



Lighthizer Holds the Key

An increased tariff rate on Chinese imports is now priced as a mere tail risk. With all the happy talk from the President, I get it. Yet something seems off with this market-friendly scenario.



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The news flow is strongly confirming that some form of US-China trade is in the making. But will a deal entail eliminating existing tariffs. That is now a key question. What will happen to the 10% tariff on \$200bn in Q2. Pls vote!

33% 10% on \$200bn maintained

38% 10% on \$200bn removed

7% >10% on \$200bn announced

22% other (partial removal)

69 votes · 16 hours left



✓ **The problem with the “sellable deal” hypothesis is that outside of the President himself, no one is selling the deal.** A narrative has been allowed to develop - to become cemented almost – that China hasn’t yielded on the so-called structural issues and is simply trying to overwhelm the President with commodity purchases.

While that reporting could be inaccurate, at this point it almost doesn’t matter. Perception is reality in politics, and the perception that has taken hold is that not only are China’s promises not worth the paper they’re written on, they’re actually not willing to write anything down!

Here was the [NY Times after last week’s Thursday / Friday negotiating sessions](#):

In meetings on Thursday and Friday, negotiators drafted a handful of memorandums of understanding, or M.O.U.s, covering protections for intellectual property, expanded access for foreign companies in China, Chinese purchases of American goods and other issues.

However, a person briefed on the negotiations said that the memorandums had been written by the American side and that China had not yet formally agreed to anything in writing.

So as of Friday the MOU’s were still little more than Lighthizer wish lists. Negotiations over the weekend don’t seem to have produced much additional progress, with [Tuesday’s South China Morning post reporting](#) “sources said many problems remained and that both sides still saw big gaps in structural issues such as technology transfers and enforcement mechanisms.”

Now, at this critical juncture, we have USTR Lighthizer testifying to The House Ways and Means Committee at 10:00am today. **If the plan is to reach a “sellable deal” then now is the time for Lighthizer to pocket whatever meagre concessions he’s gotten and start selling like crazy.**



If Lighthizer remains lukewarm on the deal less market-friendly scenarios come into view.

Lighthizer goes rogue: If Trump just wants a deal at all costs is Lighthizer prepared to take one for the team? He arrives here at the culmination of a career focused on addressing the very issues under negotiation. Will he ever get a bite at this apple again? His credibility gives him an effective veto on any deal, as a protest resignation would be politically disastrous.

The President is known for salesmanship bordering on bluster. His only chance of “selling a deal” without being battered from both sides and blowing a hole in his base is to garner Lighthizer’s stamp of approval. **If the deal is as weak as reported and Lighthizer stands on principle, the deal becomes unsellable.**

4D chess?: It’s possible that a “sellable deal” isn’t really the goal at all. Whether by design or happenstance, **by signaling that he’s anxious for a deal, President Trump has managed to line up nearly the entire political class against one.**

From the Senate, Trump’s gotten encouragement to “hang tough” from Cotton and Rubio on the right, Brown and Schumer on the left and even [Chuck Grassley](#), who represents the largest soybean-producing state in the nation. A significant chunk of the President’s political base strongly favors tariffs over a deal. [Even think-tank globalists](#) and the [American Chamber of Commerce in China](#) now support a tough approach including tariffs.

So after raving about Chinese trade practices for 30 years, the self-proclaimed “tariff man,” who now has both sides of the aisle frothing to get tough on China, is going to pivot to a flimsy trade deal for which he’ll get politically bludgeoned? All to avoid a 15% decline in the stock market 18 months out from the next election? Hmmm...

The [NY Times today quotes a USTR spokesman](#):

“President Trump has never insisted that Ambassador Lighthizer make a deal with China and has instead told Ambassador Lighthizer he is interested only in making a ‘great deal’ with China that addresses structural issues”

If that’s true and Lighthizer likes how the deal is evolving then he needs to be clear about that today.

Alternatively, **should Lighthizer remain noncommittal, markets should begin to embed some significant risk premium into the “sellable deal” scenario.**