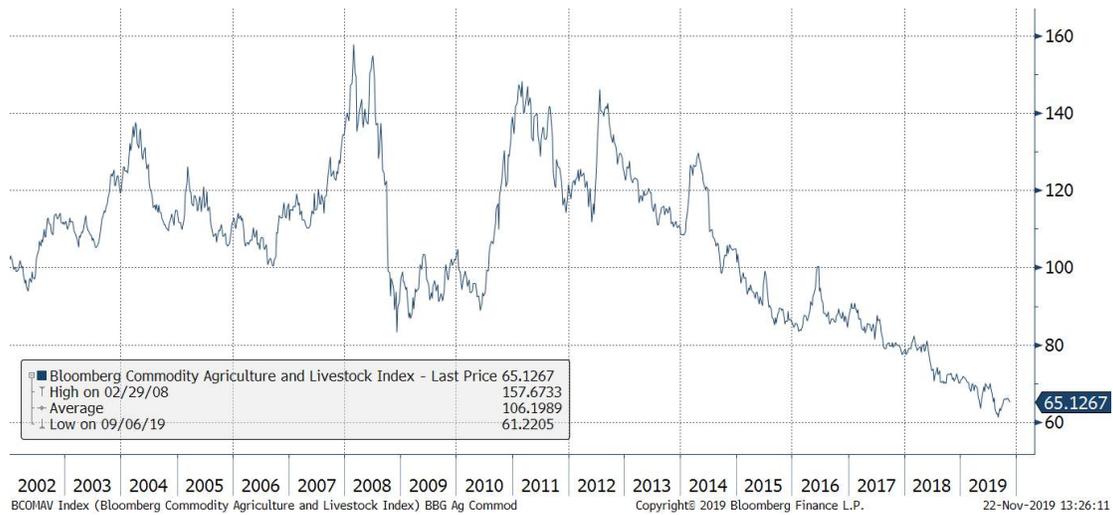




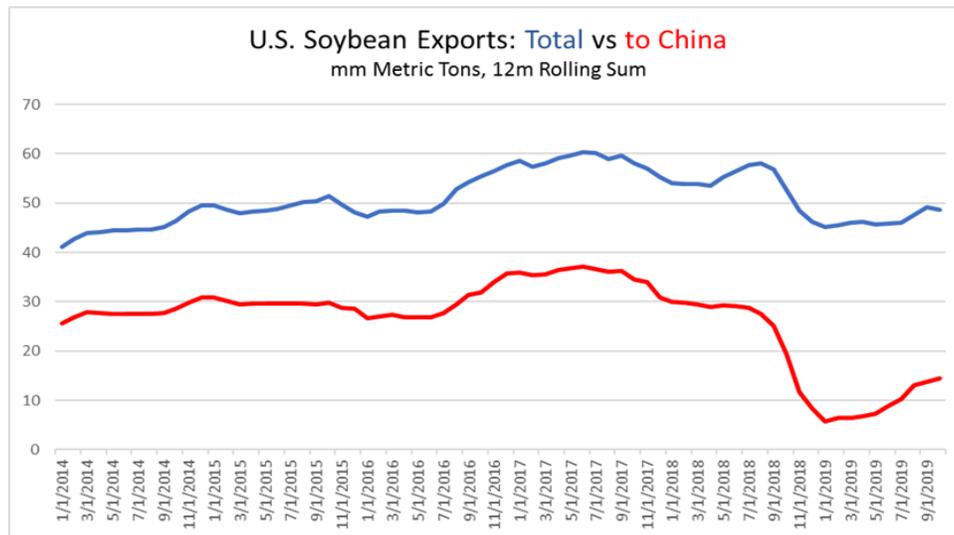
## Soybean Nonsense and Weekend Links

Before diving into this week's links, a quick deconstruction of another #fakenews narrative: the idea that the U.S.-China trade dispute has been devastating to U.S. farmers is ludicrous.

The farm belt's problems long pre-date the trade war, with the sharp strengthening in the Dollar in 2014-15 having been decidedly unhelpful to commodity producers of all stripes..

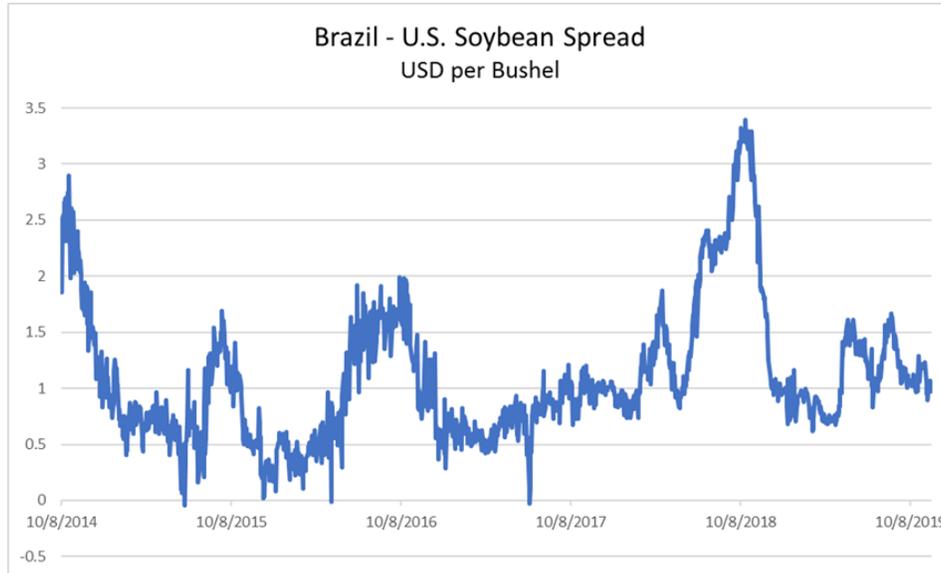


Secondly, commodities are largely **fungible**. While Brazilian and U.S. soybeans might have slightly different protein content, **a bean is pretty much a bean**. China has limited ability to drive up the price of Brazilian beans relative to U.S. beans before motivating Europeans, Japanese and others to shift their demand from Brazilian beans to cheapened U.S. beans.



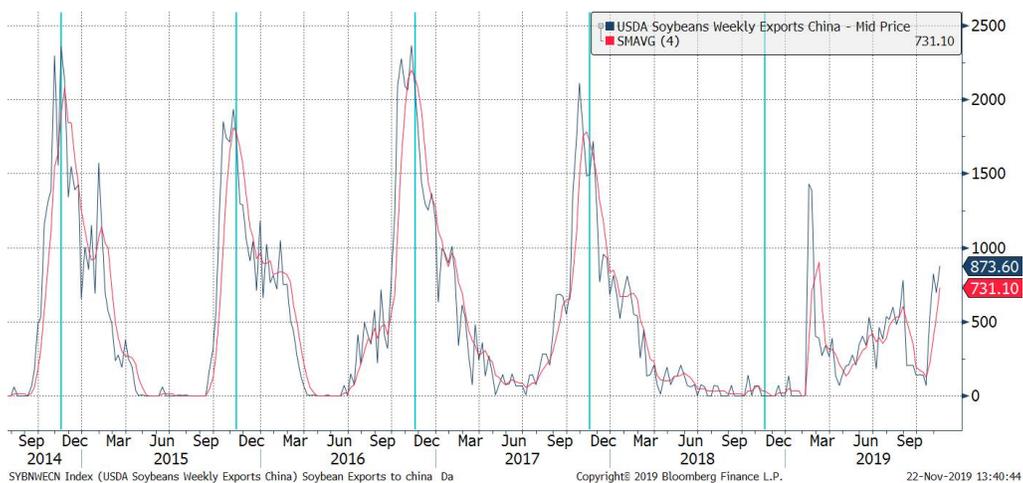


After a brief blowout a year ago, the Brazil – U.S. bean spread has returned to the middle of its historical range...



Perhaps this is why, counter to the media narrative, U.S. farmers are not only sticking with President Trump, but they overwhelmingly support tariffs on China.

For perspective, here are weekly U.S. soybean exports to China. With sales running at ~1/3<sup>rd</sup> of normal seasonal levels (the vertical lines denote mid-November each year), this isn't exactly overwhelming as a "goodwill gesture."



Not only is the trade war's damage to the farm belt **wildly overblown**, but a large increase in Chinese farm purchase will merely serve to **create yet another U.S. political constituency**



addicted to Chinese cash.

Sacrificing an insistence on domestic economic reform in China in return for accelerated Ag sales is a **really dumb idea**.

On to the links...

## Hong Kong

It's clear that a negotiated **political settlement is now out of the question**. Beijing's has hardened the police response in an attempt to force submission via violence and mass arrests. Beijing will ratchet up the force, without limit, until the protests are subdued.

### [Beijing's New Hong Kong Protest Strategy: Let 'Em Fight It Out](#)

*After Mr. Xi said in Brazil last week that Hong Kong's overarching priority is to end violence and restore order, police in the city employed **increasingly forceful tactics** against protesters: besieging a university campus to conduct mass arrests; saturating the area with massive volumes of tear gas and rubber bullets, deploying snipers and officers armed with assault rifles and submachine guns for the first time; and warning that lethal firepower may be used.*

***While amping up the use of force, Hong Kong's leaders also signaled little appetite for a mediated resolution, saying public dialogue can't take place while violent clashes continue.***

*As China's leader, Mr. Xi has shown increasing intolerance of dissent and demanded absolute loyalty to his agenda. Now that he has publicly **drawn a line in the sand**, Hong Kong's leaders—effectively appointed by and beholden to Beijing—have little choice but to continue forcefully suppressing the protests, China politics watchers say.*

*"Hong Kong authorities have been completely reduced to becoming a puppet in Xi's approach to governance," said Wu Qiang, a Beijing-based commentator on Chinese politics and a former lecturer at Tsinghua University. **"The central government doesn't need a political solution in Hong Kong, nor is it interested in finding one."***

Meanwhile, Beijing's response to the mask ban ruling is an overt encroachment, will further inflame tensions, and may alter market perceptions towards Hong Kong's as rule-of-law based...



## [SCMP: Anti-mask law in Hong Kong ruled unconstitutional by High Court](#)

*“The judgment could prompt the NPC Standing Committee to initiate the interpretation process to supervise and guide Hong Kong courts in correctly understanding [the relationship] between the Basic Law and the Emergency Regulations Ordinance,” Tian said.*

## [WSJ: Beijing Move Poses Challenge to Independence of Hong Kong’s Judiciary](#)

*China’s central government declared it has sole authority to determine whether Hong Kong laws are unconstitutional, a move that poses a challenge to the independence of the judiciary in the partly autonomous city.*

*The response Tuesday to a Hong Kong court’s ruling that struck down the local government’s emergency anti-mask law a day earlier doesn’t have immediate consequences for law enforcement. But it reflects Beijing’s potential willingness to insert itself to quell a political crisis even, according to some lawmakers, **at the expense of Hong Kong’s image as a city with strong rule of law** and an independent judiciary—crucial draws for foreign companies and investors.*

*Since the unrest began in Hong Kong in June, Beijing had kept its distance in public, saying it has faith in Hong Kong’s leader, Carrie Lam, and in the city’s police, while pressing Mrs. Lam behind closed doors. But after a weekend on which protesters fought police with bows and arrows and Monday’s High Court ruling, **Beijing is making it clear that it wants order.***

***Beijing’s statement “will have enormous implications for the business community in Hong Kong, including for the multinationals headquartered in Hong Kong,”** said Steve Tsang, director of the SOAS China Institute in London. “I think this will be a much bigger deal for them than the culminate effects of five months of unrest hitherto.”*

A key event for the weekend: will Hong Kong elections serve as a temporary release valve for political frustrations or somehow further inflame tensions?

## [Millions of Hong Kongers to Take to the Streets Again—This Time to Vote](#)

*“The election will be an important gauge on the society’s mood after close to half a year of protests.”*



## [How Hong Kong's local elections have become a proxy vote on the protests](#)

*Hongkongers will be asked to choose 452 district councillors, who serve on 18 different councils across the city. All Hong Kong permanent residents who are 18 or over have the right to vote. Voting opens at 7.30am, with over 600 polling stations across the city serving 4.13m registered voters.*

*Polls close at 10.30pm, and vote counting starts straight away. **The first results are likely to come through in the early hours of Monday morning** and the full picture should be clear by the time the city goes back to work.*

*In the last elections, pro-Beijing parties won a clear majority, over 783,000 votes compared with 540,000 for opposition pro-democracy parties. It gave them 298 of the seats, and control of all but one of the district councils.*

*Now pro-democracy parties hope to significantly erode or overturn that lead. They will be looking at the overall number of votes cast for their candidates, not just the number of seats they can take.*

AIA, at 9.9%, is the highest-weighted stock in the Hang Seng Index...

## [An Unlikely Hong Kong Tourist Trap Takes a Hit as Insurers Seek Cover](#)

*Sharp drops in visitor arrivals to Hong Kong in the past few months have dented a lucrative sales channel for large life insurers including AIA Group and Prudential PLC, which [had a roaring trade](#) selling policies and savings products to mainland Chinese crossing the border into the semiautonomous region.*

*The city's insurers have drawn mainland Chinese visitors with policies and annuity plans that are mostly denominated in U.S. dollars or Hong Kong's local currency*

*The business of selling insurance in Hong Kong to mainland tourists has previously drawn scrutiny from Beijing because it was a way for people to move large sums of money out of the country, often by using credit cards, and circumvent its capital controls, which limit personal transfers out of China to \$50,000 a year.*

*... the country's largest credit-card issuer and network operator, UnionPay, said it would [enforce a \\$5,000 cap](#) on each transaction for customers purchasing savings-like insurance products abroad. It also banned mainland Chinese customers from using its*



*debit and credit cards to buy overseas insurance products other than [accident and medical-related policies](#).*

*Individuals have found ways to work around the limits. For larger purchases of, say, \$10,000, some people use up the \$5,000 limit on their Chinese credit cards, then pay the remainder in cash or mobile payments to their insurance agents or brokers. Other individuals open Hong Kong bank accounts to purchase insurance. Some insurance buyers have been known to make yuan payments in cash to their brokers, who help them convert the funds to foreign currencies, the brokers say.*

## Xinjiang

The most notable aspects of [NYT's bombshell document drop on Xinjiang](#) might have been China's response, which could be loosely translated as "yeah, so what?"

[China's Xinjiang policy, subject to no one's slander - Opinion - Chinadaily.com.cn](#)

*In the war against terrorism and extremism, those engaged in criminal activities were punished according to law while those who committed minor offenses are able to find their redemption, even lead a better life, in the training centers. Given that those undermined by extremism are often poverty-stricken, enrollment at the training centers not only helps them get rid of extreme ideas, but also equip them with the necessary skills to throw off poverty.*

## Industrial Plan Not Called 'Made in China 2025'

Another nose-thumbing to U.S. complaints here...

[China sets up \\$21 billion fund to upgrade manufacturing - Shanghai Securities News](#)

*The fund, with a registered capital of 147.2 billion yuan (\$21 billion), will invest in both growth-stage and mature companies in areas such as new materials, next-generation information technology (IT) and power equipment, the newspaper said.*

*The new fund will invest throughout the entire manufacturing industry value chain...*

[Beijing's new industrial policy plan doesn't address Trump complaints](#)



*“The main message I get from this is: **We’re pursuing a state-led, large firm development goal,**” said Derek Scissors, a senior fellow and China economy expert at the American Enterprise Institute.*

*“They don’t say anything about competition in here at all. The messaging is entirely consistent with Made in China 2025,” he added.*

*The new plan will single out a group of companies to become “sector champions” by 2025. That echoes the “Made in China 2025” plan to upgrade the mainland’s industrial economy, which has been quietly dropped from official communiqués, but which analysts say is alive and well on the ground.*

## Huawei

The 90-day extension of the ‘Temporary General License’ is not what it’s been made out to be...

### Huawei plays down impact of new U.S. license extension

*U.S. regulators are crafting rules on telecommunications firms that pose national security risks. But after adding Huawei to an economic blacklist in May, the U.S. Commerce Department has allowed it to purchase some American-made goods.*

*Its 90-day license extensions aim to minimize disruption for its customers, many of which operate networks in rural America.*

*Huawei said on Monday that the latest extension would not “have a substantial impact on Huawei’s business either way”.*

Far more critical to Huawei are the individual exemption requests by U.S. firms to sell critical components...

### Microsoft granted license to export 'mass-market' software to Huawei

*On Wednesday, a U.S. official said it had received roughly **300 license requests, about half of which had been processed. Roughly half of those – or one quarter of the total – had been approved and the rest denied.***



*It was not immediately clear which products had been approved for sale to Huawei... A person familiar with the process said Wednesday that some licenses for sales of cellphone components and non-electronic components were approved.*

*Microsoft declined to comment beyond its statement on which products had been approved, and the Commerce Department declined to comment.*

*Dan Ives, an analyst with Wedbush Securities, said the license was most likely for the company's Windows operating system. "This will be a major relief for Huawei after an arduous period with large technology players like Microsoft, Google and others restricted on the platform," Ives said.*

*Huawei has been anxiously awaiting a license for Google to supply its mobile services to new models. Without access to Google services such as its Play Store for apps, Huawei phones will become harder to sell to consumers outside of China. **Google declined to comment** on Thursday*

...and the U.S. Senate is demanding clarity on what licenses are being approved and why, which could further delay the process and may well limit exemptions:

### [Senators want Trump to halt licenses that let US companies sell to Huawei](#)

*Allowing US companies to keep working business with Huawei could pose a threat to telecommunications infrastructure and national security, a bipartisan group of senators said in a letter to President Donald Trump on Thursday. The group -- led by Sens. Tom Cotton, an Arkansas Republican, and Chuck Schumer, a New York Democrat -- **asked the president to suspend approval of licenses** to export to Huawei until Congress can be "appropriately informed" about the approval process and any national security implications.*

*In their letter, the senators asked the Commerce Department to suspend granting of licenses until it's able to provide Congress with a report outlining "specific criteria for determining whether or not the approval of any license poses a national security threat." They also asked that congressional leadership be notified before issuing "any licenses to US firms to sell components to Huawei and its affiliates."*

*The Commerce Department said the **licenses are limited to specific activities that don't pose a significant risk to national security.***



The Senate is also pushing for broader export controls...

## [Lawmakers urge U.S. government to tighten export controls to China on security fears](#)

*The Commerce Department has been tasked by a 2018 law with drafting regulations to toughen export controls for cutting-edge technologies.*

*To launch the process, the department sought public comment in November 2018 on how best to design so-called emerging technology rules, which could cover anything from artificial intelligence to biotechnology.*

*A year later, however, the agency has not proposed any rules and has not yet sought input on how to regulate exports of so-called “foundational technologies,” those needed to produce cutting-edge goods.*

*“We understand the technical challenges of evaluating cutting-edge technologies,” Schumer and Cotton wrote, “but it is imperative that the department act expeditiously to develop guidance around these technologies to prevent them from being exported to our military competitors.”*

No end to the Congressional China-bashing it seems...

## [US lawmakers still have 150 other China-related bills to deliberate](#)

*The glut of anti-China legislation underscores the enthusiasm for **one of the few issues that the two US political parties agree on...***

*The Uygur Human Rights Policy Act, passed by the Senate in September, is among the many bills targeting China that might make it to Trump’s desk. The Uygur bill would require the US director of national intelligence to report to Congress on “security threats caused by the Chinese government’s reported crackdown” on Uygurs, “the frequency with which other governments are forcibly returning Turkic Muslim refugees and asylum seekers to China, and the development or transfer of technology that facilitates mass internment and surveillance”.*

*Still before Congress are more than 150 other pieces of legislation either devoted specifically to China, such as the China Technology Transfer Control Act, or with provisions relating to it, including the National Defence Authorisation Act, which must be passed annually.*



*Subjects of the legislation include cybersecurity, the fentanyl trade, political influence operations, trade and investment, Taiwan and the South China Sea.*

*"I do think that it's reasonable to anticipate that **national security issues are going to continue to be a driving concern on the Hill and that they're going to result in legislative action that does have an impact on commerce**, on US companies that are engaged in business with China," she said.*

## China Economy & Finance

A wild proposal here by the powerful NDRC to have the banks effectively forgive a large chunk of SOE debt, funded by PBoC. While the loony idea was swatted down by Li Keqiang, this line of thinking is worrisome for bank shareholders...

### [Inside the PBOC's Struggle to Balance China's Growth and Debt](#)

*Deep in the government compound in Beijing, China's State Council was in session, debating a complicated proposal to help struggling domestic companies.*

*The cabinet meeting in Zhongnanhai, a walled expanse of ornamental lakes and pavilions adjacent to the Forbidden City, took place late in May, days after U.S. President Donald Trump heaped yet more tariffs on China's exports and restricted the sale of goods to Huawei Technologies Co.*

*On this day though, officials were grappling not over the fallout from the trade war, but how to tackle a home-grown adversary: about \$35 trillion in corporate, household and sovereign debt.*

*An official from the National Development and Reform Commission, the modern-day incarnation of the once-mighty State Planning Commission, was suggesting that the People's Bank of China should release a bolt of cash that could be used by banks to buy stakes in companies, which would then use those funds to repay some of their debt.*

*The central bank governor Yi Gang was present at the meeting, but before he could speak, Premier Li Keqiang dismissed the proposal on the grounds that yet more central bank liquidity wasn't the answer.*

The Premier does seem to have internalized the fact that credit stimulus is at an end...



## [Li: China to ensure stable, consistent macroeconomic policy](#)

*Li ruled out the possibility of resorting to the deluge of strong stimulus policies or monetary easing.*

The conundrum, of course, is that the government must also ensure that nothing defaults, given that they have effectively ‘wrapped’ all of it, either explicitly or implicitly. No one should be surprised that LGFV’s have monetized their implicitly guaranteed status by extending that guarantee to the “private sector.”

## [China’s Local Government Units Now Guarantee \\$842 Billion of Credit](#)

*...in recent years, a growing number of these heavily-indebted entities, known as local government financial vehicles (LGFVs), have emerged as white knights of a troubled private sector, offering guarantees to loans and bonds from garment-makers to construction firms.*

*The shifting role of the LGFVs, which build roads, bridges and airports across China, highlights Beijing’s growing reliance on an ever-bulging state sector to engineer stability in turbulent times. The credit guarantees are part of a broader nationwide campaign to alleviate pain for private businesses hit hard by trade tensions and a weakening economy.*

*But the **added responsibility may prove to be unbearable for the LGFVs who themselves face a giant wall of debt.** Around 2,000 of these funding platforms have offered a total of **5.9 trillion yuan (\$842 billion) worth of credit guarantees** to domestic firms, representing nearly a quarter of their combined net assets, said Liu Yu, an analyst from Guosheng Securities Co. It also amounts to around 70% of the LGFVs’ total onshore bonds outstanding.*

*The pledges help private firms secure financing as they suffer from limited access to a banking sector that prefers lending to politically influential state-owned companies.*

## [U.S. – EU Trade](#)

With the legality of yet another delay to the auto tariff threat in question, the Trump Administration looks to start over...

## [Exclusive: Trump weighs new trade investigation to justify tariffs on EU](#)



*Trump administration officials are considering whether to **start a new trade investigation against the European Union** as the window closes for hitting Brussels with automobile tariffs, according to multiple people briefed on the issue.*

*Such a move would mean that European auto imports wouldn't be subject to duties out of national security concerns, but the trading bloc would be subject to a much broader inquiry, the people said.*

*“What it would do is it would create a situation that for another year would give the president leverage over the EU,” said a former administration official.*

*...with the deadline passed, questions are now being raised over whether he can continue using Section 232 of the Trade Expansion Act of 1962 to take any future tariff action. The previously little-used provision allows the president to impose trade restrictions if imports are considered a threat to national security.*

*An investigation under Section 301 of the Trade Act of 1974 would be **potentially more sweeping** and would subject numerous European industries, subsidies and other programs to scrutiny. The move would also effectively terminate the national security investigation.*

*Section 301, which also has been little used by previous administrations, allows the president to impose trade restrictions if an investigation finds that a country is engaged in a practice that is unjustifiable and burdens or restricts U.S. commerce.*

## USMCA

I refuse to believe Pelosi will compound the image of a partisan impeachment with stonewalling of USMCA. Although if she gives a veto to AFL-CIO's Trumka - who seems to want Mexico to change 100 years of labor relations processes overnight – the deal might be in trouble. An obstruction strategy on this will prove lethal for House Democrats, but the #orangemanbad emotions are very strong...

## [Nafta Rewrite Runs Into Trouble as Mexican Reform Comes Up Short](#)

*House Speaker Nancy Pelosi has praised Mexico's recent labor reforms while raising concern about their implementation. If AFL-CIO leader Richard Trumka approves, the USMCA vote could be done by Christmas, Democrats said Tuesday, a sign of how*



*important U.S. labor forces are in the appraisal of the accord. But Trumka said earlier in the day that more work needs to be done.*

## Politico Morning Trade: Don't Hold Your Breath for USMCA this Year

*Pelosi all but closed the door Thursday on the Trump administration's goal of moving the USMCA through Congress before year's end. Even if Pelosi and House Ways and Means Chairman Richard Neal had reached a deal with U.S. Trade Representative Robert Lighthizer on Thursday, Pelosi said, there still **might not be enough time left in 2019 to hold a vote.***

*Neal, Pelosi, Lighthizer and a handful of staffers did not reach any agreement after a roughly 90-minute meeting in the Capitol on Thursday afternoon. **Neal and Pelosi both said they made progress.** Neal added that there were about "two and a half issues" outstanding, but he didn't specify what was left on the table.*

*Getting close on labor issues: **The administration has gone some distance toward meeting Democrats' demands to strengthen the agreement's labor enforcement provisions,** including the acceptance of a process for inspecting production sites in Mexico to determine whether they are meeting the pact's labor standards. USTR also seems open to the idea of agreeing to penalties, including blocking goods at the border if they are found in violation, two sources briefed on the state of play told Morning Trade.*

*One of the issues not yet resolved are so-called due process issues related to those actions, which includes how fast those penalties would be applied in the case of a violation and what an appeals process would look like, the people said.*

## U.S. Politics

Captivating to the Dem base, the Impeachment effort is failing to generate broader traction...

## Poll: Opposition by independents to impeachment inquiry jumps 10 points

***Opposition by independents to the House's ongoing impeachment inquiry jumped 10 percentage points** in the last week, according to a Politico–Morning Consult poll released Tuesday.*

*The poll showed 47% of independents opposed the inquiry, compared to 37% last week.*



Why Buttigieg's surge in Iowa and NH doesn't necessarily indicate a serious shot at the nomination...

[Pete Buttigieg Is Struggling With Black Democrats. Here's Why.](#)

*...as his campaign has grown exponentially beyond the small band of loyalists who began it in January, Mr. Buttigieg has failed to demonstrate even minimal support among African-Americans and Hispanics, critical voting blocs that will have a much larger say after Iowa and New Hampshire, and their nearly all-white electorates, [begin the presidential nominating calendar.](#)*

*Mr. Buttigieg's weakness with voters of color — **he registered zero percent among black South Carolina Democrats** in [a Quinnipiac University poll released Monday](#) — limits his potential in the 2020 campaign.*

*No Democrat in modern times has won the party's nomination without claiming majorities of black voters, the most crucial voting bloc in South Carolina and in an array of delegate-rich Southern states.*

*Since his campaign was sidetracked in June by the fatal shooting of a black man by a white South Bend police officer, which [illuminated his failure to hire African-American police officers](#), Mr. Buttigieg's campaign has been dogged by a series of episodes that have brewed distrust among black voters.*