

Impeachment, Market Movies & Weekend Links

*"You take on the Intelligence Community, they have six ways from Sunday to get back at you."
-Chuck Schumer, January 3, 2017*

Dilbert cartoonist-turned Trump whisperer Scott Adams argues that society is currently broken down into two groups "watching different movies on the same screen." Let's call them the "#Nevertrump Movie" and the #MAGA Movie." (Skeptical of Scott Adams? Check out [this piece](#), in which just 4 days after the 2016 election he almost perfectly describes the zeitgeist of the last 2.5 years.)

Adams contends that human beings are inherently vulnerable to cognitive-dissonance induced hallucinogenic states, and that the best way to check as to whether our cognitive filter on a given situation is reflective of reality or a hallucination is to grade its predictability.

If you can predict the next scene in the movie with some degree of accuracy then it's likely your filter is reasonably reality-based. Persistent failure to predict what comes next, on the other hand, is a likely sign of cognitive dissonance.

Watchers of the #nevertrump movie predicted:

- Trump would lose
- If he won, the stock market would crash
- He'd never get a big tax cut passed
- He'd fold like a cheap suit on China trade
- He colluded with Russia
- Stormy Daniels would sink him
- Avenatti 2020!
- Flynn flipped!
- Cohen flipped!
- Manafort flipped!
- "Mueller knows stuff we don't know"

Hey, it's America. We're all entitled to hold dearly and express vocally our political viewpoints. But stewards of client capital need to be watching the right "market movie." So let's pump the brakes on those visions of Trump getting dragged from the oval in hand cuffs, fight through the spin, and break down what this might mean for markets.

The easiest prediction is that this is **bullish for volatility**. The impeachment train appears unstoppable:

[Democrats eye quick impeachment probe of Trump as freshmen push for focus on Ukraine](#)

Under an informal timeline discussed by multiple Democrats on Wednesday, the Intelligence Committee would spend the coming weeks investigating the Ukrainian allegations. Meanwhile, the other five committees investigating Trump-related matters would work to close out their



own investigative portfolios. After that, the findings would be passed to the Judiciary Committee, with Chairman Jerrold Nadler (D-N.Y.) taking the lead in drafting potential articles of impeachment.

*Following the two-week recess, the House is scheduled to be in session for the last three weeks of October, then after another one-week recess, another two weeks in session before Thanksgiving. Some Democratic lawmakers and aides said Thursday, speaking on the condition of anonymity to describe private deliberations, that they **believed impeachment articles could be ready for a House vote around Thanksgiving.***

After three years of Russiagate, some might think a quick pivot to impeachment-by-Ukraine a bit rash but that's unlikely to deter Pelosi, Schiff, Nadler et al. After all, in the #Nevertrump Movie, this is bigger than that Mueller thing ever was:

[Trump Whistle-blower Goes Where Mueller Never Could](#)

"It's simply illegal to solicit information or something of value from a foreign national to benefit a campaign and this looks like a months-long effort by the president and his private attorney to do just that," New York University law professor Ryan Goodman said in an interview.

While the Dept. of Justice has already dismissed the argument that campaign finance laws were violated, in the #Nevertrump Movie that simply "[Raises New Questions about Barr.](#)"

Viewers of the #MAGA Movie are left scratching their heads. By this logic, wasn't it an obvious campaign-finance violation when [Obama told Medvedev](#) that "it's important for [Putin] top give me space" because "this is my last election – after the election I'll have more flexibility." Is the FBI now pouring through the list of celebrity endorsements of Hillary Clinton to ensure none of them were foreign nationals? Should we subpoena Bono?

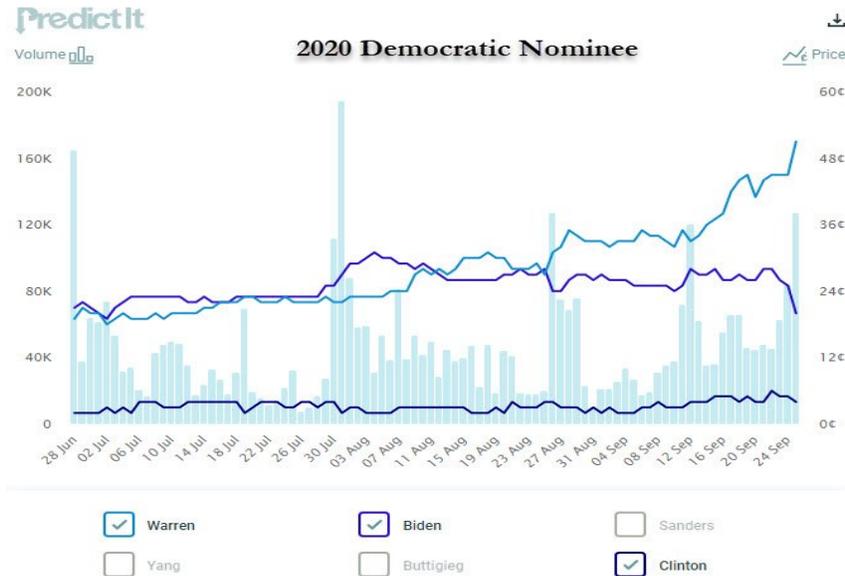
Many might be left wondering how any President can actually conduct foreign policy at all ahead of an election. When Trump coaxed Abe into signing a trade deal to help U.S. farmers, wasn't he "soliciting a thing of value?" Hmmm...

Of course, it's not the crime, it's the cover up – to use a term [Nancy Pelosi trotted out yesterday](#). The whistleblower's complaint alleges that White House officials were told to "remove the electronic transcript (of the call) from the computer system in which such transcripts are typically stored for coordination, finalization, and distribution to Cabinet-level officials," and to "a separate electronic system that is otherwise used to store and handle classified information of an especially sensitive nature. One White House official described this act as an abuse of this electronic system because the call did not contain anything remotely sensitive from a national security perspective."

In the #MAGA Movie, "abuse of an electronic system" is not a thing. In fact, electronic systems are, more often than not, found deserving of abuse.

In the #NeverTrump movie this is all really, really bad for Trump.

In the #MAGA Movie, not so much:



After all, there are still occasions in which the two movies may momentarily converge:

#Nevertrump Movie:



#MAGA Movie:



On to the links....

[U.S. - China Relations](#)

With all due respect to NEC Director Kudlow, when he says ["I would say that mood music, if you will, is very positive going into the negotiations"](#) I have to wonder what he's looking at..

[Trump's China trade rhetoric turns harsh at U.N., says won't take 'bad deal'](#)

U.S. President Donald Trump delivered a stinging rebuke to China's trade practices on Tuesday at the United Nations General Assembly, saying he would not accept a "bad deal" in U.S.-China trade negotiations.

"Not only has China declined to adopt promised reforms, it has embraced an economic model dependent on massive market barriers, heavy state subsidies, currency manipulation, product dumping, forced technology transfers and the theft of intellectual property and also trade secrets on a grand scale," Trump said.

"As far as America is concerned, those days are over."

This paves the way for non-renewal of the Huawei waivers in mid-November...

[US lawmakers propose US\\$1 billion fund to replace Huawei equipment](#)

A US House panel unveiled bipartisan legislation this week that would authorize US\$1 billion for small and rural wireless providers to remove network equipment bought from companies including Huawei Technologies and ZTE Corp, which lawmakers say poses a national security risk.

The legislation is similar to a bill approved in July by the US Senate Commerce Committee that would authorize about US\$700 million in grants to remove Huawei equipment to boost the security of the telecommunication network's supply chain.

The top Democrats and Republicans on the House Energy and Commerce Committee said in a joint statement that the bill will protect the "nation's communications networks from foreign adversaries by helping small and rural wireless providers root-out suspect network equipment and replace it with more secure equipment."

And establishing a rationale for international sanctions when the U.S. is ready to play that card...

[U.S. leads condemnation of China for 'horrific' repression of Muslims](#)

The United States led more than 30 countries in condemning what it called China's "horrific campaign of repression" against Muslims in Xinjiang at an event on the sidelines of the U.N. General Assembly that was denounced by China.

"We invite others to join the international effort to demand and compel an immediate end to China's horrific campaign of repression. History will judge the international community for how we respond to this attack on human rights and fundamental freedoms."

Another area of tension...

[U.S. Sanctions Chinese Firms for Allegedly Shipping Iranian Oil](#)

The Trump administration blacklisted several Chinese companies including units of a state giant for allegedly shipping Iranian oil in violation of U.S. sanctions, attempting to cut off the last vestiges of Iran's crude exports.

The action signaled the administration's commitment to its "maximum pressure" campaign as European allies and other nations push Washington to ease sanctions and cool rising tensions between the U.S. and Iran.

The move Wednesday hit state-owned companies that collectively represent some of the biggest movers of oil and petroleum products in the world. The action is expected to strain ties further between Washington and Beijing

[China criticizes new U.S. sanctions over Iranian oil deals](#)

China, which is already embroiled in a trade dispute with the United States, responded that its dealings with Iran were legal and should be respected.

"We always oppose the so-called long arm jurisdiction and unilateral sanctions," spokesman Geng said. "We also oppose the bullying practice of the U.S."

He urged Washington "to correct its wrongdoing".

There was so much China-bashing this week, this flew right under the radar...

[US trade commission to investigate alleged patent infringement](#)

The United States International Trade Commission (ITC) decided on Thursday to conduct two investigations of the US Customs Law of 1930. The probes, section 337 investigations, involve alleged patent infringements of several Chinese tech companies, including consumer electronics

giant TCL Corp, home appliance giant Hisense Group, electronics manufacturer Lenovo Group and smartphone company OnePlus.

US semiconductor foundry GlobalFoundries filed two investigation applications with ITC on Aug 26, alleging that its patent rights for semiconductor equipment and its downstream products exported, imported, and sold in the US had been infringed.

It requested ITC to initiate an investigation and issue a limited exclusion order and restraining order.

“Working with allies”...

[Australia PM joins Trump calling for China to drop 'developing economy' status](#)

Referring to China as a newly developed economy marks a change from Beijing’s self-declared status as a developing economy, which affords it concessions such as longer times to implement agreed commitments, according to the World Trade Organization (WTO).

It also puts Australia into line with a campaign led by U.S. President Donald Trump to remove China’s developing nation status. In an April 7, 2018 tweet, Trump wrote that China was a “great economic power” but received “tremendous perks and advantages, especially over the U.S.”

Morrison has previously urged China to reform its economy and end a trade war with the United States but has until now stopped short of taking a public position on its WTO status.

[Hong Kong](#)

To all my friends in Hong Kong, please stay safe...

[China's tale of two cities: Beijing, Hong Kong prepare for anniversary](#)

As China prepares to mark the 70th anniversary of the People's Republic on Oct 1, Beijing is on security lockdown ahead of celebrations headlined by President Xi Jinping that will be capped by a massive military parade down its main ceremonial thoroughfare.

About 2,000 km (1,200 miles) to the south in Hong Kong, festivities have been scaled back and the date looms with an air of foreboding in a city wracked by nearly four months of often-violent anti-government protests.

Chinese-controlled Hong Kong is on high alert to stamp out any activities that could embarrass Beijing and draw unwanted attention at a time when Xi will seek to project an image of national strength and unity under Communist Party rule.

[Hong Kong Braces for Weekend Protests Ahead of Major Chinese Anniversary](#)

...the biggest protests are likely to be on the Oct. 1 National Day, with protesters saying they plan to use the holiday to propel calls for greater democracy in the former British colony and to embarrass political masters in Beijing.

Activists plan a mass rally from Victoria Park in the bustling Causeway Bay district to Chater Garden near government headquarters.

Pro-Beijing rallies are also planned in the city, raising the prospect of clashes.

The Hong Kong Human Rights and Democracy act continues to move towards passage this autumn, emboldening protestors, potentially providing China with a rationale for intervention...

[US House leader Nancy Pelosi backs congressional bill on Hong Kong](#)

Pelosi said she would bring the Hong Kong Human Rights and Democracy Act of 2019 to a vote "as soon as possible."

[Beijing vows to retaliate after US' Hong Kong democracy bill moves ahead](#)

China said it would "hit back forcefully" at the United States after the US Congress officially pushed ahead with a bill to support democratic freedoms in Hong Kong by putting pressure on Chinese authorities. The Hong Kong Human Rights and Democracy Act of 2019 moved through the Senate Foreign Relations Committee and the House of Representatives Foreign Affairs Committee on Wednesday, setting the stage for votes in both chambers in the coming weeks.

The bill could pave the way for diplomatic action and economic sanctions against the Hong Kong government. If passed, it would, among other actions, require the US to sanction Chinese officials deemed responsible for "undermining basic freedoms in Hong Kong" and require the US president to review Hong Kong's special economic status.

Chinese foreign ministry spokesman Geng Shuang said in a statement on Thursday that the bill was an attempt to "wantonly interfere in China's domestic affairs" and had shown the "malicious intention of some in the US Congress to contain China's development".

Hopefully it doesn't come to this, as enactment of Emergency powers would viewed as little different than a direct intervention by the Chinese...

[Carrie Lam: emergency powers could harm Hong Kong's reputation further](#)

Lam indicated she was not close to using the Emergency Regulations Ordinance, which would give her government sweeping powers to tackle the social unrest, despite fresh calls from pro-establishment politicians to ban the use of face masks by protesters to conceal their identities while breaking the law.

"I said earlier that we have to make use of the existing laws appropriately," Lam said. "But we have to assess whether such laws can tackle the current violent situation precisely, and whether such laws would backfire on an already chaotic society, or worsen our already damaged reputation in the international community."

This is a big reason why Chinese authorities are unlikely to sanction the status quo in Hong Kong much beyond October...

[FT: Shadows Loom Over China's 70th Birthday Celebrations](#)

the Hong Kong protests are already shaping events in Taiwan, where presidential elections will be held in January 2020. Opinion polls suggest that the main beneficiary has been the incumbent president, Tsai Ing-wen. Her advocacy of Taiwanese sovereignty suggests a further distancing from the mainland if she is returned to power

Ugly Numbers...

[Chinese Tour Groups to Hong Kong Plunge 86% for Golden Week](#)

The first week of October -- China's national holiday break during which millions head out on vacation -- marks one of the busiest periods for Hong Kong's tourism and retail industry.

As this year's "Golden Week" holiday approaches, the city's tour guides, hotel owners and shop assistants are staring down an abyss of empty planes, vacant hotel rooms and ghostly theme parks as anti-China protests enter their 17th week, scaring tourists away.

***Chinese group tours for the Golden Week are set to plunge 86%** compared to the same period last year, according to the city's Travel Industry Council. Flight prices from Shanghai to Hong Kong are 38% cheaper than last year's fares and only 30% of hotel rooms are booked for the holiday period.*

If your employer does significant business with China be very careful of exercising your right to free speech...

[China's Big Brother Targets Business](#)



The authorities are testing the system as a tool to bend foreign companies to the Communist Party's political views.

United, Delta and American received letters last year from Chinese aviation officials saying their social credit score could be hit unless their websites labeled Macau, Hong Kong and Taiwan as part of China. Lower scores would lead to investigations, the possibility of frozen bank accounts, limitations on local employees' movement and other punishments...

China Economy & Markets

Global asset managers remain largely reluctant participants in Chinese bond markets, even before today's big news about possible U.S. deterrents to portfolio investment in China:

Global Funds Still Cautious on China Bonds, Despite Opening Up

*Thin liquidity and a shortage of hedging choices are deterrents. **Controls on outflows also mean foreigners face difficulty withdrawing cash.** Even as the central bank has signaled a preference for a steady yuan, concerns about potential outsized moves in the currency linger.*

While international investors have increased their holdings to 2 trillion yuan (\$284 billion) as of August, that's just 2% of China's 94 trillion yuan market. Foreigners bought around 100 million yuan of Chinese bonds last month, compared with 62 billion yuan in July. The amount was the least since February when they were net sellers.

Inflows into Chinese bonds "have been slower than expected," said Zhaopeng Xing, a markets economist at Australia & New Zealand Banking Group Ltd.

This looks like a good call all of a sudden:

[FTSE Russell declines to include China in key bond index](#)

China's real estate market is facing a very big test in the next 6-9 months...

China's Top Three Homebuilders Face \$80bn Cash Crunch

China's three biggest home builders -- Country Garden Holdings Co., China Evergrande Group and China Vanke Co. -- have almost \$80 billion in short-term debt, which includes bonds and construction loans, falling due by June 2020, Bloomberg calculations based on their end-June filings show. Funding pressure at smaller publicly listed firms in China, which collectively owe around \$146 billion, can be even more intense because they have fewer projects to sell.

It makes relying on cash flows to pay obligations even more important. But housing demand has been stymied by government curbs -- home-price growth slowed for a third month in



August as an array of measures imposed since January helped take the heat out of the real estate market.

The numbers involved here aren't macro-significant, but the problem is that as China-issued junk starts defaulting, availability of Dollar-financing for Chinese entities will become more broadly restricted, putting further pressure on local demand for USD as this financing is forced back onshore...

[China Defaults Set to Worsen as \\$8.6 Billion Bonds Due Next Year](#)

There's \$8.6 billion of offshore bonds coming due next year that currently have at least 15% yields -- classifying them as stressed

China's "long march" is likely to run on gasoline...

[China Slips in Its Rush to Embrace Electric Vehicles](#)

Across China, dealerships desperate to shift inventory have been offering steep discounts on gasoline cars, stunting EV sales. But more critical, people in the industry say, has been the removal of two government props for the EV market.

*The first, subsidies, helped keep the prices of otherwise expensive electric models artificially low. **China spent \$58 billion on direct and indirect subsidies through 2018**, according to the Center for Strategic and International Studies, a U.S. think tank. In July the government drastically reduced subsidies, and next year it will discontinue them.*

Second, the government's resolve to promote EVs appears to have wavered in the face of the greater need to stoke economic growth. Earlier this year it told cities that had imposed limits on gasoline-car purchases to loosen their restrictions to help boost general auto sales. The near impossibility of buying a traditional car had been the clincher for thousands of people who bought EVs in Beijing, Shanghai and other Chinese megacities, but that motivating factor looks like it is being watered down.

Just thinking out loud here... But might it perhaps not make more sense to have them own up to more bad loans?

[China Tells Banks to Pass Excess Provisions to Shareholders](#)

Banks with provisions exceeding 300% of their nonperforming-loan balances would be seen as having "a tendency to hide their profits" and would need to distribute reserves beyond that amount as dividends, according to draft rules released Thursday by the Ministry of Finance. The loan-loss provisions have been long seen as a key swing factor for earnings. The ministry is seeking public feedback on the rules through Oct. 26.

This has been the view here all year long...

[FT: China Central Bank Head Warns on Strength of Regional Lenders](#)

“Beijing seems deeply concerned that another round of large-scale credit easing could trigger a systemic financial crisis,” said Lu Ting, chief China economist at Nomura International Ltd. in Hong Kong. “A new master plan has become increasingly evident that features no flood of credit, targeted credit easing and rate cuts that exclude the property sector.”

Small potatoes...

[Exclusive: Local Governments Urged to Rush Bond Plans Amid Fresh Signs of Slowdown - Caixin Global](#)

Beijing has instructed local governments to submit their plans for issuing special-purpose bonds as soon as possible, Caixin has learned.

The directive signals that central government policymakers are in a hurry to square away funding for growth-boosting infrastructure projects amid fresh signs that growth is slowing.

Creeper story of the week...

[FT: China Government Assigns Officials to Companies Including Alibaba](#)

The move, described as a local initiative, highlights one of the many flashpoints in China’s tense relationship with the US. Washington’s angst at the blurred lines between the state and its tech companies has already prompted Beijing to downplay its “Made in China 2025” industrial policy blueprint

Other Stuff

A small win for trump lost in the impeachment shuffle this week...

[The U.S.-Japan Trade Deal](#)

***The deal is a boon to U.S. farmers and ranchers** who have been battered by the U.S.-China trade war and a loss of market share in Japan. Although they won less access to the large Japanese market than they would have under TPP, the terms of the Trump-Abe deal place them on a more level playing field with Australian, Canadian, and European producer ...*

This will relieve some political pressure on Trump going into an election year. While the economic gains outside of the agricultural sector are limited, Trump will tout the agreement—

his first and only new bilateral deal—as a major victory and a validation of his hard-charging approach to trade.

The outline of a strategy to kill two birds - setting back the geopolitical threat that is Communist China and balancing U.S. trade - emerges: shift U.S. imports out of China and into countries which we can compel into returning the proceeds in exchange for U.S. goods:

[Vietnam Buckles to Trump's Pressure to Cut Trade Surplus](#)

Vietnam's Communist Party Secretary and President Nguyen Phu Trong is expected to visit the White House next month with a deal list for made-in-America products. Think natural gas from Texas, coal from Pennsylvania, pork from Iowa, and even aircraft engines -- a shopping cart that could total billions of dollars. It's no coincidence that many of these products come from regions that are important to Trump's re-election hopes in 2020.

[FT: Asia's Emerging Economies are Winning US-China Trade War](#)

Asia's emerging economies have been the big winners from the US-China trade war and they will gain even more if it escalates, according to the latest outlook from the Manila-based Asian Development Bank. Exports from developing Asian countries to the US rose by 10 per cent over the previous year in the first half of 2019, even as exports from China fell by 12 per cent. Exports from Vietnam to the US jumped by 33 per cent and from Bangladesh by 13 per cent.

U.S.-Europe trade is set to weight on market sentiment in coming months...

[U.S. Considers Way to Heighten Airbus Tariff Pain for the EU](#)

The U.S. may employ a trade weapon designed to maximize pain against the European Union in a move that will heighten transatlantic tensions and put further strain on global commercial ties, according to people familiar with the plan.

*The office of the U.S. Trade Representative has already compiled a list of possible goods it will target once the World Trade Organization publicizes the amount of damages it suffered due to illegal European Union aid for Airbus SE. **But instead of choosing a static list of products, the U.S. may rotate them to create uncertainty and hit as many industries as possible**, said the people who asked not to be identified because the plans are private.*

My friend Joe Lavorgna makes an interesting point...

[Don't blame tariffs for dimming US growth prospects](#)

...even if we assume there is a total cost burden of \$121 billion, it represents just 0.6% of nominal GDP. But this actually overstates its size, because not all Chinese imports are final goods, off which the government measures GDP. Instead, many Chinese imports are intermediate inputs used in the production process of final goods. Hence, a better way to measure the size of the tariffs relative to the economy is to look at gross output. Since this series totals \$37 billion or nearly twice that of GDP, the cost burden amounts a minuscule 0.3% of the economy.

This is spot on as well...

[Repo Turmoil Spawns Doubt Fed Is Targeting Right Interest Rate](#)