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Flash Note: Western banks slash China's GDP forecast to 3.4% as exports to the U.S. set to plunge 66%

China GDP Forecasts Cut as Trump Escalates Tariff Pressure

President Trump's intensifying tariff offensive against China has triggered a new round of downward revisions in Chinese GDP growth forecasts. Goldman Sachs has cut its 2025 forecast to 4.0% from 4.5%, citing a 2.2 percentage point drag from 125% tariffs. "Tariffs at 145% are becoming increasingly prohibitive for Chinese exporters to the U.S." Citi followed suit, revising its forecast to 4.2% from 4.7%, reflecting a growth hit of at least 1.5 points. UBS issued the most pessimistic projection, trimming its estimate to 3.4% from 4.0%. UBS economists now expect Chinese exports to the U.S. to fall by two-thirds over the coming quarters, with total outbound shipments set to contract by 10% in dollar terms this year. "The tariff shock presents unprecedented challenges to China's export sector and will necessitate broad economic adjustments."

In terms of policy response, Goldman Sachs now expects the People's Bank of China (PBOC) to cut rates by 60 basis points (up from 40 bps previously), likely adding pressure on the yuan. The bank has also raised its fiscal deficit forecast to 14.5% of GDP (up from 13.8%), which could increase the risk premium and weigh on corporate financial margins. A think tank warned that tariffs are already affecting millions of Chinese workers. A France-based consultancy reported that job openings have dropped 30% year-on-year over the past two months. Furthermore, an index tracking future hiring intentions has fallen to its lowest level in six months. Companies are clearly waiting for greater economic visibility before resuming hiring plans.

A (Temporary?) Market Boost: Chip Tariff Exemptions Lift Chinese Tech, But Scope Is Limited

The announcement of temporary exemptions for certain electronic products (e.g., chips, smartphones) offered brief support to major Chinese tech names like Alibaba and Baidu. However, the relief applies only to a narrow segment of China's electronics supply chain. According to the South China Morning Post, many smaller electronics firms will not benefit from the exemptions unveiled over the weekend of April 12. The publication also noted renewed uncertainty after the U.S. signaled it could introduce further sector-specific tariffs. One academic described the exemption list as "entirely arbitrary".

Nonetheless, Beijing seized the moment to send a message to Washington. China's Ministry of Commerce characterized the U.S. move as "a small step in correcting a flawed unilateral approach" and urged the U.S. to take "a big stride" toward eliminating this "wrongful action" and "returning to dialogue as the means for resolving disputes".

March Exports: A False Sense of Strength as External Sector Front-Loaded Activity

The recent rebound in market sentiment was supported by stronger-than-expected trade and credit data, though much of it appears to reflect significant front-running. Exports surged 12.4%

year-on-year in March, well above consensus (4.6%) and the Jan-Feb average (2.3%), as manufacturers rushed shipments ahead of anticipated U.S. tariff hikes. This export surge pushed China's trade surplus to $102.6 billion in March alone (vs. $74.7 billion expected and $170.5 billion for Jan-Feb combined).

Credit activity also showed front-loading behavior. New bank lending rose to CNY 3.64 trillion ($500 billion), far exceeding the CNY 3 trillion consensus. Household loans jumped by CNY 985.3 billion, following a contraction of CNY 389.1 billion in February. Total social financing accelerated to 8.4% in February, supported by an increase in government bond issuance.

China Strikes Back: Tariffs on U.S. Goods Raised to 125% and Hollywood Comes Under Fire

China raised tariffs on all U.S. goods from 84% to 125% effective April 12, stating that it will no longer respond to additional U.S. tariff hikes, as current levels have rendered bilateral trade flows unworkable. In parallel, Beijing announced it will reduce the number of Hollywood films allowed to screen in China—a significant blow to Western studios. Shares of Walt Disney, Paramount Global and Warner Bros Discovery fell immediately.

To illustrate the impact, in 2024, the top-grossing American film in China—Godzilla x Kong: The New Empire—grossed $132 million domestically, compared to a global total of $572 million. Back in 2018, up to 60 U.S. films were screened in China; that figure has steadily declined since.

State-Backed Buying Cushions Market Reaction – But Direct Interventions Remain Limited

China-listed equity ETFs saw nearly $24 billion in net inflows last week, setting a new record. Most of the buying occurred on Monday and Tuesday, with some net outflows in the latter half of the week. A large portion of flows targeted ETFs favored by China's so-called "national team," though retail participation cannot be ruled out.

China May Drag Others Down: Xi Urges Vietnam to Join in Opposing "Unilateral Bullying"

President Xi Jinping called on Vietnam to join China in opposing "unilateral bullying" and in defending the stability of global free trade and supply chains. His remarks came as he launched a regional tour across three Southeast Asian nations. China and Vietnam signed 45 cooperation agreements spanning a wide range of sectors.

Market Outlook – Recommendations & Targets

- **Equities:** Shanghai: Underweight // Shenzhen: Underweight // Hang Seng: Market Weight
- **Fixed Income**: Government Bonds: Underweight to Market Weight (10Y yield target: 1.25%)
- **FX:** CNY/USD: Underweight (Target: 7.50)