



Phase One: Please Make it Stop

The Phase One trade deal is mortally wounded. The humane thing to do – and the best thing for those of us trying to navigate these algo-dominated markets amidst a barrage of misleading click-bait headlines – would be to put it out of its misery.

- The idea that trade negotiations can be kept separate from growing geopolitical tensions is laughable
- [Recent reports](#) have suggested that in response to China's demand for tariff rollback, the U.S. has pressed to **expand Phase One talks into more substantive areas**
- Given geopolitical stresses, moving talks into more "complicated" areas is **a fool's errand**
- The more substantive areas of negotiation have been previously redlined by China as **infringing on its sovereignty**
- The sovereignty issue will be particularly sensitive in the wake of passage of the Hong Kong Human Rights and Democracy Act, which **could be signed into law as early as today**.
- That a Phase One deal is **bad politics** for President Trump becomes clearer post-passage of the HKHRDA. Here was Nancy Pelosi yesterday:

*"The Congress is sending an unmistakable message to the world that the United States stands in solidarity with freedom-loving people of Hong Kong and that we fully support their fight for freedom," Speaker [Nancy Pelosi](#) said on the House floor. **"This has been a very unifying issue for us."***

- The U.S. body politic is **desperate for a "unifying issue."**
- The China issue is unifying, it's "hot" it's important, and it's an issue on which Trump has been in the vanguard of popular opinion and has established bona fides.
- The word **"tariff" came up once** in last night's Democratic debate – in reference to Canada!
- The debate included limited discussion of China in reference to AI, North Korea, some vague talk on human rights, a question to Buttigieg on farm subsidies, and a question on Hong Kong to also-ran Corey Booker, who's answer ended in a riff on "kids in cages" with no mention of Hong Kong.



- The Democratic debate did not skip over the issue of economic competition with China because it's not relevant to voters. **Trump has left the Democrats with nowhere** to go on the issue.
- The consensus narrative is that Trump will voluntarily surrender the political high ground on this issue because he "needs a win," "is obsessed with the stock market," or "can't win without a strong economy."
- Trump is all about persuasion via "framing." **The framing of doing a weak deal** with China against the backdrop of a near-unanimous Congressional vote to publicly and aggressively rebuke the Chinese government, **is terrible**.

- Trump will get his "**big win**" on **USMCA** shortly. From earlier this morning:

*(BFW) *PELOSI: 'HOPEFUL' CAN REACH DEAL TODAY WITH TRADE REP. ON USMCA*

- Trump is certainly enamored with the stock market as "visual framing" for his "greatest economy ever." But **a short-term market sell-off is of far lower political cost** than surrendering the high ground on the China issue.
- The internal debate seemingly swings the potential damage of tariffs on the Trump economy. [This from yesterday's WSJ](#):

Administration officials have for months discussed exempting iPhones from tariff increases, according to people familiar with the conversations. One rationale was that China's production was deeply dependent on manufacturing and assembly in the country and couldn't be expected to move operations quickly. Another was that the U.S. didn't want to let Samsung gain an advantage over Apple because of tariffs.

More significantly, the officials said, they wanted to avoid a possible consumer backlash from a steep rise in iPhone prices. Trump officials are trying to establish a level of tariffs they consider politically sustainable.

- Do these advisors think there will be a march on Washington if iPhone prices rise 10%?
- President Trump isn't buying the consumer-backlash scaremongering. Here was his exchange with reporters at the Apple facility in Austin, TX yesterday (bolding mine):

Q: Will there be a trade deal in place before the end of the year?



THE PRESIDENT: So, I can tell you this: China would much rather make a trade deal than I would.

Q: Then why haven't they?

THE PRESIDENT: Because I haven't wanted to do it yet.

Q: And why haven't you wanted to yet?

*THE PRESIDENT: Because I **don't think they're stepping up** to the level that I want.*

Q: I spoke earlier today with Mr. Cook and he said, "Another round of tariffs would be bad for business. It would be bad for the United States."

THE PRESIDENT: I know, but, you know —

Q: Will the tariffs take effect —

THE PRESIDENT: Here — here's what I say —

Q: — December 15th?

*THE PRESIDENT: Here's what I say — here's what I say: **What do you know?***

*I put in tariffs, everyone said, "Oh, gee, you're taking in billions — hundreds of billions of dollars we will be taking in." And **everybody said, "Oh, that's going to be bad for the economy."** Well, as you just heard from Tim Cook, **we have the strongest economy, by far, in the world, and we're taking in billions and billions of dollars.** So we'll see what happens.*

We are dealing with China. I have a great relationship with President Xi. They're a great country, but we're a greater country than China.

If I didn't win, right now China would be a bigger economy than the United States. But because I won, we picked up — reported on your network — \$11 trillion in worth, in value. And China has lost probably \$25 trillion. We are much bigger than China right now, and we're going to keep it that way.

- [Today's WSJ reports](#) that the Chinese have invited U.S. negotiators to Beijing for talks next week. I'll be surprised if they accept the invitation.



- If Beijing meetings do take place, it likely signals that the U.S. is looking to string out talks as an excuse for delay of the Dec 15th tariffs (and likely market upset) until after the holiday season.
- I'll drop my odds of Phase One ever getting signed from 30% to 20%.
- I struggle with the question of whether the market fails to grasp the sharply deteriorating odds of a Phase One deal or is simply preparing to shrug it off.
- Occam's razor suggests the former, but there are economic and political cross currents that suggest the possibility that **a Phase One break-up may not be as bearish as assumed.**
- **I remain tactically short risk assets**, but am open to the possibility that any trade-related sell-off could prove short-lived, barring a Hong Kong tail event (which could recede as a near-term risk if elections go smoothly this weekend).