

13 October 2025

# US-China Trade

## New trade escalation turns focus to Xi-Trump meeting

- On Friday, Trump threatened China with 100% tariffs on top of the existing rates as a retaliation against China's new export control measures on rare earth minerals. However, comments received over the weekend appear to downplay the risk of trade war escalation.
- Focus now turns to a Xi-Trump meeting at the end of the month, where the two sides can dial back the escalation. We see a more than 50% chance for this.
- While the 100% tariff hike would push the pre-substitution US average tariff rate to around 28%, or close to the highs seen last May, the effective increase would be more modest due to re-routing of trade.
- Both importers and exporters have adapted to the new tariff landscape which alleviates downside risks to both US and Chinese economies even if the higher tariffs go into effect. We expect the Fed to cut rates by 25bp later this month irrespective of the near-term trade war outcome.

### What just happened?

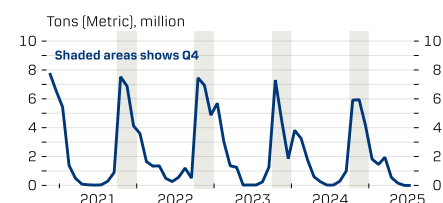
On Friday US President Donald Trump took markets (and us) by surprise posting he would impose 100% tariffs on all Chinese goods on top of existing tariffs. If implemented, this would lift the average tariff rate on Chinese goods to 140% - so effectively again close to a trade embargo that we had in April. He also threatened to put new export controls on "virtually every product they make" and on "all critical software products". The tariffs would not come into effect until 1 November, though, which leaves time for talks and a possible deal with China when Trump and Chinese president Xi Jinping meets at end of the month at the sidelines of an APEC Summit. Trump's tariff hike came as the White House seemed to be shocked by a move earlier in the week by China where they expanded export controls on rare earth minerals (see more details below).

However, things seemed to have calmed down over the weekend. On Sunday, Trump made a new post on Truth Social saying "Don't worry about China, it will all be fine" adding that "Highly respected President Xi just had a bad moment. He doesn't want Depression for his country and neither do I". The USA wants to help China, not hurt it!!". US Trade Representative Jamieson Greer also gave some soothing comments on Sunday on Fox News stating that "I think that is normal reaction for the markets to have some concern. That being said, these measures aren't in place yet. It's scheduled for Nov. 1. So I think we'll see the markets calm this coming week, as they see things settle out, hopefully." The change in tone suggests to us that there has been backchannel communication between the US and Chinese side over the weekend that point to a deal being possible at the end of the month and that the tariffs will not go into effect.

China's Ministry of Commerce on Sunday released a [Q&A](#) on China's recent measures highlighting that "China's export controls are not export bans". They also.

US soybean exports to China usually take place in Q4 after Autumn harvest

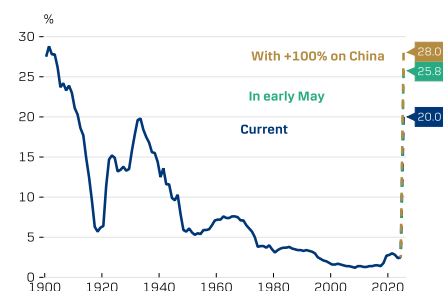
US exports of soybeans to China



Sources: Macrobond Financial, U. S. Department of Agriculture

Post-substitution increase in average tariff rate is much more modest than the pre-substitution rate suggests due to re-routing of trade

US Trade-Weighted Average Tariff Rate (Pre-Substitution)



Sources: Macrobond Financial, U. S. Census Bureau, Danske Bank

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indicated that it was not meant as escalation but rather retaliation to US measures saying that “since the China-U.S. economic and trade talks in Madrid in September, the U.S., in just 20 days, has introduced a string of new restrictive measures targeting China”.

## What's next?

**Focus now turns to the meeting between Xi and Trump in late October.** Trump initially suggested it would be cancelled but later pulled back on that and we find it very likely it will take place. It is noteworthy China has not responded with counter-tariffs on the US, which indicates they don't want to escalate and that they expect to be able to settle things. Neither country is interested in a de facto trade embargo for long and we see a more than 50% probability a deal will be reached at the Xi-Trump meeting. On the US side, Trump has a narrow window for China restarting purchases of soybeans as the autumn harvest is over and farmers could be stuck with big inventories if China does not restart purchases. On the other hand, China has been looking for concessions on Taiwan and easing of tech restrictions which would go out the window without a deal. So to us, it still seems the two leaders are driving a hard bargain but will eventually strike a deal.

## How would the economy cope with another escalation?

If the 100% additional tariffs on Chinese exports go into effect, the average trade-weighted tariff rate on all US imports would, before substitution, increase from around 20% towards 28%.

This would be roughly on par with the highest rate seen last May, but in practise, trade flows have already adapted to the new tariff landscape since then. **This means that the effective increase in average tariffs would be more muted.** In 2024, China accounted for 13-14% of US goods imports, but in the three months leading up to July, the share had declined to below 8%. Freight rate indices for shipments from China to the US have declined to the lowest levels since late 2023, also suggesting that demand for Chinese imports has remained weak.

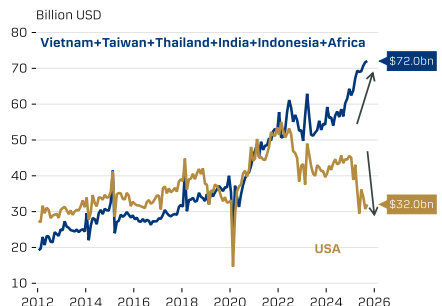
**This does not mean that the final demand stemming from the US has collapsed, though.** US government shutdown has delayed the latest trade balance data from the US Census Bureau, but data from China General Administration of Customs shows that bilateral trade volumes have continued to decrease towards the fall. Even so, overall Chinese exports have remained steady, growing 8.3% y/y in September according to the data released overnight. While direct exports to the US have declined 27% y/y, exports to particularly Southeast Asian economies have more than compensated for the drop, which likely reflects simple re-routing of trade flows.

This alleviates the direct cost increase for US businesses, and any further tariff hikes would only increase firms' incentives for rerouting trade around the highest tariff barrier on China. We believe that the ability to adapt trade routes shields both the Chinese and the US economies from sharp growth slowdowns even if the threatened tariff hikes go into effect.

On the other hand, overall US goods imports have fallen short of final demand over the past few months. Wholesalers' inventory/sales ratios have declined notably this year, perhaps in anticipation of either weaker final demand or trade deals leading to lower tariff rates. Earlier frontloading and subsequent drawdown of inventories have so far moderated the tariff impact on consumer prices. But declining inventory levels in conjunction with aggressive tariff rate hikes would increase the risk of sudden cost increases for importers or even outright product shortages.

## Direct trade from China to the US continues to decline

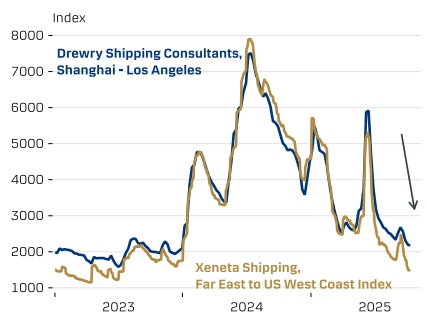
Chinese Export Value, Seasonally Adjusted, USD



Sources: Macrobond Financial, China General Administration of Customs, Danske Bank

## Freight rate indices point towards weak import demand

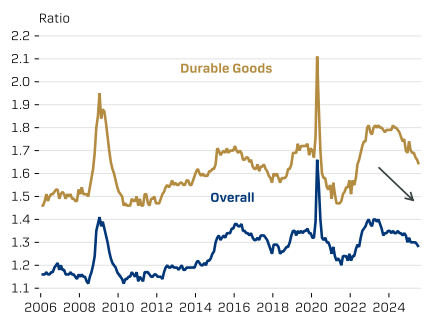
China-US Freight Rate Indices



Sources: Macrobond Financial, Drewry Shipping Consultants, Xeneta Shipping by Compass, Danske Bank

## US import volumes have fallen short of final demand so far in 2025

US, Wholesale Inventory/Sales Ratio



Sources: Macrobond Financial, U. S. Census Bureau

This naturally worsens the stagflationary risk outlook for the US economy, complicating the Fed's monetary policy setting. All-else-equal, we believe that rising trade tensions increase the likelihood of the Fed front-loading upcoming rate cuts. In any case, we believe the Fed will cut rates by 25bp in its October meeting.

**For China, a de facto trade embargo with the US would of course hurt, but as the direct trade has already fallen a lot, as mentioned above, the effect would be tolerable in our view.** In addition, we also expect that even if tariffs were to reach more than 100% it would not be for long as was the case in April during the first big escalation. Finally, China would add stimulus to mitigate the impact.

## What did China do to anger the US?

China last week expanded rare earth export controls significantly increasing the control over the whole rare earth supply chain as well as critical minerals for advanced chips production and EV battery production.

Six new restrictions were outlined but the crux of it was:

- **A Chinese *version* of the US foreign direct product rule**, which means that any foreign company exporting goods with contents of 0.1% or more of Chinese rare earths will need a licence.
- **Expansion of list of minerals that will need a license to be exported.** It includes Lithium needed for EV batteries and minerals needed in chips production and where the controls affect 14nm chips or more advanced than that. This in principle China implies *can block* production of advanced chips in any country.
- **Expansion of the controls to include Chinese technologies** used in the the rare earth extraction or processing.
- **Expansion of the unreliable entity list with 14 foreign entities related to security.**

China's Ministry of Commerce (MOFCOM) said the rare earth restrictions were needed to prevent the minerals from being used in technologies with military application and stated it would not approve any rare earth sales to overseas military suppliers.

**The question is, why now?** First, it comes after US at the end of September tightened its' tech restrictions on China by expanding them to include any foreign entities that has a more than a 50% ownership by one of the Chinese companies on the US blacklist. According to *Wall Street Journal*, sources close to the talks said Chinese vice-premier He Lifeng believed an informal "freeze" on new export controls had been agreed following the latest talks in Madrid. But that understanding had been crushed when the U.S. introduced new controls on foreign-owned companies at the end of September. This led Xi to decide to strike back and with force. In MOFCOM's *statement* on Sunday they specifically referred to the new US measures indicating the move was more retaliation than escalation.

Second, the timing might aim at giving China a stronger hand ahead of Xi-Trump talks at the end of the month on the sidelines of the APEC Summit in South Korea. The view from Beijing seems to be that Trump is eager to get a deal, not least on soybeans where the autumn harvest is at stake and decided to up the ante in the talks.

**The new controls was also a clear signal that China is increasingly willing to use the leverage** it has and push back on similar US/Western restrictions related to China's access to advanced chips. Export controls does *not* equal an export ban. But it makes it much easier for China to quickly adjust its' leverage by stopping or delaying licences. This is set to

work as deterrence in the tech war with US/the West and a signal that “whatever you do to us we will do to you”.

The new rules will require a lot of license processing in MOFCOM and could result in new delays in exports of rare earth minerals that would hurt not only the US, who is the main target, but also spill over to other countries, as we saw earlier this year. No doubt this will add to concerns in not least Europe over China’s dominance in key economic areas and the extensive dependence on China in supply chains and manufacturing.

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