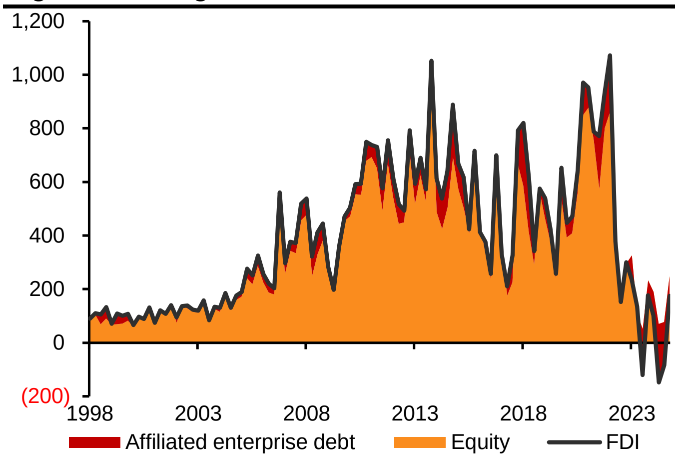
Source: Wind, CMBIGM estimates

Figure 4: China's merchandise trade with US &world



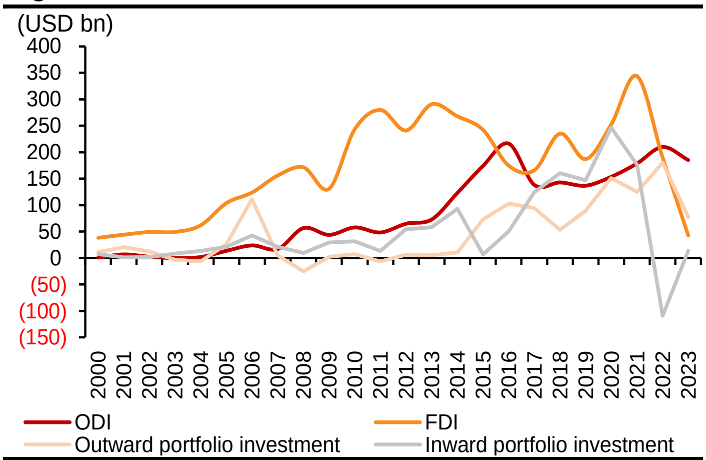
Source: Wind, CMBIGM estimates

Figure 5: Foreign direct investment to China



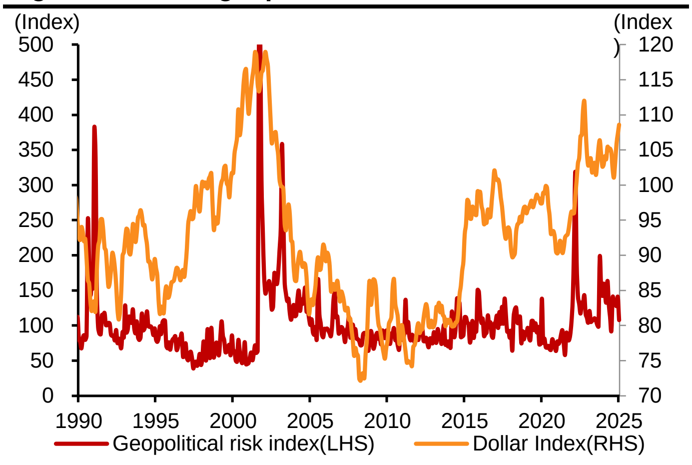
Source: Wind, CMBIGM estimates

Figure 6: China cross-border investment flows



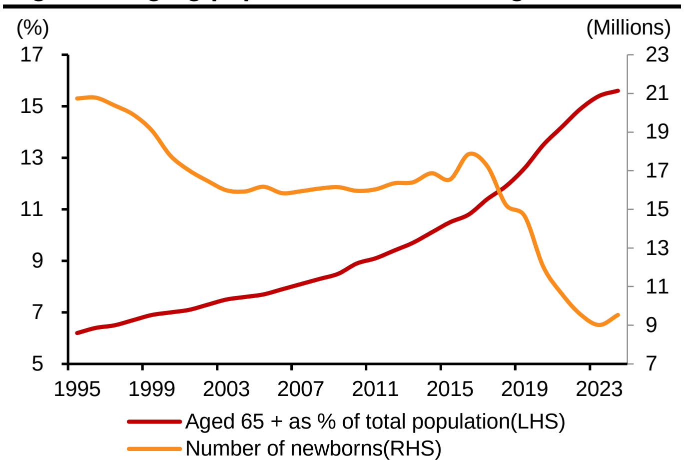
Source: Wind, CMBIGM estimates

Figure 7: Global geopolitical risk & dollar index



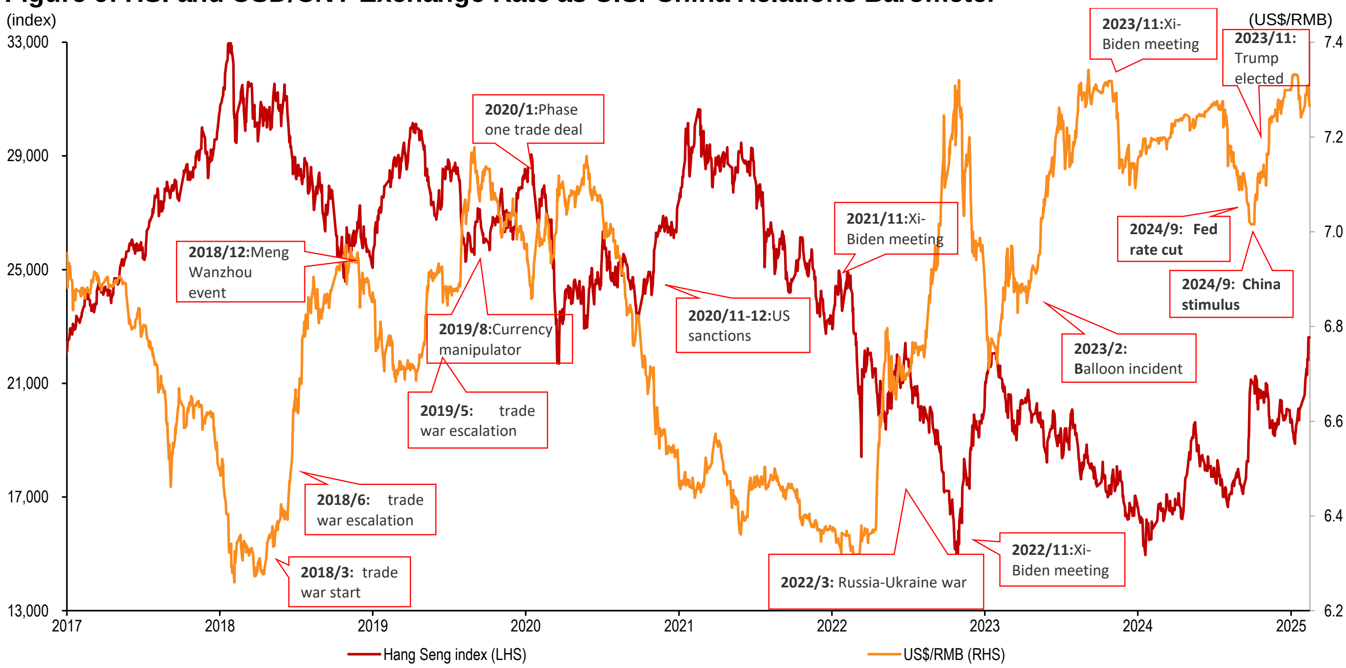
Source: Wind, CMBIGM estimates

Figure 8: Aging population and declining births



Source: Wind, CMBIGM estimates

Figure 9: HSI and USD/CNY Exchange Rate as U.S.-China Relations Barometer



Source: Wind, CMBIGM estimates

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.
Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIGM
OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888   Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.
This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.
The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.
CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.
Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom
This report has been provided only to persons (I)falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time)("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.,) of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States
CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore
This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.