

Band in China

China's persistent misdiagnoses of President Trump's intentions in the trade war sometimes seem the result of an over-consumption of #fakenews. Perhaps Xi Jinping should watch less CNN and more Comedy Central.

Perfectly capturing the zeitgeist, South Park took on Chinese censorship last week in Season 23, episode two, "Band in China."

[Spoiler alert] In parallel story lines, Stan and the boys, in their foul-mouthed innocence, refuse to kowtow to Chinese censors in the production of the biopic for their new band. In contrast, Stan's more worldly-wise Dad, Randy flies to China to drum up business, and ends up making a deal with the Chinese in which he strangles Winnie-the-Pooh with a piano wire in exchange for access to the Chinese market for his Colorado-grown "agricultural product."

And guess who's flying to China with Randy to drum up business! It's an NBA executive - along with LeBron James, James Harden, and a random member of the Denver Nuggets - to "get more viewers for the NBA." Life really does imitate art.



Confirming that Communists don't have much of a sense of humor, China's response to "Band in China" was to render South Park - you guessed it - [banned in China](#):

*A search of the Twitter-like social media service **Weibo** turns up not a single mention of **South Park** among the billions of past posts. On streaming service Youku, owned by internet giant Alibaba, all links to clips, episodes and even full seasons of the show are now dead.*

In a Monday tweet, the creators of South Park tried to "smooth things over:" 😊

OFFICIAL APOLOGY TO CHINA
FROM TREY PARKER AND
MATT STONE.

"Like the NBA, we welcome the Chinese censors into our homes and into our hearts. We too love money more than freedom and democracy. Xi doesn't look just like Winnie the Pooh at all. Tune into our 300th episode this Wednesday at 10! Long live the Great Communist Party of China! May this autumn's sorghum harvest be bountiful! We good now China?"

As everyone is aware by now, "Band in China" foreshadowed a real-world international commercial incident with ramifications for global trade and equity valuations. It began with a seemingly innocuous tweet last Friday by Houston Rockets General Manager Daryl Morey, who tweeted an image that read, "Fight for Freedom. Stand with Hong Kong."

The incident has rapidly degenerated into an [existential risk to the NBA's Chinese revenue stream](#):

*Hours after **China's state television and Tencent Holdings Ltd.** said that they would halt airing and streaming preseason games in the country with 800 million fans, Commissioner Adam Silver told reporters Tuesday that the NBA won't tell people what they can or can't say.*

"It is inevitable that people around the world -- including from America and China -- will have different viewpoints over different issues," Silver said in a separate statement issued before the press conference. "However, the NBA will not put itself in a position of regulating what players, employees and team owners say or will not say on these issues. We simply could not operate that way."

Echoing the South Park "apology," the UK Guardian summed up the P.R. pickle the NBA has found itself in, suggesting the league is ["only woke when it doesn't cost money:"](#)

By trying to play both sides the commissioner's office was straddling the middle line. You cannot fence sit accusations of human rights abuses.

Under Silver's leadership, [the NBA pulled the 2017 All-Star Game](#) out of Charlotte, North Carolina, over a law restricting bathroom use for transgender people. "All CEOs, all big corporations these days really have no choice," Silver said in 2018. "It's an expectation from their customers that they're going to take a position." LeBron James, Dwyane Wade, Carmelo Anthony and Chris Paul, four of the sport's biggest stars, while onstage at the ESPYs in July of 2016, decried police shootings of people of color. James called President Donald Trump a "[bum](#)".

*The Morey-China controversy has revealed the NBA's true intent, however. **It's about money – because it's always about money.***

South Park and the NBA controversy highlight an uncomfortable reality: if the world's dominant corporate powers – key shapers of the culture - have to support the politics of the CCP, then **continued expansion of China's consumer market leads to a world in which there are no inalienable human rights and international law exists only as interpreted by the CCP.**

Conversely, if there in fact are inalienable human rights and international norms of behavior, then multinational corporates need to reconsider their Chinese business strategies. **Markets should place a heavy political risk premium on China-sourced revenue,** as the NBA has suddenly realized.

For perspective, here's [what's at stake for the NBA and China](#):

... the National Basketball Association remains by far China's most popular sports league. According to one recent study that measured online engagement, the NBA is six times more popular in China than the three largest European soccer leagues combined. During the 2017 NBA Finals, more than 190 million Chinese streamed the games on their mobile devices. By contrast, in the U.S., each Finals game averaged 20.4 million viewers...

By reflexively lashing out, **has the CCP run itself into yet another political box canyon?** What's their response if high-profile NBA players decide to exercise the right to free speech that Commissioner Silver claims they have, by speaking out in support of Hong Kong? A full NBA ban in China?

The ~200 million NBA fans in China aren't likely to revolt over basketball. But many will be denied a leisurely enjoyment because of political issues over which they have no say. Life in a decoupled China will look a little more bleak than many will have envisioned. Another straw on the camel's back of discontent, perhaps?



New Fronts, New Weapons

South Park sets the cultural backdrop to the introduction of both a new rationale for, and a new weapon deployed in, the U.S.-China trade war.

With [the addition of 28 Chinese entities](#) implicated in human rights violations in Xinjiang, the United States opened a new front in the trade war. In announcing the new sanctions, Commerce Secretary Wilbur Ross said the United States *"cannot and will not tolerate the brutal suppression of ethnic minorities*

within China."



As with Huawei, the Administration's protestations that this move is unrelated to the trade talks is not naïve blather, but a signal that **the issue is not negotiable**.

The brandishing of this long-holstered (and politically bullet-proof) rationale for increased confrontation is a strong signal that **the U.S. is not expecting any kind of deal to emerge from this week's talks**.

Also notable is the brandishing of a new weapon. After last week's non-denial denials from Peter Navarro, the issue of U.S. restrictions on portfolio investment in China are [back in the press](#):

The office of Larry Kudlow, director of the White House's National Economic Council, convened a policy coordination committee meeting last Tuesday, which also included officials from the National Security Council and the Treasury Department, the people added. An NEC spokesman declined to comment.

*According to people familiar with the meeting, **the administration's focus is now on ways to further scrutinize index providers' decision to add Chinese firms they consider a material risk for American investors**. It's still unclear what legal authority the White House would rely on to force major indexes to drop certain Chinese companies.*

Readers will know that index inclusion is a long-held pet peeve of mine. **Scrutiny of index-inclusion decisions may prove problematic both for the index providers and for China's capital account**, if it turns out that "Chinese walls" proved insufficient to ring-fence the index-inclusion decision from broader institutional pressures the Chinese government may have brought to bear.

Time to Rip the Band Aid on Decoupling

I heard a commentator on CNBC this morning say that "this isn't all going to get solved this week."

I have a slightly different take: "this isn't all going to get solved."

It is abundantly clear that China, under the CCP, will never surrender its economic model. Given that, the question is how can we integrate economically with a country that

- Heavily subsidizes its centrally planned economy
- Lacks a rule of law consistent with intellectual property protection
- Restricts its capital account, preventing global imbalances from reaching market-based equilibria
- Requires multinational companies around the world to do its political bidding as a cost of doing business in the country
- Brazenly flouts international law
- Engages in widespread human rights violations
- Endeavors to spread a toxic political ideology across the planet

The answer has been blindingly obvious for some time: **we can't**. Markets and the media simply do not want to see it. That's because decoupling is not cheap. But neither is the alternative.

There are extremely powerful interests vested in the status quo, so perhaps it was rational for markets to bet on political leadership bowing to those interests yet again. But the political winds have shifted. President Trump, in full-on [DILIGAF](#) mode on everything from a Chinese investigation of Biden to a widely-opposed Syrian withdrawal, appears prepared to **rip the band aid on China decoupling**.

Given the cultural, political and geopolitical backdrop, I'm 85-15 that tariffs go up on October 15th.

Post-script

CNY fixings are now must-see-TV. If the USDCNY fix is pushed higher, USDCNH – and global risk assets – are going to explode...

USDCNH Spot and USDCNY Official Fixings

