By Global Markets | 27 July 2026

Greater China – Week in Review

Highlights: RMB remains resilient despite renewed tariff threat

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Tariffs returned to the spotlight last week after President Trump's Section 122 flat 10% global tariff expired upon reaching its 150-day statutory limit. It was replaced on the same day by new Section 301 tariffs linked to forced-labour concerns, set at either 10% or 12.5% across 60 economies covering 99% of US imports. China was placed in the higher 12.5% tier.

At first glance, the new tariff represents a 2.5 percentage-point increase for China. However, its coverage is considerably narrower than the previous Section 122 measure, as it exempts all goods already subject to Section 232 tariffs, as well as energy, critical minerals, gold and a large share of agricultural products. As a result, the increase in the effective tariff rate on Chinese imports should be meaningfully smaller than the headline 2.5 percentage points.

We therefore believe the direct incremental drag on China's economy and exports will be limited. First, the net increase in the effective tariff rate is relatively small and remains well below previous peaks. Second, the Busan trade truce remains intact. The latest tariff measure is broad-based and does not specifically target China, reducing the risk of an immediate escalation in bilateral tensions.

Nevertheless, the latest development is a timely reminder that tariffs remain an important tail risk for markets. On 11 and 12 March, the Trump administration launched two separate Section 301 investigations covering 16 and 60 economies, respectively, citing excess-capacity and forced-labour concerns. While the findings of the forced-labour investigation have now been released, the outcome of the excess-capacity investigation remains pending.

The Office of the US Trade Representative is currently conducting three Section 301 investigations: an excess-capacity investigation involving 16 economies, including China, the European Union and Singapore; an investigation into intellectual property protection in Vietnam; and an investigation into innovative pharmaceuticals in Germany. Each could potentially result in additional Section 301 tariffs.

Our base case is that the US administration may delay announcing the findings of the excess-capacity investigation ahead of the Trump-Xi summit scheduled for 24 September, to avoid undermining the diplomatic backdrop. Therefore, the next major catalysts for China's effective tariff rate will be the outcome of the second Section 301 investigation on excess capacity and the September meeting between Presidents Xi and Trump.

Despite the latest round of tariffs, the RMB remained resilient, with onshore USD/CNY hovering around 6.77 level.

We also hosted our flagship economic forum last week, bringing together prominent speakers from the US, China and Europe. One of our guest speakers from China expected USD/CNY to trend towards 6.30 over the next 12 months, supported by China's resilient economic fundamentals, strong manufacturing capabilities and sustained external competitiveness.

This constructive view was echoed by another Chinese speaker—a former central bank official—at one of our subsidiary events two weeks ago. He similarly expressed optimism about the RMB's medium-term outlook. While 6.30 represents a relatively bullish forecast, the consistency of these views suggests that confidence in the RMB may be gradually improving, particularly against the backdrop of China's sizeable trade surplus and resilient export performance.

For this week, key focus will shift to the July Politburo meeting. With retail sales growth still substantially below the implied medium-term target, we expect policymakers to announce additional consumption-support measures at the July Politburo meeting, particularly to stimulate durable goods consumption. At the same time, policymakers are placing increasing emphasis on services consumption, which is not fully captured by traditional retail sales data.

Key Events	
Facts	**OCBC Opinions**
▪ President Trump's Section 122 flat 10% global tariff expired upon reaching its 150-day statutory limit. It was replaced on the same day by new Section 301 tariffs linked to forced-labour concerns, set at either 10% or 12.5% across 60 economies covering 99% of US imports. China was placed in the higher 12.5% tier.	▪ At first glance, the new tariff represents a 2.5 percentage-point increase for China. However, its coverage is considerably narrower than the previous Section 122 measure, as it exempts all goods already subject to Section 232 tariffs, as well as energy, critical minerals, gold and a large share of agricultural products. As a result, the increase in the effective tariff rate on Chinese imports should be meaningfully smaller than the headline 2.5 percentage points. ▪ We therefore believe the direct incremental drag on China's economy and exports will be limited. First, the net increase in the effective tariff rate is relatively small and remains well below previous peaks. Second, the Busan trade truce remains intact. The latest tariff measure is broad-based and does not specifically target China, reducing the risk of an immediate escalation in bilateral tensions. ▪ Nevertheless, the latest development is a timely reminder that tariffs remain an important tail risk for markets. On 11 and 12 March, the Trump administration launched two separate Section 301 investigations covering 16 and 60 economies, respectively, citing excess-capacity and forced-labour concerns. While the findings of the forced-labour investigation have now been released, the outcome of the excess-capacity investigation remains pending. ▪ The Office of the US Trade Representative is currently conducting three Section 301 investigations: an excess-capacity investigation involving 16 economies, including China, the European Union and Singapore; an investigation into intellectual property protection in Vietnam; and an investigation into innovative pharmaceuticals in Germany. Each could potentially result in additional Section 301 tariffs. ▪ Our base case is that the US administration may delay announcing the findings of the excess-capacity investigation ahead of the Trump-Xi summit scheduled for 24 September, to avoid undermining the diplomatic backdrop. Therefore, the next major catalysts for China's effective tariff rate will be the outcome of the second Section 301 investigation on excess capacity and the September meeting between Presidents Xi and Trump.

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