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What to watch: Deals, deals, deals!

In summary

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US-China deal: A welcome truce but the trade war is still on. Effective for 90 days (until 12 August), the US will reduce its effective import tariff rate on China from 103% to 39% – but this is still higher than the 13% rate before President Trump's second term and the highest rate applied on any trade partner. Its global rate declines from 21% to 12%. In response, China will cut its tariffs on US goods from nearly 140% to 24%. The agreement suggests ongoing negotiations to redefine future trade relations. However, the threat of back-and-forth or increases looms during and after the pause, with the US tariff on China potentially rising to 52% if no further agreements are reached. For the US economy, battling soaring household inflation expectations, plummeting consumer confidence and stalled corporate investments, the truce eases significant pressures, with inflation now expected to peak at 3.5%, down from the previous forecast of 4.3%. US GDP growth is expected to be revised up from 0.8% to 1.3% - 1.5% for 2025. On the other side, China faces up to USD108bn in export losses, though it is likely to compensate by rerouting 75% of this through Asian ports and diverting 25% to other markets, with Europe expected to absorb USD12bn. With deals also signed with the UK and Gulf countries, markets have reversed part of the "divest-US trade" seen in April, adding upside risks to our capital market forecasts.

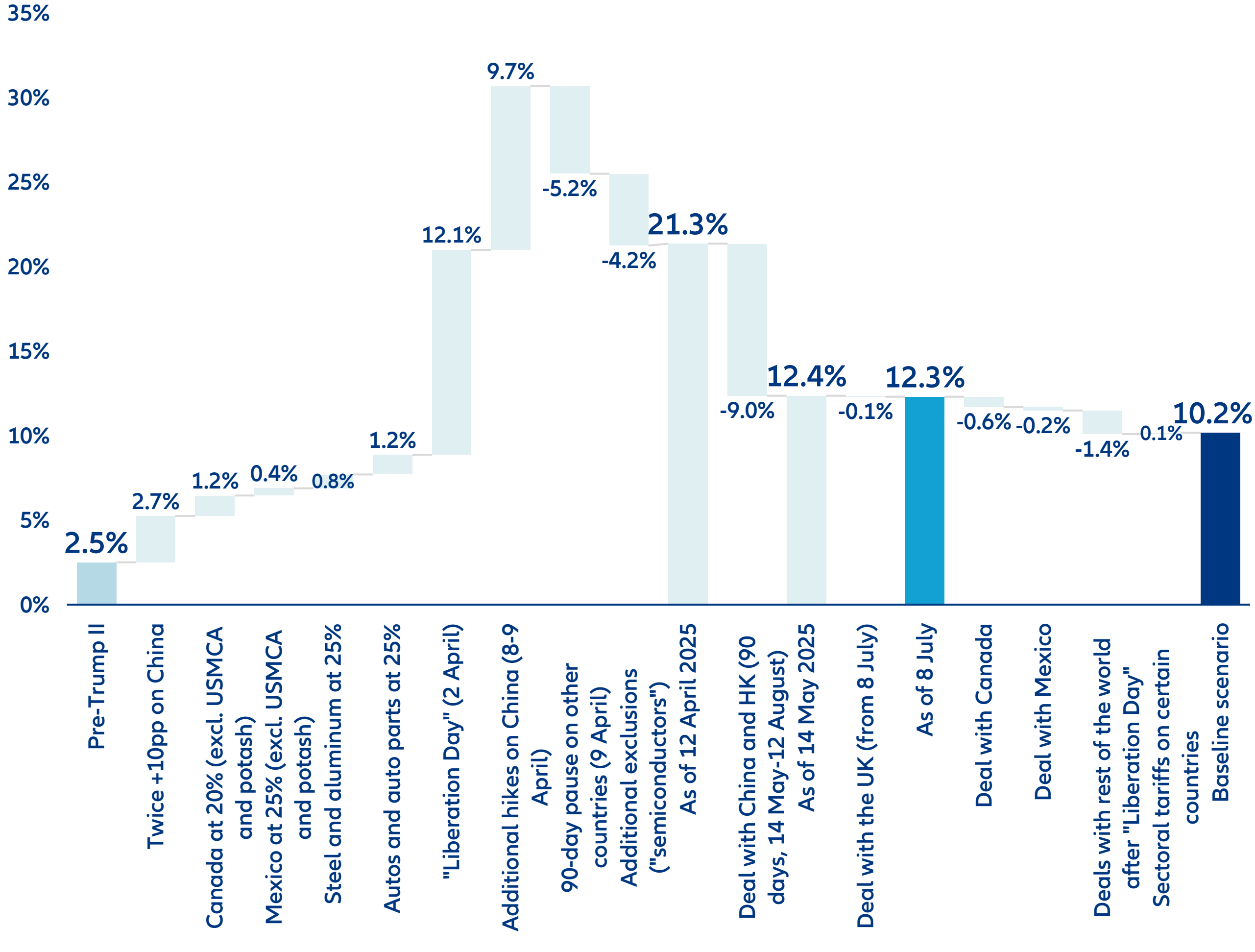
US-UK deal: A small reprieve for **the UK's** struggling export sector. The UK's goods trade deficit has increased steadily over the past two decades (-8% of GDP since Brexit in 2021), hit by the double whammy of growing trade imbalances with the EU and real exchange rate appreciation. Against this backdrop, the recent trade deal with the US offers some reprieve. While the +10pp rate hike remains for most UK goods, the tariff on cars will reduce to 10% from 27.5% (for the first 100,000 cars sent to the US), and on steel & aluminum to 0% from 25%. But the UK will still have to pay a hefty price for access to the US market: we estimate the US trade-weighted tariff rate on UK imports will be lowered from 9.1% to 6.1% – still much higher than 1% pre-Trump administration – leading to export losses of USD3bn (GBP2.3bn). On the other hand, US goods will have greater access to the UK market as the White House managed to extract several concessions on exports of aircrafts, industrial and consumer goods and agricultural products, which should generate modest export gains of USD0.7bn annually for the US.

US-Middle East deal(s): Investment deals to pump up oil prices and reduce fiscal pressures on the region? President Trump's trip to Gulf countries kicked off with Saudi Arabia committing USD600bn in investments in the US over the next decade, part of a broader pact that includes US defense sales valued at nearly USD142bn. Additionally, Riyadh's sovereign wealth fund placed an order for 30 Boeing aircraft and reached agreements with the US on energy and mineral resources. The UAE has committed USD1.4trn, and Qatar is also expected to announce substantial investments. Although past experiences suggest these pledges may not fully materialize (USD300bn shortfall during Trump's first term), they might contribute to de-escalate the trade war and its consequences, i.e. mounting global recession fears which prompted oil prices to collapse below 70 USD/bbl, sharply reducing government revenues for Gulf countries. On the trade front, reducing tariffs to zero would represent export gains to the region of around USD1.5bn, as current tariffs stand between 4% and 7%. Overall, we see these investment deals as de-escalation efforts which will pump up oil prices and provide relief to the region.

US-China deal: A welcome truce, but the trade war is still on

The US-China trade war reprieve came sooner and better than expected. Announced in a joint statement[1] on 12 May, following meetings in Geneva between China's Vice Premier He Lifeng, US Secretary of Treasury Scott Bessent and Trade Representative Jamieson Greer, the US-China deal brings down the US effective import tariff rate on China from 103% to 39% (against our previous expectation of 73% by Q4 2025). This reduces the US global rate from 21% to 12% (see Figure 1), though this is still above our baseline scenario of reaching 10% by Q4 2025. China's effective import tariff rate on the US has also been cut from nearly 140% to 24%. These levels will be effective for 90 days, between 14 May and 12 August 2025, after which tariffs on the goods targeted could rise by +24pps if no further pause or deal is agreed. The joint statement also states that the two countries "will establish a mechanism to continue discussions about economic and trade relations", suggesting that further talks should take place in the coming months. The de-escalation is much needed at a time when the US economy is facing urgent challenges, from surging inflation expectations among households and plummeting confidence to companies delaying capex plans.

Figure 1: US global effective import tariff rate (weighted average, %)



Sources: WTO, US ITC, ITC, Allianz Research

Additionally, the US will adopt a less aggressive adjustment of the rule regarding low-valued shipping coming from China, also called the de minimis exemption, bringing moderate relief for US households. The tariff applied on packages worth less than USD800 will be cut by more than half from 120% to 54% or 30%, depending on whether they are channelled via the US postal service or a private carrier company, while the flat fee will be lowered from

[1] *Joint Statement on U.S.-China Economic and Trade Meeting in Geneva – The White House*

USD200 to USD100. Approximatively two-thirds of the US de-minimis imports come from China and Hong Kong, equivalent to 900mn packages last year, for a value estimated at over USD40bn. With an average price per package calculated at USD48 and a breakeven rate estimated around USD70 above which it would be more advantageous to apply the 30/54% rate than the flat fee, we estimate the total bill will oscillate around USD90bn-USD100bn. For US consumers, this means an extra cost of up to USD70 per delivery as e-commerce platforms and retailers seem more inclined to pass on tariff costs rather than absorbing the hit on their margins.

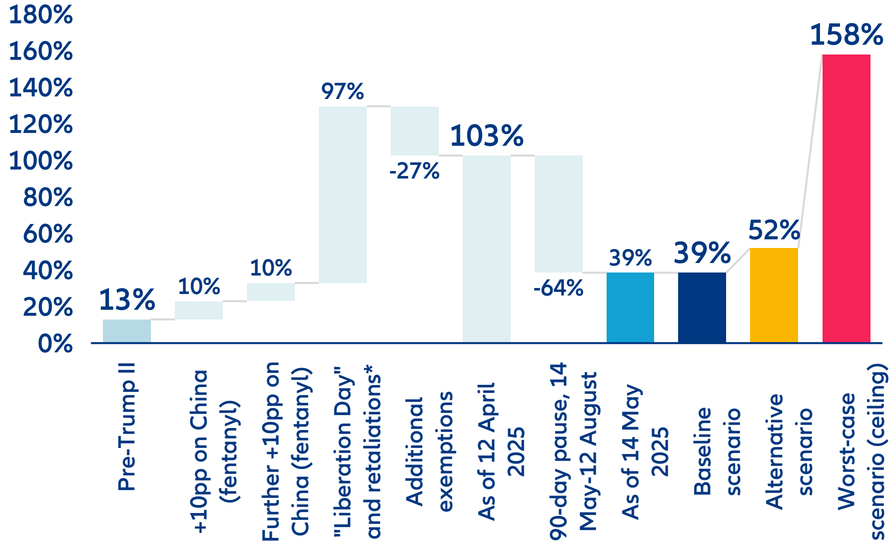
Figure 2: Simulation of extra cost for the US from scrapping the de minimis exemption with China

<table>
<tr><th>Shipping price tag</th><th>New tariff costs* (in USD)</th><th>100% below USD70</th><th>90% /10% above USD70</th><th>80%/20% above USD70</th></tr>
<tr><td>25</td><td>100</td><td rowspan="3">USD90bn</td><td rowspan="3">USD81bn</td><td rowspan="3">USD72bn</td></tr>
<tr><td>50</td><td>100</td></tr>
<tr><td>~70</td><td>100</td></tr>
<tr><td>150</td><td>154</td><td rowspan="9">USD0bn</td><td rowspan="9">USD21bn</td><td rowspan="9">USD43bn</td></tr>
<tr><td>200</td><td>200</td></tr>
<tr><td>200</td><td>308</td></tr>
<tr><td>300</td><td>462</td></tr>
<tr><td>400</td><td>616</td></tr>
<tr><td>500</td><td>770</td></tr>
<tr><td>600</td><td>924</td></tr>
<tr><td>700</td><td>1078</td></tr>
<tr><td>800</td><td>1232</td></tr>
<tr><td colspan="2">Total</td><td>USD90bn</td><td>USD102bn</td><td>USD115bn</td></tr>
</table>

We apply an average tariff rate of 42% as we attribute an equal weight to de minimis trade channeled by postal services and private carriers. Source: Allianz Research

We expect tariffs between the US and China will remain at their current levels even after the 90-day pause expires. However, there is still a significant risk that they could increase further. Our baseline scenario hinges on another likely more comprehensive deal being reached this year that will keep tariffs at current levels. In an interview this week, Bessent mentioned that he saw two ways to resolve the US-China trade imbalance: 1/ by reducing the amount of Chinese goods in the US market and 2/ by increasing the amount of US goods in the Chinese market. China could propose efforts on the latter, offering to raise imports from the US and further opening its domestic market to US companies. Bessent also explained that the current tariff levels were probably a "floor". From this respect, an alternative scenario could be an agreement where the US effective tariff level on China rises to 52% (i.e. taking into account the initial "Liberation Day" +34pps hike), with a symmetrical rise from China's tariff rate on US imports. The spiral of retaliations could be avoided with some concessions offered by China, albeit at a smaller scale than in the baseline scenario. The worst-case scenario is for tariff hikes to go back to the pre-deal level and be applied to all trade (removing sectoral exclusions), which would bring US import tariffs on China to 158%. Ultimately, the US tariff rate applied to China will remain far higher than it was before Trump's second term (see Figure 3), and there is no full guarantee on what will happen during the 90-day pause or thereafter. During the first Trump administration, a US-China Comprehensive Economic Dialogue was planned in April 2017 and cancelled later that same year (leading to subsequent tariff hikes).

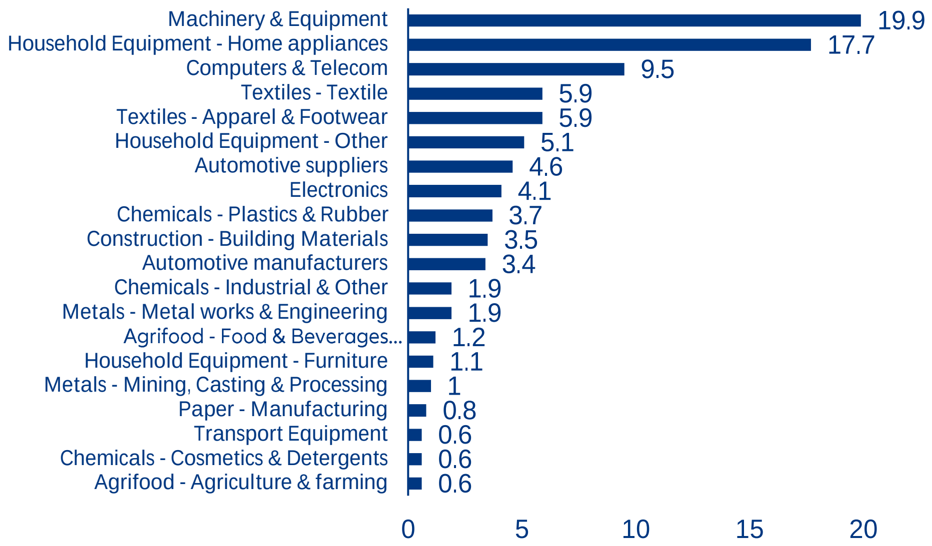
Figure 3: US effective import tariff rate on China (weighted average, %)



** The initial "Liberation Day" tariff hike was +34pps (i.e. +24pps over the universal minimum +10pps), followed by an escalation of retaliations on 8 and 9 April that brought the total tariff hike resulting from the "Liberation Day" executive order to +125pps.*
Sources: WTO, US ITC, ITC, Allianz Research

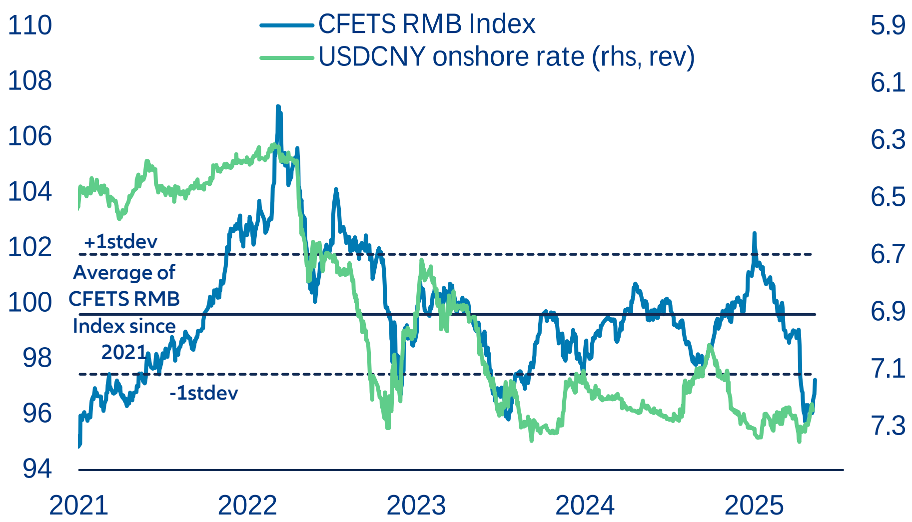
The continued trade war is expected to lead to maximum export losses of USD108bn for China this year but mitigation strategies will be put in place. We estimate that 75% of these losses (USD82bn) can be rerouted through other Asian ports and 25% (USD26bn) could be covered by gains in market shares in other markets, mainly in Europe. At 39%, the tariff level that the US applies on China remains far above the one applied on other trading partners. We estimate that all the tariff actions this year could lead to up to USD108bn worth of export losses. This is much lower than the amount estimated before the deal (up to USD234bn), but still represents nearly a quarter of Chinese exports to the US, and 0.5% of China's GDP. Looking at sectors, machinery & equipment, household equipment, textiles and computers & telecom are likely to be the hardest hit (see Figure 4). However, exporters can focus on mitigation strategies. First, company-level information suggest that some Chinese companies could stomach the lower post-deal tariff levels without shying away from the US market or passing on the entire cost to customers. Second, the recent gain in competitiveness of the RMB (-5% since the start of the year, see Figure 5) could help Chinese companies to mitigate the trade war by diverting exports to other markets. The first trade war experience suggests that export diversification is likely and Chinese exports to the EU, the UK, Vietnam, Taiwan, Malaysia, Indonesia, Mexico, Singapore, Saudi Arabia and Nigeria could rise. Based on the historical structure of Chinese exports to these markets and the potential sectoral losses of exports from China to the US, we estimate that up to a total of USD26bn of Chinese exports not bound to the US anymore could be diverted to these markets. This would cover nearly a quarter of the USD108bn of maximum export losses in Chinese exports caused by the trade war with the US. The remaining three-quarters could be covered by rerouting through other Asian ports (see previous report here). Across the top ten Asian exporting countries excluding China, weekly port calls reached 46,536 last week, 4% below the mid-2022 peak of 48,600. Covering the potential Chinese export losses due to the trade war with the US that have not been redirected to other markets would likely add an equivalent of 510 weekly port calls. This would bring the congestion of ports in Asia excluding China closer to levels seen in 2022, but still 3% off the peak. These ports could thus in theory help absorb the rerouting of usually US-bound exports from China. However, it is worth considering the possibility that the US could engage with other Asian countries to counter the rerouting of Chinese goods. From a geopolitical perspective, the likelihood of these countries choosing to align with the US over China remains uncertain, meaning that Chinese companies mitigating the trade war impact through rerouting is not a bulletproof strategy. Worth considering is that on average, Asian nations have a geoeconomic distance score of 0.4 with China and 0.6 with the US. This indicates that Asian countries have stronger geopolitical, trade and investment relations with China, positioning them closer to China than to the US in terms of geoeconomic alignment[2].

Figure 4: China maximum export losses due to higher US tariffs, by sector (USD bn)



Sources: COMTRADE, Allianz Research

Figure 5: Chinese currency (trade-weighted CFETS RMB Index and USDCNY onshore rate)



Sources: national sources, Bloomberg, Allianz Research

Meanwhile, the truce brings welcome relief to the US economy. The more rapid and larger-than-expected easing of trade tensions has significantly reduced downside risks to the US economy. US CPI inflation is now expected to peak at around +3.5% by the end of the summer, against +4.3% previously forecast. The economy is more likely now to avoid a recession in H2 2025, although the rise in the US effective tariff rate is still substantial. We now expect US GDP to grow between +1.3-1.5% this year against +0.8% forecast in our early April scenario. The implications for monetary policy are harder to gauge. On the one hand, inflation will pick up less in the short term. On the other hand, the economy will be less weak. In all, we still hold the view that the Fed will start a cautious easing cycle in

[2] See our report : 2024_11_14_geoeconomic_playbook_global_trade_AZ.pdf

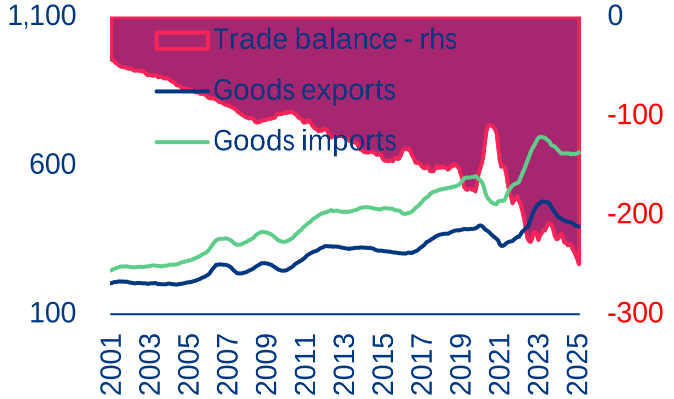
October, with a federal funds rate still expected to reach 4% by December (from 4.5% currently). For China, we keep our 2025 GDP growth forecast at +4.5%, as the authorities will probably reduce the size of upcoming stimulus following the trade deal. The additional fiscal impulse required to counter the impact of the trade war decreases from 1.9pps to 0.9pp. With 1.7pps already announced in March, this would total 2.6pps, instead of 3.6pps expected previously and compared to 3.3pps in 2020. On the monetary side, for 2025, we were initially expecting 50bps worth of cuts in the policy rate in 2025, but we now foresee only 30pps (taking into account the 10bps cut already announced last week).

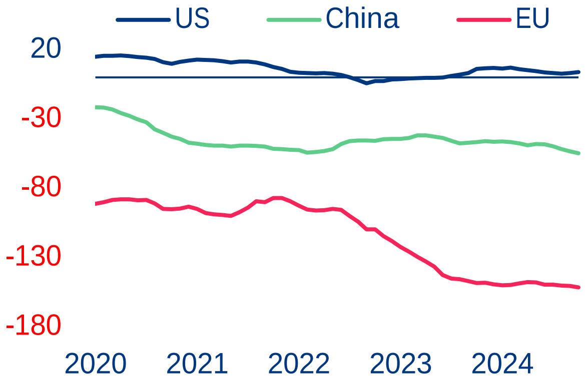
The positive news of the US-China deal, alongside deals with the UK and the Middle East, has led markets to **reverse part of the "divest-US trade" seen in April**, adding upside risks to our capital market forecasts. The S&P 500 gained +3.3% on Monday, celebrating the China-US trade deal announced over the weekend. With that, the US benchmark index has more than recovered the 12% drop following Liberation Day on 2 April and is now even back to positive territory on a year-to-date basis. Similar dynamics played out across other asset classes, though to a lesser extent: the USD strengthened, gold declined and credit spreads tightened. Government bond yields rose on both sides of the Atlantic, in contrast to April, when US yields climbed and European yields fell as investors divested from US assets. These market moves are broadly consistent with our last quarterly economic outlook, which anticipated a relief rally in risk assets – particularly equities, corporate credit and Eurozone government bond spreads. On the rates side, however, there is now an upside risk to our forecast of 10-year yields: 4.0% for the US and 2.1% for Germany, compared to current levels of 4.5% and 2.7%, respectively. As global recession risks have receded, central banks may cut rates less than previously expected on both sides of the Atlantic, ultimately pushing yields higher. That said, US policy uncertainty is unlikely to vanish anytime soon, and recent trade deals remain temporary while the EU-US trade dispute shows no signs of resolution. As such, it is too early to have a high conviction in adjusting our forecasts at this stage.

US-UK trade deal: a small reprieve for **the UK's** struggling export sector

Since Brexit, the **UK's export sector has been hit** with the double whammy of increasingly imbalanced trade with the EU and real exchange rate appreciation. The UK goods trade deficit has increased steadily over the past two decades (Figure 6, left), reaching -GBP250bn (12 month cumulative) in February 2025. As a percentage of GDP, the UK goods trade deficit has hovered around -8% since Brexit became effective in 2021, compared to -6.5% of GDP in the five years prior. With its trade balances with the US and China remaining broadly stable, this sharp widening has been driven essentially by the EU (Figure 6, right). At the product level, the UK has seen increased deficits in food products, computer & electronics and trailers (Figure 7). The only area of noticeable improvement has been other transportation equipment, which has seen an increasing trade surplus. Non-tariff trade barriers (NTB) on UK-EU trade have hurt UK exports significantly by creating persistent, frictional costs, especially for agriculture and food (customs procedures, regulatory divergence, sanitary and phytosanitary controls, health certificates, rules of origin requirements etc). But the UK's international competitiveness has also been eroded by steady real exchange rate appreciation since early 2023. From January 2023 to March 2025, the GBP trade-weighted real exchange rate has appreciated by a significant +8.7%, which have knocked off UK export volumes by more than -6% cumulatively.

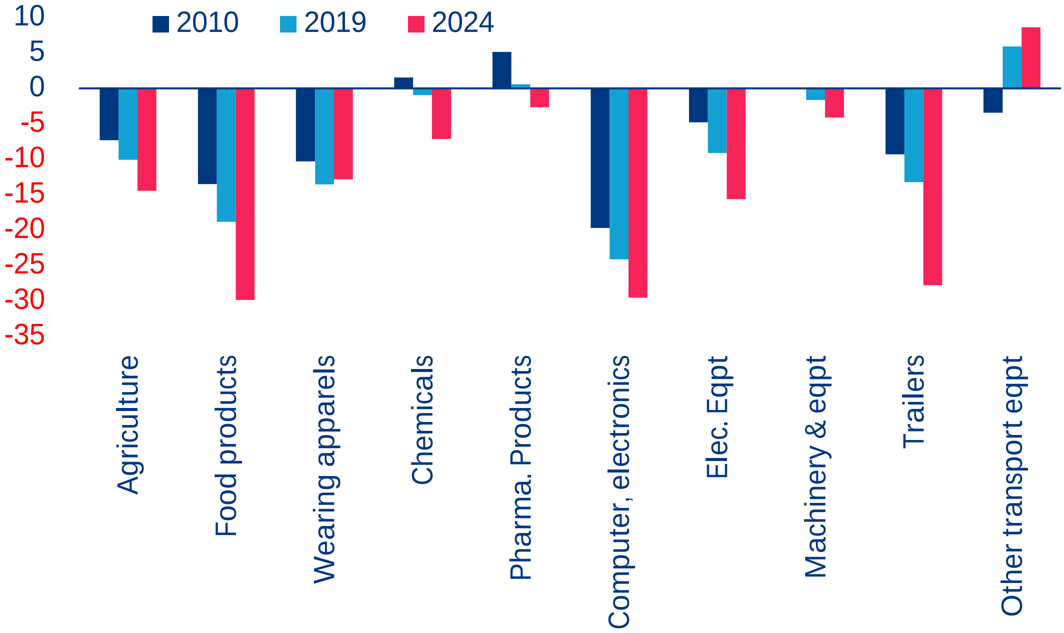
Figure 6: UK goods trade balance, exports, imports (left) & UK goods trade balances with the US, the EU and China (right) – In GBP bn, rolling 12 months.





Sources: LSGE Datastream, Allianz Research

Figure 7: UK goods trade balances by selected products (in GBP bn)



Sources: LSGE Datastream, Allianz Research

In this context, the recently signed UK-US trade deal eases trade tensions and offers a reprieve for the UK**'s** car and steel & aluminum sectors. The deal, which will come into effect on 8 July, is the first to be signed by the US since the arrival of President Trump at the White House. While it does not eliminate the 10 percentage point baseline US tariff rate hike for most UK goods, it does reduce the tariff on cars to 10% from 27.5% (for the first 100,000 sent to the US), on UK steel & aluminum to 0% from 25% (the UK exported USD139mn of these products to the US in 2024). Finally, UK airplane parts will be duty-free again when entering the US market (USD4.2bn exported to the US in 2024). While some specifics are still to come, the deal reflects an easing of trade tensions but falls short of a full 'Free Trade Agreement'' (FTA), which would have needed US Congress approval and consequently more time to be finalized.

But the UK sits on the losing end of the bargain. In all, we estimate the US trade-weighted tariff rate on UK imports will be lowered from 9.1% to 6.1% – still much higher than the 1% rate charged before February – leading to export losses of USD3bn (GBP2.3bn). The 6.1% is also higher than our previous baseline scenario of 3.6% expected to come in Q4 2025. Hence, the UK-US trade deal is not much to celebrate for the UK, which will still have to pay a hefty price for access to the US market. On the other hand, US goods will have greater access to the UK market as the White House managed to extract key concessions from the UK government. For example, Airlines Group (the owner of British Airways) announced USD10bn worth of Boeing orders (the US exported USD26bn of finished airplanes to the UK in 2024). However, with a large backlog of orders, it will take several years for Being to effectively deliver these aircrafts. Furthermore, the UK will cut import tariffs on US beef from 20% to 0% for the first 13,000 metric tons from a prior ceiling of 1,000. However, hormone-grown beef imports will still be denied access, according to the UK government, which will significantly limit the potential increase in US beef exports. The fact that US exports fell way short of the 1,000 metric tons ceiling last year (only 185 metric tons were shipped to the UK) suggests that US beef exports will not increase by much in the short term despite lower tariff because of the food standard divergence. However, US exporters could gradually adjust to meet UK standards, potentially leading to more significant export gains over time. The UK-US deal also lowers the tariff rate on US ethanol from 19% to 0%, with a ceiling of 1.4 bn liters. This means that if US exporters max out the ceiling, they could increase shipments up to 55%, i.e. from USD726mn to USD1.13bn. Finally, the trade deal mentions 25,000 US goods that will be subject to a lower tariff (notably wine, sportswear, and olive oil). In all, the UK trade-weighted tariff rate on US imports will decrease from 5.1% to 4.6%, offering the US USD0.7bn in export gains (including USD0.4bn for ethanol).

What's next for the UK trade deals? US agricultural Secretary this week said the US was keen to expand the trade agreement with the UK on other agricultural products beyond ethanol and beef – poultry, rice and seafood sectors are mentioned. However, reaching a comprehensive agreement on agricultural products will face stiff opposition from UK producers on the back of looser food standards in the US. The UK government is not likely to agree to sign a comprehensive trade agreement for agriculture, in our view. More important for the UK economy is the ongoing discussion with the EU. UK and EU officials are set to meet next week in London (19th May), with both parties hoping to agree on a communiqué that will guide future technical talks. Key areas of negotiations include agrifood trade and fisheries access. The UK is considering aligning its food safety regulations with EU standards to reduce checks on agricultural exports. The talks could pave the way for an easier access of UK food products into the EU market.

Figure 8: UK and US export gains/losses in 2025 pre-deal versus post-deal (USD bn annual)

	UK	US
Total export (goods & services) gains expected	5.4	65
UK-US trade, exports gains/losses prior trade deal	-4.8	0
UK-US trade, exports gains/losses after trade deal	-3.0	0.7

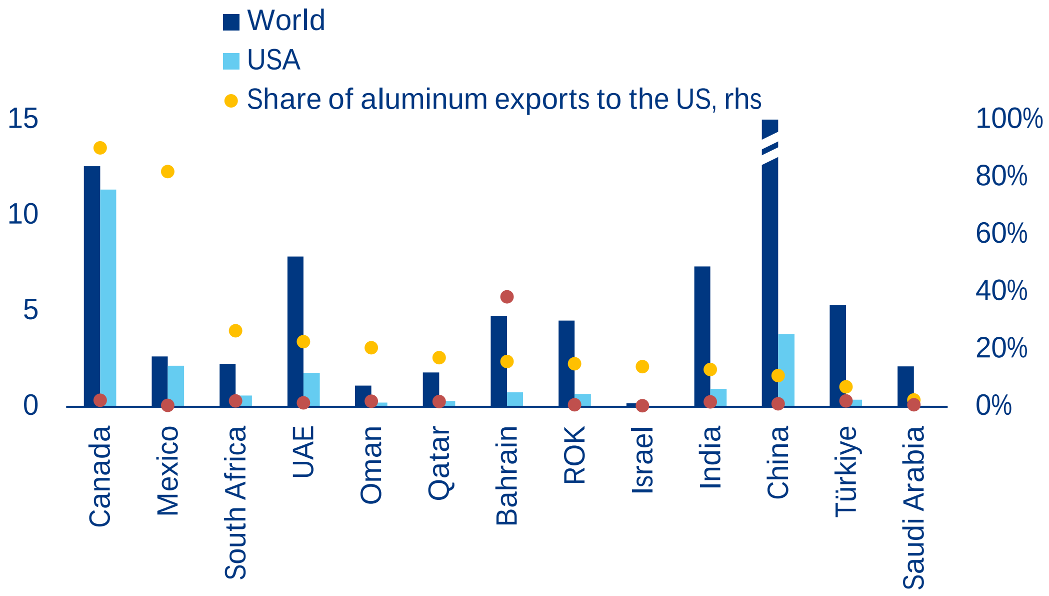
Sources: Allianz Research

Trump's visit to the Gulf: a deal beyond trade?

This week, President Trump is visiting the Gulf on the first international tour of his second term, seeking investment in the US and security deals. The main goal is to tap into the wealth of the region's oil-rich sovereign wealth funds. Saudi Arabia has committed up to USD600bn of investment in the US over the next decade. In addition, the two countries agreed on a broader pact that includes US defence sales valued at nearly USD142bn, providing Saudi Arabia with equipment and services from over a dozen defence firms. Additionally, Riyadh's sovereign wealth fund placed an order for 30 Boeing single-aisle aircraft and reached agreements with the US concerning energy and mineral resources. The UAE also pledged USD1.4trn over the same period. Qatar is expected to make its own sizable pledge during President Trump stop in Doha, where he will also discuss the controversial new Air Force One. However, past experiences suggest that big promises are unlikely to fully materialize. Over USD300bn was pledged during Trump's first term but though large investments were made, that number is estimated to have been missed substantially.

The Gulf region faced a relatively softer tariff shock on Liberation Day. The region was targeted with a 10% tariff rate but given its exports of energy products, mainly crude and refined oil and natural gas, the average tariff rate came out lower. The Kingdom of Saudi Arabia's (KSA) tariff rate stood at 3.9%, while the UAE's was slightly higher at 7.4%, given the greater diversity of the Emirate's exports. As a financial and service export hub, the Emirates is the most diversified economy in the region. The UAE ranks #1 in our list of Next Generation Trade Hubs, as the port enables trade between Asia, Europe and Africa, as well as to North America. However, Bahrain has been particularly hit, thanks to its role as an important exporter of aluminum, which has been tariffed at 25% by the US since March. Aluminum destined for the US accounts for 6% of Bahrain's exports so the tariff will have a major negative impact on the industry and economy overall, with export losses valued above USD200mn.

Figure 9: Bahrain's aluminum sector among the most exposed in the Gulf region

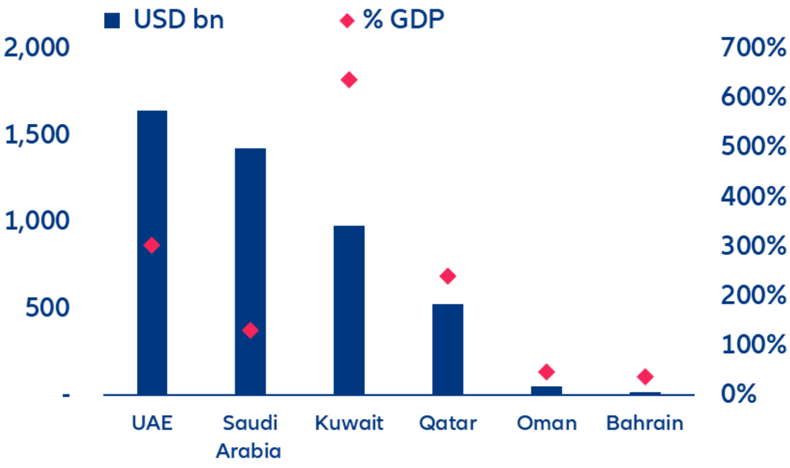


Sources: Refinitiv, Allianz Research

A trade deal between the US and Gulf countries is likely given the nature of trade and small size of the GCC trade to the US. Reducing tariffs to zero between the US and the bloc would represent export gains to the region of around USD1.5bn, a small amount compared to total trade. The Gulf Cooperation Council (GCC) and US total trade is currently below USD100bn, which represents a drop since the peak before the global financial crisis in 2008 and the fracking revolution in the US, which reduced US oil imports from the region. Meanwhile, total trade with China since 2008 has doubled to above USD300bn in 2023. While tariffs have not been a major blow to the region's economy, the projected drop on global GDP growth and global uncertainties have hit the region's main revenue source: oil prices have collapsed below 70USD / barrel. This alongside moves in yields throughout the Gulf sets the stage for intensified financial tightening.

What can the Gulf get in exchange? Leaders across the region are aiming to reach broader deals including access to tech, energy, security guarantees, geopolitics and trade. In the early read outs of the deals agreed between Riyadh and Washington, these included increased purchase of US weapons (valued above USD100bn), gas turbines valued at USD14bn and the pledge of US tech firms to invest up to USD80bn further in the region. It is no secret that Saudi Arabia is developing its own nuclear energy program powered by US technology, which would allow the Kingdom to decarbonize part of its very energy-intensive economy but also to keep up with Iran's enriching capacity. In parallel, Saudi aims to increase its access to the latest US technology and defense. In recent weeks, Washington has signaled that it will allow the sale of advanced chips and weapons to the region.

Figure 10: The region's large wealth pool is unmatched, as assets under management for each country SWF account for above 100% of GDP

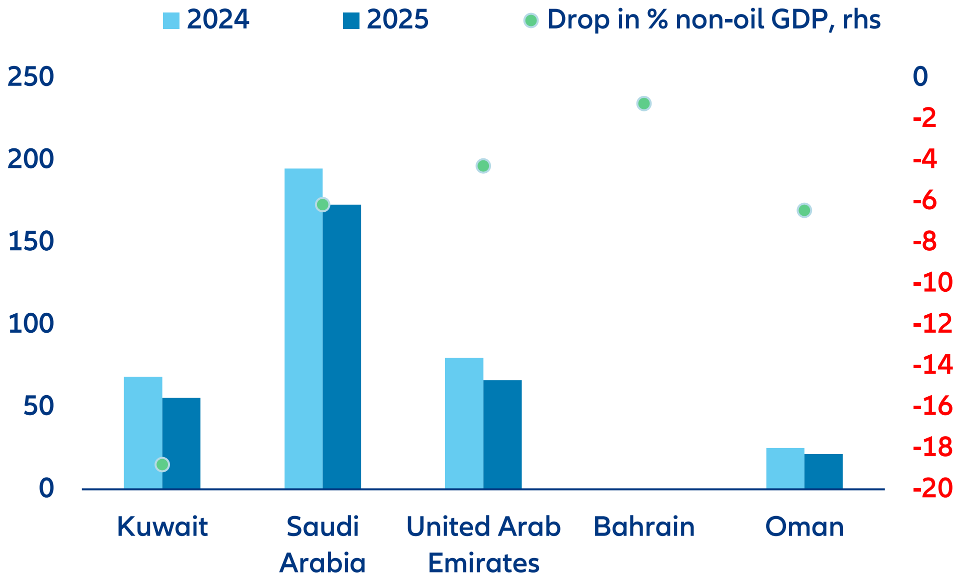


Sources: Sovereign Wealth Fund website, Refinitiv, Allianz Research

A 10% drop in oil prices is estimated to result in a 2-**3% drop in Saudi Arabia's current account balance,** and the current fiscal drop is valued at USD22bn on the back of 6% drop on non-oil GDP. Kuwait is projected to have the largest drop of non-oil GDP revenue of around -16%, an estimated USD13bn. Oman and the UAE are to follow with -6% and -4% respectively (USD4bn and USD13bn). Qatar has been spared as it is a major natural gas exporter and continues to enjoy elevated prices. The significant drop in oil prices could force policymakers to downsize their ambitious spending projects on everything from new futuristic cities to stadiums to host international sports events. We also see these investment deals as de-escalation efforts which will pump up oil prices and provide relief to the region

The region is likely to rely on debt to fill the fiscal gap. The drop in oil prices has not yet decreased investment in Saudi Arabia as the oil-rich nation has relied on debt to continue spending, as it did in 2016-2017. In Q1 2025, spending increased by 5% y/y, taking the fiscal deficit to the highest level since 2021, above USD15bn. The oil price decline of 2015-2017, which brought prices below USD50 for more than 48 months, saw a decline in government spending of -54%. Together with Abu Dhabi, Riyadh has been among the most active issuers of USD denominated debt in recent years. Likewise, Kuwait recently passed a new law to allow for new debt issuance.

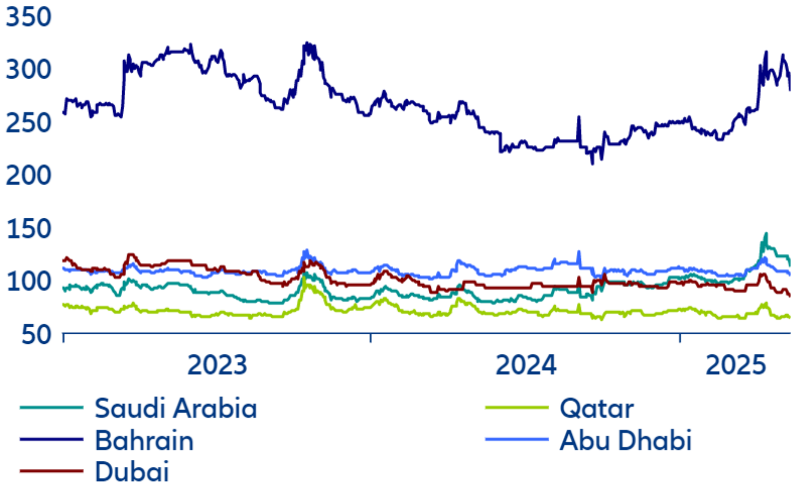
Figure 11: Kuwait to experience the largest drop of government revenue



Sources: Refinitiv, Allianz Research

Markets have closely mirrored global events, showing the emergence of diverging dynamics in the region. With the oil price collapse, credit default swaps and government yields went up across the region. But the UAE saw the lowest increase in both, and the earliest start to normalization as tariffs were postponed and negotiations began. This reveals a clear underlying trend in the region, given the Emirate's successful oil diversification strategy. Abu Dhabi equity markets also have had a more successful start of the year, compared to Saudi's drop since early 2025.

Figure 12: Credit default swaps hiked following Trump's tariffs announcements, with the UAE and Qatar already back down to pre-Liberation Day



Sources: Refinitiv, Allianz Research

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