



This week from Macrolens: [Osaka Deal Do-Over?](#), outlined as follows:

- Trump should jump at a limited deal if China offers it
- China may simply be desperate for some policymaking breathing room
- Alternatively, they may be misreading Trump's political calculus (again)
- Hong Kong remains a wildcard, but China's wrath appears in check until October
- Imminent risk of "goodwill gesture tape bombs" (Ag purchases, Oct 1 tariff delay) ✓

Let's recap with what we've learned the past couple of days:

- **China is coming to DC with soybeans and small potatoes** (actions already taken like allowing 51% ownership of financial firms and enacting a feckless law on IP protection).

[China names agenda for trade talks as Trump floats 'interim deal'](#)

China's top trade negotiator, Vice-Premier Liu He, has named the top items on the agenda for talks in Washington next month as the US-China "trade balance, market entry and investor protection."

The comments suggest that China will steer talks clear of more challenging issues such as structural reform and security issues, focusing instead on less deep-rooted issues such as purchases of American agricultural goods.

- **China is open to a partial deal: "Ag for Android?"**

[WSJ News Exclusive | China Seeks to Narrow Trade Talks With U.S. in Bid to Break Deadlock](#)

Beijing hopes to adopt a two-track approach before the planned talks between its trade team, led by Vice Premier Liu He, and the U.S. delegation, led by Trade Representative Robert Lighthizer, these people said. While Mr. Liu would continue to lead talks on trade issues, a separate team would be assigned to manage the other geopolitical matters, they said.

*Beijing's attempt to separate trade from broader concerns about geopolitical competition will likely be a hard sell for the Trump administration, which has linked trade negotiations with other issues, including Huawei, which Washington has put on an **export blacklist**.*



Chinese President Xi Jinping has made relief for the company a precondition for reaching a trade agreement. Chinese officials are hoping President Trump will keep his word on lifting a U.S. ban on purchases of Huawei products that aren't tied to national security.

- Politico “sources” confirm the “Ag for Android” deal format, also involving a deferral of Dec 15th tariffs. (Never mind the #fakenews headline on this piece).

[Trump team rushes to find escape hatch for China tariffs](#)

One of the people close to the talks said deputy-level officials will start meeting next week to set up a potential preliminary deal involving agriculture purchases by China and, on the U.S. side, easing export restrictions on Huawei and potentially more delays to tariff increases.

- **Trump is actually not all that enthused about a stop-gap deal**

If China is willing to blow him away with Ag orders, I would advise President Trump to take the deal in exchange for some partial Huawei relief and deferral of the Dec 15 tariffs. Pocket the current tariffs, rocket the markets, undercut the recession narrative and let farmers clear some inventory. That said, it's not at all clear he'd take my advice...

In this 39 second clip, Trump comes across as much less enthusiastic about the “interim deal” than some of the write-ups might lead one to believe:

[Trump: I Would Consider Interim Deal with China \(YOUTUBE\)](#)

- **The U.S. has been stalling on Huawei exemptions – an easily tradeable asset:**

[U.S. Semiconductor Companies Urge Trump to Hurry Huawei Licenses](#)

Sales to Huawei of “non-sensitive” products ranging from mobile phones to smart-watches “do not implicate national security concerns,” the group said

- **Summing it all up:**

Barring a bolt (or tweet) from the blue, that **we're in a period of détente for a few weeks**. Even if next week's mid-level preliminary meetings in Washington go poorly, it's unlikely that President Trump will say or do anything antagonistic with respect for the 70th anniversary sensitivities.



Beyond October 1st, it would seem to be in Trump's political interest to pocket any Ag purchases and delay the Dec. 15th tariff round. That said, I wonder if this might be 3D thinking in a 4D chess game.

The fourth dimension is time. While China's motivation for a partial deal seem clear *now*, it seems just as clear that **at some point in 2020 they will need to turn antagonistic** in an attempt to inflict political damage on the President. Perhaps the 4D move is get the tariffs in place as far ahead of November 2020 as possible, and to stay on offense. **The risk to Trump in an interim deal is that he will surrender, for the first time really, control of the board**, potentially allowing China to dictate the timing of next period of economic and financial upset.

US – CHINA RELATIONS

The Hong Kong Human Rights and Democracy Act appears to be on its way to passage. It's largely symbolic - *until a Chinese intrusion occurs* in some form - at which point the Bill's passage greatly increases the likelihood that the U.S. responds by rescinding Hong Kong's special status. **Key question: does passage embolden the protestors to take actions to trigger a Chinese intrusion?**

[Prominent US senators back Hong Kong human rights and democracy act](#)

*"The committee is working on a bipartisan basis on finalizing text of the bill and **it could move in the next few weeks**, pending that final text," Suzanne Wrasse, the committee's director, said in an emailed response to questions.*

[China firmly opposes passage of Xinjiang-related bill by US Senate - World - Chinadaily.com.cn](#)

the US Senate reviewed and passed the Uyghur Human Rights Policy Act of 2019 on Wednesday evening, calling on the US government to exert more pressure on China for Xinjiang-related issues.

"Totally disregarding the facts, this bill smeared and criticized the human rights situation in Xinjiang and the Chinese government's Xinjiang policies," Chinese Foreign Ministry spokesperson Hua Chunying said in a press release.

Such flagrant interference in China's internal affairs will only make the Chinese people more indignant, she said.

[FT: U.S. Senators Warn China Could Gain Sensitive Tech via Hong Kong](#)

A group of bipartisan lawmakers, including Jim Risch and Bob Menendez, the Republican chairman and top Democrat on the senate foreign relations committee, and Mike Crapo and Sherrod Brown, the chairman and top Democrat on the senate banking committee, are among those calling for the review.

“We believe it is critical that the United States take appropriate measures to ensure China does not abuse Hong Kong’s special status under US law to steal or otherwise acquire critical or sensitive US equipment and technologies in support of its strategic objectives or to infringe on the rights of people in Mainland China, Hong Kong, and elsewhere,” the senators wrote in the letter, which was sent to secretary of state Mike Pompeo and commerce secretary Wilbur Ross.

[Pence to deliver postponed China speech this fall: White House...](#)

The tone of the speech, originally scheduled for delivery in June, will be dictated by the needs of the moment, the person said late on Thursday, adding that it would be given at the Wilson Center think tank in Washington, as initially planned.

HONG KONG

I understand that China wants to stabilize Hong Kong into October 1st, but what the heck do they think is going to be going on down there on the actual day?

[Xi’s channelling of Mao shows he’s about to get tough on Hong Kong](#)

why did Beijing suddenly agree to allow Lam to make the symbolic move of formally withdrawing the bill after officials and the state media had been taking an increasingly hardline view towards the protesters over the past month, condemning them as “rioters” and warning signs of “terrorism”?

Some observers have speculated that Beijing’s last-minute change of mind could have something to do with the elaborate celebrations, including a massive military parade, planned for the National Day on October 1.

It can hardly be a coincidence that on Thursday the Chinese state media reported that Chinese Vice-Premier Liu He and other Chinese officials had spoken over the phone with US Trade Representative Robert Lighthizer and Treasury Secretary Steven Mnuchin.

They have agreed to resume trade talks in Washington in early October. The resumption will most likely ensure that there will not be any immediate bad news about the trade talks from Washington to mar the National Day celebrations.

*Even so, officials in Beijing could well be disappointed as **Hong Kong protesters are most likely to come out in force in the run-up to, and on, National Day** to press their remaining demands.*

The risk of Emergency powers being declared will rise appreciably as October 1 approaches...

[Govt weighing up using emergency law: Teresa Cheng - RTHK](#)

Justice Secretary Teresa Cheng has confirmed media reports that officials have been studying the various issues involved in any move to use emergency powers to try to bring the city's months-long protests to an end.

Cheng said the administration understands the potential impact on the SAR, were the Chief Executive to make use of the Emergency Regulations Ordinance, and have therefore been considering whether such a step is necessary.

Invoking the ordinance would give the CE sweeping powers, among other things enabling her to order curfews, arrests, deportations, property seizures and press censorship.

This aligns with the Macrolens take last week in [China: What's the Plan...](#)

[Is Xi Mishandling Hong Kong Crisis? Hints of Unease in China's Leadership](#)

Wu Qiang, a political analyst in Beijing, said Mr. Xi's government had in effect adopted a strategy to procrastinate in the absence of any better ideas for resolving the crisis. "It is not willing to intervene directly or to propose a solution," he said. "The idea is to wait things out until there is a change."



Rumors of a covered-up death in the Aug 31 melee illustrate the depths to which public trust in the HK government has sunk.

[Hong Kong's MTR releases CCTV screenshots to calm rumours of police raid fatalities, but full footage under wraps | HKFP](#)

The MTR Corporation on Tuesday tried to dispel rumors that people died in their station during a police operation by releasing screenshots from surveillance cameras.

However, the 26 screenshots – which also came with a timeline of events and a statement – fell short of the demands by some protesters who want the full videos be made public.

Taiwanese elections are in January and pro-independence forces are gaining energy from the HK protests. China wants to ride things out through Oct 1st and the Plenum later that month. But beyond that the costs of inaction will rise.

[Taiwan's President Rises From the Ashes With a Hand From Hong Kong](#)

Tsai had clawed back some ground in opinion polls before protesters started taking to the streets of Hong Kong in the hundreds of thousands in June. But the mass demonstrations there against China's deepening encroachment have given her a noticeable boost ahead of Taiwan's presidential elections in January.

Before the pro-democracy protests erupted in Hong Kong, Tsai still lagged challenger Han Kuo-yu of the pro-China opposition Kuomintang by double digits in most opinion polls. Now, she leads Han by eight percentage points, according to a late August survey by broadcaster TVBS. Much of her support is from those under 40.

This is not just a Cathay problem. **Any entity that becomes dependent on China will have its politics warped by the dependency...**

['Big Brother' in the Sky: Cathay Pacific Workers Feel China's Pressure](#)

"If they want to gain better access to the Chinese market to do business better and easier, foreign companies want to satisfy the nationalistic preferences to the extent they can," said Zhiwu Chen, a professor of economics at the University of Hong Kong.



...in other news, a Bloomberg op-ed weighs China's myriad human rights abuses (not to mention the fact of 1.4bn people deprived of basic political rights) and its illegal South China Sea land-grab that could alter the regional balance of power, against its halting its "currency manipulation," its world-leadership in renewables (achieved via massive distortionary subsidies) and its agreement to join the Paris Accord. To the author, it's about a wash apparently...

[BBG Op-ed: Nobody Benefits from a U.S.-China Trade War with no End in Sight](#)

Another cause for hope is that Trump or more likely whoever succeeds him in the White House will take notice that China has on many fronts performed as a responsible world citizen.

Yes, its record on human rights is inexcusable, and its militarization of the South China Sea is destabilizing. On the other hand, it stopped manipulating its currency. It's become a world leader in renewable energy and, unlike the U.S., has joined the Paris climate accord.

CHINA ECONOMY & MARKETS

This is becoming quite serious, and is probably not unrelated to China's recent desire to call time-out on the trade war...

[China tapping into pork reserves, but huge shortfall remains](#)

If China was to import all the tradeable pork in the world and use up all its frozen reserves, there would still be a supply deficit of around 6 million tonnes.

Release of the government reserves could keep prices down in the short term, said Feng Yonghui, chief analyst at pork industry portal Soozhu.com. "The government would play the role as a large supplier, using greater supply to influence the price on the entire market," he said.

It is difficult to overstate the importance of pigs and pork in China. The meat is used by ordinary residents as a gauge of their own standard of living, but also has deep cultural and historical importance.

Another "first" for Chinese credit markets. Here's the Macrolens take on why these events never create a panic as billed: [China: Where the Credit Risk Goes](#) (7/31/19).



[China Local Government Financing Vehicle Opts to Skip Call Option on Yuan Bond](#)

A Chinese local government financing vehicle has for the first time opted to pay a higher interest rate on its local bond instead of fully repaying it, a surprise move that's seen adding to investor concern over credit risks in the sector.

Jilin Transportation Investment Group Co., a financing entity for railway construction in China's northeast Jilin province, said on Monday it plans to skip the call option on a 4.64% 1.5 billion yuan (\$210.8 million) perpetual note. Instead, it will pay an increased coupon of around 8% on the note, according to Bloomberg calculations based on the initial offering terms.

It's remains my view that **the Chinese government sees another 2017-style home prices rally as an existential threat** (and rightly so). I don't think they'll resort to a shadow-banking orgy cum property mania under any circumstances.

[FT: China's Slowing Economy Tests Policy Resolve](#)

...for all of the pressure created by the economic slowdown, the Chinese leadership still sees financial risk as a threat to national security, and believes the property market is a unique generator of that risk.

Of course, Wall Street is pining for the good old days of shadow banking gone wild and property froth. Here's the thing: **you can't ease to infinity and maintain an exchange rate fixed to a strong currency.**

[FT: China Stimulus Feared 'Too Little, Too Late'](#)

"We believe there's an increasing risk that the policy is running behind the curve," said Helen Qiao, chief greater China economist at Bank of America Merrill Lynch.

"Policymakers are waking up to the fact that there is no cushion left for 2020."

"I don't think this is enough," said Larry Hu, head of China economics at Macquarie Group. "At this moment, there is not enough demand for credit so you have to create artificial demand in areas like infrastructure and property."

“Right now you can’t ignore the property sector,” said Ting Lu, chief China economist at Nomura. “The current stimulus plan is reasonable for the long term but if they want to stabilise the economy in the short term they can’t exclude the property sector.”

[China Developer Financing Drops After CBIRC Clampdown - Mingtiandi](#)

In early August, the CBIRC issued a circular outlining plans for targeted inspections in 32 mainland cities to ensure that banks are lending according to official guidelines for mortgages and loans to developers.

The campaign comes after the commission issued a notice in May singling out various types of banned lending to the real estate sector, including illicit loans to fund land purchases by developers, lending to non-eligible developers and allowing homebuyers to borrow money for down payments.

The government’s tightening grip on loans has prompted trust companies to pull back on their real estate financing activities. Both China Everbright Trust and CITIC Trust said in July that they would withdraw trust products released for property investment and would refund investors, [Caixin reported](#). The move reportedly came after CBIRC summoned ten trust companies to a meeting, demanding that they bring the scale and growth of their property financing businesses under control.

[MERKEL IN BEIJING](#)

Merkel’s visit to China highlighted the tightrope she’s trying to walk on China relations. **Germany is badly torn between societal sensitivity to authoritarian human rights abuses and its dependence on Chinese trade.** Those who think the solution to U.S.-China trade problems is simply to “work with allies” gloss over these issues...

[Hong Kong is a matter for China, Premier Li Keqiang tells Angela Merkel](#)

At a joint press conference with Merkel in Beijing, Li said: “[Please have confidence that] Chinese people have the capability and wisdom to manage well our own affairs.”

[Opinion: Merkel must step up her China strategy | DW](#)

But while German Chancellor Angela Merkel publicly and privately commented on the ongoing Hong Kong protests, and will now be returning to Germany with no less than



11 cooperation agreements, her recent visit to China will satisfy neither business representatives nor human rights activists.

The Federation of German Industries (BDI), for instance, criticizes that German industry finds itself losing out trying to compete against China's state-run economy. And those who had hoped Merkel's trip would lead to genuine dialogue with China's civil society were similarly disappointed.

[China fury as Hong Kong activist Joshua Wong meets German foreign minister | HKFP](#)

"It is disrespectful of China's sovereignty and an interference in China's internal affairs," said Chinese foreign ministry spokeswoman Hua Chunying.

"I want to stress once again that Hong Kong affairs are purely China's internal affairs. No foreign government, organisation or individual has the right to intervene," Hua said, adding that Beijing "strongly disapproves" of the meeting.

[OTHER U.S. TRADE ISSUES](#)

Uh oh... With the U.S. economy scuffling, the Europeans smell weakness as we approach the deadline for EU auto tariffs approaches on 11/15. Detente with China and deferral of the Dec 15 China tariffs could open the door to an even more disruptive set of tariffs on Europe...

[EU Trade Nominee Sends Tough Signal to Donald Trump](#)

Phil Hogan was tapped to be the EU's next trade chief on Tuesday, and he wasted no time in signalling that he will be a tough customer for the Trump administration to deal with.

"Obviously we are going to do everything we possibly can to get [Donald] Trump to see the error of his ways and hopefully that he will be able to abandon some of the reckless behaviour that we have seen from him in relation to his relationship with China and describing the European Union as a security risk," Mr Hogan, an Irishman, told national broadcaster RTE in an interview.

Mr Hogan also warned that if Mr Trump continued "this particular dynamic of protectionism", Brussels would "continue to forge deals around the world".

Anyone hoping for an easing in transatlantic tensions as the new commission led by Ursula von der Leyen takes office in Brussels on November 1 is likely to be disappointed. It also doesn't help that Margrethe Vestager, disliked among Trump administration officials because of her antitrust probes against US technology companies, earned a promotion in Ms von der Leyen's team.

As a reminder of what is at stake in coming months on the US-EU trade front, the Trump administration could by mid-November slap tariffs on all incoming cars and car parts after judging that automotive imports are a threat to national security.

On the bright side, USMCA should get passed this fall...

[Top U.S. trade official submits USMCA ideas to Democrats: lawmakers](#)

During Wednesday's discussions with Lighthizer, Representative Steve Scalise, the No. 2 House Republican, urged House approval of the USMCA before Canada's national elections, which are set for Oct. 21.

Jordan Haas, director of trade policy for the Internet Association, said his group was upbeat that the two sides would reach agreement paving the way for passage of USMCA.

"We are pretty optimistic that the USMCA agreement will be passed. USTR has signaled that there are landing zones to address the Democrat's concerns, and they are working toward a deal," he said.