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# Reneging, the Sequel and Weekend Links

> **Donald J. Trump**
> @realDonaldTrump
>
> China and the USA are working on selecting a new site for signing of Phase One of Trade Agreement, about 60% of total deal, after APEC in Chile was canceled do to unrelated circumstances. The new location will be announced soon. President Xi and President Trump will do signing!
>
> 9:24 AM · Oct 31, 2019 · Twitter for iPhone

I have to admit that the President really appears desperate to get this Phase One deal signed so he has an excuse to punt on the December tariffs. This despite the fact that he seems to believe (as do I) that the media narrative blaming the slowdown on growth on China trade is a deflection from the Fed error (now acknowledged as an overshoot by *at least* 75 basis points) at the root of the slowdown:

> **Donald J. Trump**
> @realDonaldTrump
>
> People are VERY disappointed in Jay Powell and the Federal Reserve. The Fed has called it wrong from the beginning, too fast, too slow. They even tightened in the beginning. Others are running circles around them and laughing all the way to the bank. Dollar & Rates are hurting...
>
> 10:37 AM · Oct 31, 2019 · Twitter for iPhone

> **Donald J. Trump**
> @realDonaldTrump
>
> ....our manufacturers. We should have lower interest rates than Germany, Japan and all others. We are now, by far, the biggest and strongest Country, but the Fed puts us at a competitive disadvantage. China is not our problem, the Federal Reserve is! We will win anyway.
>
> 10:37 AM · Oct 31, 2019 · Twitter for iPhone

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If "China is not our problem," (he means the tariffs, not that China in general is not a problem), then why not just get the tariffs over with by following through in December and *then* putting the China fight on ice for a while?

Phase One reeks of surrender, and China smells it. They seem willing to press their advantage:

In U.S.-China talks, Beijing's refusal to order farm buys becomes pain point

> ***Trump has said publicly that China could buy as much as $50 billion*** *of U.S. farm products, more than double the annual amount it did the year before the trade war started.*
>
> ***U.S. officials continue to push for that in talks, while Beijing is balking at committing to a large figure and a specific time frame****. Chinese buyers would like the discretion to buy based on market conditions.*
>
> *"China does not want to buy a lot of products that people here don't need or to buy something at a time when it is not in demand," an official from a Chinese state-owned company explained.*
>
> *If U.S. agricultural products "enter China in a concentrated way, it might be hard for the domestic market to digest," the Chinese official added.*

Never mind that $40-$50bn is a ludicrous number, or that forcing a specific sum of Ag purchases on China is antithetical to the goal of pushing them to marketize their economy. We're strictly in the realm of political signaling, and Trump has touted, with his unprecedented megaphone, the $40-50b in Chinese purchases that he's procured for our "great patriotic farmers.:"

What is all too predictable is that if President Trump signs phase one, by next summer we'll be subjected to a barrage of media reports detailing the degree to which China is falling short on their $40-50bn ag commitment and how they sold Trump a bag of magic beans.

U.S.' Mnuchin says agricultural sales to China will 'take time to scale up' to $40-50 billion

> *"This is built on a bottom-up basis of both what we think we can deliver and what they think they need," Mnuchin said.* ***"It's a one-year target, but obviously it's going to take some time to scale up."***

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The Chinese, who have perpetually misread Trump, continue to move the goal posts. If they don't watch out, "Phase one" is going to sail "wide right."

The sourcing on the weeks big trade piece from Bloomberg is a little thin ("private conversations with visitors to Beijing and other interlocutors"), and the authors, as is all too common at Bloomberg, wear their distaste for the President on their sleeves. That said, I haven't seen the Chinese deny that the sentiment here is inaccurate, and it seems to line up with what we would expect is happening behind the scenes: China is offering a shrinking pile of Ag purchases, and that's about it. Or as this former Chinese official puts it, China will offer absolutely nothing on structural reform, but "other than that," they're happy to make a deal!

China Doubts Long-Term Trade Deal Possible With Trump

> *"If the U.S. demands are too much, such as insisting on the so-called structural changes that will alter China's economic model, then the complete deal can't be finished during Trump's first term," said Zhou Xiaoming, a former Ministry of Commerce official. "Other than that, China wants to have a deal as quickly as possible" though a complete deal would include the removal of all punitive tariffs, he said.*

The piece confirms what logic tells us is true: there is never going to be a Phase two. That and the dawning reality that the Chinese offer for Ag purchases in 2020 is shaping up as more like \$20bn than \$40bn render the politics of Phase one as fraught with political downside for 2020.

Surely Trump sees this. I suppose its possible he'll barrel ahead with phase one anyway, in the expectation that U.S.-China relations will go off the rails in dramatic fashion next spring or summer. By then, the November 2020 economy will already be baked in the cake, and a dramatic breakdown in U.S.-China relations could be used for a "rally round the flag" – and the incumbent – effect.

But that seems highly risky. More likely – I'd say 60/40 lean at this point – is we are setting up for "Reneging, the Sequel." China is, in fact reneging, at least on the deal as President Trump laid out in the Oval Office last month. If USMCA passes in November (as seems likely), Trump will have his "big trade victory" and he won't need this "small beans deal" from the Chinese.

And if this CNBC poll is accurate, that's an off-market price on the no-deal outcome:

> *Eighty-three percent believe Washington and Beijing will sign a limited trade agreement this year, a level of conviction rivaling prior predictions for U.S.-China deals that proved wrong.*

On to the links…

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Rubio is like a dog with a bone on this issue…

Rubio Plans Bill to Block Federal Pensions Investing in China

> *Senator Marco Rubio plans legislation to block U.S. government pensions from investing in Chinese stocks after the board overseeing the funds put off a decision that would add exposure to China.*
>
> *Rubio, a Republican from Florida, called the board's move not to reverse its plan "unacceptable'' in a statement Monday and said he would introduce bipartisan legislation "to ensure that federal retirement savings can never be a source of wealth funding the Chinese Communist Party at the expense of our nation's future prosperity.''*

The barrage of U.S. measures against Chinese tehc is relentless…

U.S. Proposes Purge of Huawei, ZTE Equipment from Government-Subsidized Networks

> *The Federal Communications Commission (FCC), the U.S. telecom regulator, will vote Nov. 19 on a multipart proposal that* ***would bar American companies receiving rural subsidies from purchasing equipment and services from the two Chinese firms****. It would also require those already receiving such funding to* ***strip the equipment*** *from their networks, and establish a process for designating additional companies as national security threats.*
>
> *The draft order, posted Monday night on the FCC website, was introduced by its Chairman Ajit Pai, and names Huawei Technologies Co. Ltd. and ZTE Corp. as "companies posing a national security threat." It bars U.S. carriers receiving money from the regulator's $8.5 billion Universal Service Fund, used to subsidize service to low-income and high-cost areas including schools, libraries, and rural health providers, from using equipment from such suppliers.*

U.S. telecoms supply chain rules, seen hitting Huawei, under review: official

> *WASHINGTON (Reuters) - Rules to implement a White House executive order that is expected to pave the way for China's* ***Huawei to be banned from the U.S. telecoms supply chain*** *are "under consideration and review," a Commerce Department official said on Tuesday.*

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> *The rules, which were due earlier this month, would implement an earlier declaration of a national emergency in the telecoms supply chain, and are likely to be used by Washington to tighten the squeeze on the telecoms equipment giant.*
>
> *Speaking at an event in Washington, the official, Eileen Albanese, said the rules were "under consideration and review," without offering a time line. They are "not yet ready for prime time," she added.*

I don't know if the entity list is the right vehicle and the concerns about process are warranted, but shouldn't U.S. firms have some warning of and protection against repeat IP-theft offenders?

Trump administration considers blacklisting Chinese companies that repeatedly steal U.S. intellectual property

> *Navarro's team has explored the possibility of* ***blacklisting Chinese companies that violate numerous U.S. copyright and patent laws*** *by placing them on the Commerce Department's "entity list," according to the people familiar with the matter, who requested anonymity because they are not authorized to speak publicly.*
>
> *The entity list mainly includes companies that pose a military or terrorist threat to the United States, but the Trump administration has frequently argued that economic security is part of national security.*
>
> *In a brief interview, Navarro called it "fake news" that he was working on an executive order to blacklist more Chinese companies, but people familiar with the plan have seen versions of it in writing.*
>
> *"This is not historically the way the entity list has been used. It's a major expansion of its mandate," said Eric Altbach, a former deputy assistant U.S. Trade Representative focused on China. "It would put the U.S. government in the position of having to make an assessment of IP claims without a particularly clear process to do it."*

Even if a Phase One deal is favorable to China, they will ah veto swallow a lot of perceived affrotnts to make it…

China warns U.S. criticism at U.N. over Xinjiang not 'helpful' for trade talks

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> *The United States, Britain and 21 other states pushed China on Tuesday at the U.N. to stop detaining ethnic Uighurs and other Muslims, a move that was countered by Beijing and some 53 countries jointly defending its "remarkable" rights record.*
>
> *"The trade talks are going on and we are seeing progress," Zhang told reporters.* ***"I do not think it's helpful for having a good solution to the issue of trade talks****."*

The debate is heating up in Germany – a "decoupling" bellweather…

Germany spy chief warns against 5G role for Huawei

> ***The head of Germany's foreign intelligence service has told legislators that Huawei should not be allowed*** *to play a significant role in building the country's 5G network, warning that the Chinese group could not be trusted.*
>
> *Speaking to a parliamentary committee on Tuesday, Bruno Kahl said: "Infrastructure is not a suitable area for a group that cannot be trusted fully." Huawei, he added, could potentially play some role in the 5G buildout, but should be kept away from all areas that touched on German "core interests".*
>
> *The intervention by the head of Germany's Bundesnachrichtendienst came amid heated debate between policymakers in Berlin and other European capitals over the role and responsibility of Huawei. It highlighted the deep-seated concerns among security officials, who fear that involving the group in the 5G buildout could expose a crucial piece of telecommunications and information infrastructure to Chinese influence.*
>
> *"It was always clear that German intelligence was very sceptical about Huawei but the fact that he [Kahl] went on the record and said explicitly that Huawei cannot be trusted is very relevant," said Thorsten Benner, the director of the Global Public Policy Institute in Berlin.*
>
> *"It adds weight to the argument that [Angela****] Merkel's decision to allow Huawei to take part goes against German security interests.****"*

Unsurprisingly, China's Fourth Plenum triples down on heavy-handed State control of the economy, and everything else for that matter…

China Warns Risks Are Increasing After Biggest Party Meeting

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> ***The party "holds high the great banner of socialism" in the face of "a more complicated situation with risks and challenges significantly increasing at home and abroad,"*** *according to a communique released after the meeting known as a plenum that mostly contained vague statements. The party's 200-plus-member Central Committee also discussed ways to improve the market-based economic system as well as the legal system in Hong Kong "for safeguarding national security."*
>
> *"The communique confirms that the Xi administration's outlook is one of increasing domestic and global risks, and therefore the solution is to* ***double down on the party's absolute control****," said Jude Blanchette, Freeman Chair of China Studies at the Center for Strategic and International Studies. "The lack of meaningful economic reforms coming out of the meeting isn't an aberration, but merely the most recent signal from Xi that he's not seeking to make fundamental alterations to the Party's level of oversight and control."*
>
> *The readout outlined what it called the "clear advantages" of China's political system, including "unified leadership" and "political stability." It also returned to themes Xi has emphasized as president, including the party's leadership of the economy, culture and society, and the need for "confidence" in China's system.*

Hong Kong

A very depressing communique here from the Fourth Plenum on Hong Kong. The pledge to "exercise all powers" is chilling, while the open embrace of "patriotism" in education is downright creepy. A heavier hand might serve to diminish the scale and scope pf protests and the risk of creating a smaller, but more violent anti-China movement.

China Signals Greater Role in Hong Kong's Schools, Elections

> *As protests rage in Hong Kong against China's increased grip over the city,* ***Beijing signaled it would intervene more in everything*** *from education to the selection of the city's top leader.*
> *The Chinese government on Friday outlined a series of broad, but vaguely worded commitments to address some of the former British colony's most divisive issues, including a pledge to "improve the system and mechanisms for appointing and removing the chief executive and other principle officials." Communist Party leaders also vowed stronger measures to teach "patriotism" to young people and public officials.*
>
> *A communique released by the Central Committee on Thursday said the 200-plus member body decided to* ***"establish and improve the legal system and enforcement***

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> ***mechanisms" to protect national security in Hong Kong*** *and neighboring Macau. On Friday, Shen Chunyao, chairman of the National People's Congress's Basic Law Committee, went further, telling reporters that Beijing intended to* ***"exercise all powers vested in the Central Government under Constitution and the Basic Law.****"*
>
> *Specifically, Shen cited plans to "strengthen education of the Constitution and the Basic Law, as well as China's national conditions, in Hong Kong and Macau society, especially among public officials and young people." Shen said that authorities would also seek to bolster protections against foreign interference in Hong Kong -- something Chinese officials have long blamed for stoking dissent in the global financial center.*
>
> *"My interpretation of these passages is they are going to take a* ***hard-nosed approach****, that they will continue to clamp down on Hong Kong," opposition lawmaker Fernando Cheung said Friday. "In other words, to turn Hong Kong into a police state."*
>
> *"They're determined to further tighten control over Hong Kong," said Claudia Mo, a pro-democracy lawmaker. "Beijing has obviously realized by now that they've lost this current generation of Hong Kongers. And they're trying their best to rein in the next and the next and the next.* ***And they think brainwashing education will help.****"*

Hong Kong bars democracy activist Joshua Wong from elections, underlining fears over freedoms

> *A poll from the Chinese University of Hong Kong published by the Ming Pao newspaper on Thursday found 44.5% of people identified as pro-democracy, up from 27.9% in March.* ***Only 6% of respondents supported the pro-Beijing camp.***
>
> *Wong is not a central figure in the current unrest, which is largely leaderless. But he remains the most internationally recognized of the city's democracy activists, having shot to fame as a leader of the 2014 Umbrella Movement calling for universal suffrage*

Hong Kong Protests Force City into Recession with 'No Recovery in Sight'

> *Since antigovernment protests erupted in June, hotels in Hong Kong have become ghost towns. Restaurants, normally heaving with tourists and locals, are struggling to attract diners.* ***Nearly a quarter of American businesses polled said they were considering moving capital or assets out of the city.***

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> ***Hong Kong's economy shrank 3.2% in the July-to-September quarter*** *from the period just before, according to data released Thursday. That is the worst quarter-to-quarter drop since 2009. On a year-over-year basis, the economy shrank 2.9%.*
>
> *If anything, the figures undersell the speed and severity of the downturn for shopkeepers, restaurant owners and others with consumer-facing businesses.*
> *For some entrepreneurs in Hong Kong, business is as tough as they can remember. And this is after nearly a quarter-century that saw two financial crises, a transfer of sovereignty to China from the U.K., the deadly SARS epidemic and an earlier wave of protests in 2014.*

Sellers in denial as Hong Kong's commercial property market falls off a cliff

> *Since the mass anti-government protests erupted in early June, Hong Kong's capital markets have proved remarkably resilient. The Hang Seng Index, while having suffered the sharpest fall among the world's major equity markets last quarter, is down just 1.1% since the first mass protest was held on June 9* ***. The HSI Volatility Index, a gauge of volatility in Hong Kong stocks, has even fallen 36% since late August, to its lowest level since mid-July****. Moreover, mainland investors have been net buyers of Hong Kong equities for eight straight months, according to Bloomberg. Other signs of resilience include a stable Hong Kong dollar, ample liquidity in the financial system and, more recently, a revival in the market for initial public offerings. However,* ***one corner of the city's capital markets that has had the rug pulled out from under it is the commercial property investment sector****, which was already slowing sharply before the crisis escalated.*
>
> *A report from property adviser CBRE this month noted* ***that transaction volumes plunged 44% quarter on quarter*** *in the third quarter, to just US$1.6 billion, the lowest quarterly total since the second quarter of 2016, when sentiment was hit by fears about China's economy and policy regime. Only 30 deals were completed last quarter, the second-lowest number since the global financial crisis.*

Still some open-up demand for retail property at 10:1 leverage apparently…

Hong Kong Housing Sales Jump as First-Time Buyers Given Boost

> *Hong Kong's secondary-housing market sales have surged after first-time buyer mortgage rules were eased.*

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*Sales in the secondary market have more than doubled since mortgage rules for first-time buyers were eased mid-October, Midland Realty Ltd. said. Primary home sales are also doing well, with all 167 units at China Evergrande Group's Emerald Bay project selling in six hours Monday, the Hong Kong Economic Journal reported.*

*The policy doubled to HK$8 million ($1 million) the amount a first-home buyer with a 10% down-payment could borrow, as the government tries to quell protests fueled in part by the city's rising inequality.*

China Economy & Finance

Unfortunately, the quality of Chinese data on housing (and the widespread tendency of the government to set prices floors) necessitates a reliance on anecdotal evidence to assess conditions. With that comes the risk of cherry-picking. But certainly the anecdotal weakness aligns better with the overall macro picture than the relative health of official housing sales and price data…

More Property Developers Cut Prices to Raise Cash as Demand Flags

*More property developers in China are cutting prices on new homes to boost sales and raise cash amid flagging demand and a tougher environment for debt refinancing.*

*Sunac China Holdings Ltd., the country's fourth-biggest real estate group in terms of sales, has reduced prices for properties in a development in Tianjin, a coastal city some 100 kilometers southeast of Beijing, by 30% in the past two months, according to one homeowner who bought his apartment in September. The resident, who declined to be named, said he paid 16,000 yuan ($2,260) a square meter for his property, but the price for apartments in a newly released block has been reduced to 12,000 yuan. Homeowners are furious and nearly 100 have protested to the company about the cuts.*

*According to screenshots taken from a chat group that claims to be for employees working for Sunac's Tianjin unit, the company has told its entire staff to buy unsold properties in order to meet the company's full-year sales target. They will be allowed to purchase homes at a discount of 15% to 20%, according to the chat group*

*New home prices in Tianjin declined by 8% in the third quarter, from an average of 16,500 yuan per square meter in June to 15,200 yuan in September, data from China Index Academy, a property research and consultancy firm, show.* ***A source at a property developer in the city told Caixin that in reality the drop has been even greater****.*

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> ***Developers' growing thirst for price cuts is a result of tighter cash flow***. *The government has been tightening administrative controls over property purchases since late 2016 to rein in surging prices, stamp out speculation and make housing more affordable. That's hurt their sales income which is used to pay back debts and fund new developments.*
>
> *On the other side,* ***builders are being squeezed by continued controls on their ability to finance and refinance*** *their borrowings. Regulators have told banks to limit lending to property developers and homebuyers. They have also ordered trust companies not to provide new funding to real estate companies and tightened restrictions on developers' offshore bond offerings.*
>
> *Sun Hongbin, the chairman of Sunac, said in August that restrictive measures imposed on developers' fundraising this year has been* ***"unprecedented" and has had a "significant" impact*** *on China's real estate market.*

2022 is still a long way off, but this sentiment is going to pick up a lot of steam....

Beijing's Winter Olympics 2022 - sports in the shadow of concentration camps | HKFP

> ***No one today would openly endorse holding the Games in a state holding millions in concentration camps****, but this is precisely what is happening at the moment. Should these games go forward as planned, the Chinese Communist Party will use the 2022 Olympics to boost its international image and domestic legitimacy.*

The fallout from an EV subsidy program estimated at ~$50bn…

BYD Earnings Drop 89% as China's Electric-Car Market Goes Sour

> *BYD Co., China's biggest maker of new energy vehicles, reported an 89% slump in quarterly net income as slowing demand in the world's largest car market continues to erode its bottom line.*
>
> *The Shenzhen-based automaker posted a 9.1% decline in revenue for the three months through September, the company said in a statement to the stock exchange. Net income was 119.7 million yuan ($16.9 million).*
>
> ***Sales of all-electric, fuel-cell, and plugin hybrid vehicles have been falling for three consecutive months after the government scaled back subsidies. Sales of such vehicles***

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> ***dropped by 34% last month**, according to the China Association of Automobile Manufacturers. BYD's September car sales fell 15%.*

China manufacturers divert cash into financial products

> *Fangbang Electronics, an electronics component maker, announced two weeks after it floated shares on Shanghai's bourse in July that **it would spend up to 93% of the money raised in its IPO on wealth management products** with a maturity of up to 12 months.*

U.S. Economy

Cramer echoes my long-held thesis on this...

Cramer on stock record: We need apologies from trade war naysayers who said US would be damaged

> *"I really liked the industrials that reported last week. Very solid. Really solid," Cramer said. "It turns out, the **industrials are not as perturbed about China as you would have thought**."*
>
> *Tariffs and uncertainty stemming from the long-running trade war between the world's two largest economies has triggered recalibrations of global growth estimates. Industrial stocks had, at one time, been a sector feeling pressure by the trade war.*
>
> *But the strength shown by some industrial companies, such as United Technologies and Honeywell, was "rather remarkable," Cramer said. The strong quarters from industrial companies have helped push the S&P 500 to fresh highs.*
>
> *"Every single one of these were much better than expected, and they were much better than expected from either self-help or the world isn't as bad as we think," Cramer said.*

U.S. Politics

Impeachment isn't popular in Wisconsin and these 5 other key swing states

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> *The New York Times and Siena College, 2018's most accurate pollster, took a poll of voters in Pennsylvania, Michigan, Florida, North Carolina, Wisconsin and Arizona. These were closest states in the country that cast their electoral votes for Trump in 2016.*
>
> ***Just 43% of voters in these six states want to impeach and remove from office** at this point. The majority, 53%, do not. This means that the margin for not impeaching and removing Trump in these states (+10 points) is running well ahead of Trump's margin in these states of about 1.5 points. Put another way, **impeaching and removing Trump from office in these states is not a popular position**.*

Frontier Markets

Strictly from 10,000 feet - with no particular insight into the fundamentals of specific frontier markets - this is a space I will look at on any risk-asset wipeout stemming from a Phase One trade deal blow-up. The Fed has corrected course, the curve is disinheriting, and if a phase one derailment forces them to cut once more in December, all the better for global liquidity conditions - which should be decent next year,

FT: Default Risk Rises Rapidly in Frontier Markets

> *Frontier markets' greater reliance on dollar-based funding, compared with emerging markets more broadly, has been a major factor behind the more rapid deterioration in their debt/GDP ratios in recent years, he added.*
>
> *However, Mr Medeiros said: "If we [and many other commentators] are right on a medium-term view that the dollar should be weakening from here, that would be another factor that contributes to better liquidity conditions for these countries."*