

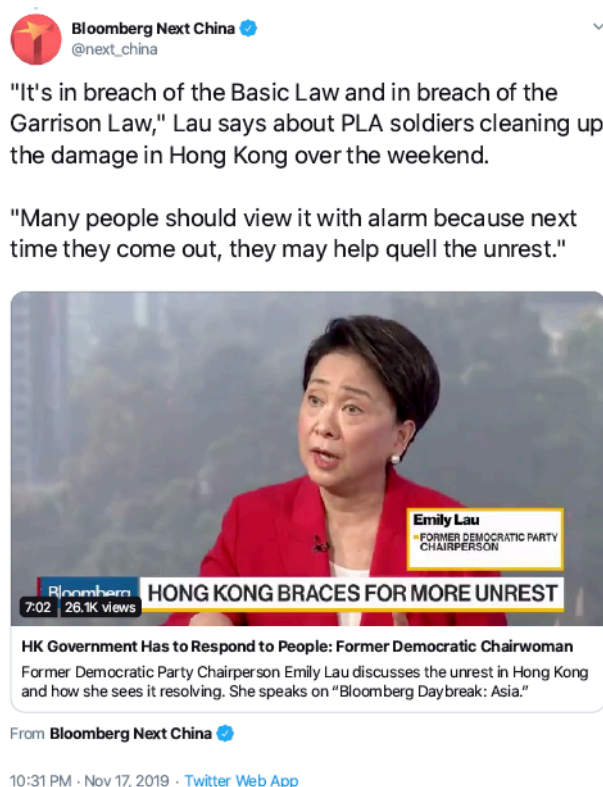
## Market Sleeps on Extreme Decoupling Risk

Do equity markets not realize how close we are to **an existential break with China**, or do they not care? Perhaps things are moving too quickly for herd-following markets to pick up on the subtleties in the news flow, which has driven market risk to an extreme.

Here's a rundown of an intensive news weekend...

### PLA "clean-up"

- Saturday brought news of PLA troops, clad in shorts and t-shirts, [venturing out to help clean up](#) the aftermath of Friday evening's protests.
- A gesture of friendship, or a signal to Hong Kong officials that "if you can't clean this up, we will?"
- Given the illegality of the PLA's involvement in community activity absent a request by the HK government, most took the act as **an ominous sign**;





## NY Times Bombshell on Xinjiang

- The NY Times dropped 400 pages of internal Communist Party documents on Xinjiang, in “one of the most significant leaks of government papers from inside China’s ruling Communist Party in decades.”
- The documents reveal Xi Jinping as at the architect of a program of ethnic cleansing:

*President Xi Jinping, the party chief, laid the groundwork for the crackdown in a series of speeches delivered in private to officials during and after a visit to Xinjiang in April 2014, just weeks after Uighur militants stabbed more than 150 people at a train station, killing 31. Mr. Xi called for an all-out “struggle against terrorism, infiltration and separatism” using the “organs of dictatorship,” and showing “absolutely no mercy.”*

*...in August 2016, a hard-liner named Chen Quanguo was transferred from Tibet to govern Xinjiang. Within weeks, he called on local officials to “remobilize” around Mr. Xi’s goals and declared that Mr. Xi’s speeches “set the direction for making a success of Xinjiang.”*

*Mr. Chen issued a sweeping order: “Round up everyone who should be rounded up.” The vague phrase appears repeatedly in internal documents from 2017.*

- China’s response was not denial, but [a full-throated defense of the Xinjiang policy](#):

*“It is hyping up these so-called internal documents to smear China’s efforts in Xinjiang. What is the agenda?” he said.*

*“Xinjiang’s continuing prosperity, stability, ethnic unity and social harmony are the strongest refutation to the allegations by certain media and individuals,” he said.*

- I agree with this take, that documentary proof putting Xi at the center of the program could **be a game-changer** for how the civilized world views the CCP:



Jorge Guajardo  
@jorge\_guajardo

In an age of scandalous news every day (couple of hours?), it’s hard to spot before-and-after events. We become inured, thinking nothing matters. Today’s NYT report on Xinjiang will be a before-and-after event. It’s that big!

12:45 PM · Nov 16, 2019 · Twitter for iPhone



## U.S.-China Principals Call on Trade

- The U.S. and China held a principals-level call Friday night (DC) / Saturday morning (BJ)
- The Chinese readout from Xinhua (bolding mine) is notable:

*Chinese Vice Premier Liu He, a member of the Political Bureau of the Communist Party of China Central Committee and chief of the Chinese side of the China-U.S. comprehensive economic dialogue, held a phone conversation **at the request of U.S. Trade Representative Robert Lighthizer and Treasury Secretary Steven Mnuchin** on Saturday morning.*

*During their talks, the two sides had constructive **discussions on each other's core concerns** in the "phase one" deal, and agreed to maintain close communication.*

- "Constructive" is boilerplate. "**Core concerns**" suggests China is still demanding rollback.
- I think this tweet just out from CNBC is accurately reflective of China's stance:



**Eunice Yoon**  @onlyyoontv · 1m

Mood in Beijing about **#trade** deal is pessimistic, government source tells me. **#China** troubled after Trump said no tariff rollback. (China thought both had agreed in principle.) Strategy now to talk but wait due to impeachment, US election. Also prioritize China economic support.



- There's no telling how long both sides will choose to continue the Phase One kabuki theatre but it is now clear **they are no longer progressing towards a deal.**

## Standoff at Honk Kong Polytechnic University

- Here's the [latest from WaPo](#) as of 8:56am EST Monday:

*HONG KONG — Hundreds of pro-democracy protesters were surrounded by riot police Monday inside a besieged Hong Kong college campus, as almost six months of intensifying anti-government unrest appeared headed for a bitter and perhaps bloody climax.*

*Police blocked exits and told exhausted protesters to come out of the Polytechnic University on Monday to be arrested. When some attempted to escape, officers forced them back with tear gas and rubber bullets and made dozens of arrests. As night fell, and*

with [explosions and black smoke](#) emanating from the grounds, police repeated demands for the demonstrators — some of whom have been there for days — to surrender.

A voice message described as being from a protester stuck inside the university pleading for help has been widely shared on social media. He said many of the hundreds trapped inside for the last 30 hours of the confrontation were injured and exhausted and called on people to converge on the university to help those trapped inside.

- The editor of the State media outlet *Global Times* has openly suggested a massacre:



- With dozens of serious injuries reported, the best-case scenario is that this episode ends with mass arrests of students and a further inflamed Hong Kong population.
- Given the signaling and rhetoric from the mainland, a more violent outcome can't be heavily discounted.

#### The Hong Kong Human Rights and Democracy Act

- The [HKHRDA is highly likely to pass the Senate this week](#), possibly as soon as Monday.
- Given the gathering political frenzy over China's human rights violations, should police violence in Hong Kong continue to escalate, **pressure will rapidly build for a revocation of Hong Kong's "special status."**



### Huawei License Extension **Possible on Monday**

- Markets will no doubt misconstrue this as a positive sign for trade talks. **It's not.**

### Conclusions

- Phase One talks are in **breakdown mode** over China's rollback demand.
- While President Trump surely does not want to see a global financial cataclysm emanating from Hong Kong, **the politics of are taking on a life of their own.**
- Pray for Hong Kong. Don't be naïve about what the CCP is capable of.
- Events are leading us **to a point of no return for "decoupling,"** unless Hong Kong can miraculously sort itself out in short order.
- **Risk-reward in risk-assets is absolutely horrible** right here.