



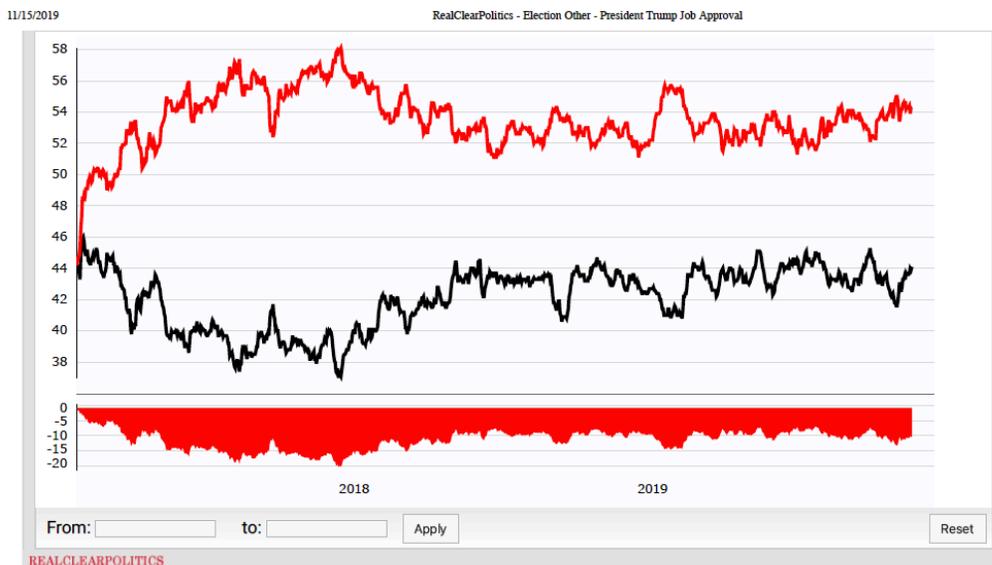
## Two Movies, Vetoes and Weekend Links

I've written in the past about the Scott Adams theory that society is split in half with factions watching "[two different movies on the same screen.](#)" In early 2017 Adams suggested that:

*In order for our two-movie situation to merge back into a single movie, one of us needs to see our expectations violated in ways that even cognitive dissonance can't explain away.*

Unfortunately, 21 months later it doesn't feel like we're approaching that point. In fact, we're getting further away, and the impeachment proceedings are only solidifying the division.

While impeachment has had no discernible effect on President Trump's approval ratings, it has produced an unusual negative correlation between his approval and disapproval – both have gone up!



Needless to say, that phenomenon is not indicative of likely success in ousting the President. Instead, the process seems designed merely as red meat for the Democrat base. While time will tell whether an aggressive base-energizing strategy proves electorally beneficial, it has the near-term effect of exacerbating the “two movies” problem.

With Presidential policy at the forefront of market concerns, it's important to note that **the market is watching two movies as well.** One of the foundational rules of investing – check your cognitive dissonance at the office door – is easier said than done sometimes.



I ran into the phenomenon this week in discussing the Hong Kong Human Rights and Democracy Act. I had no less than 4 successful investors tell me they thought it was possible that Trump might veto the bill. If that sounds outlandish to you, here was the same sentiment in Barron's today:

[The Turmoil in Hong Kong Could Threaten the Stock Market Rally. Here's How](#)

*...the highly controversial (from Beijing's perspective) Hong Kong Human Rights and Democracy Act, which is on a fast track **for potentially unanimous Senate approval**, writes Chris Krueger, who heads Cowen Washington Research Group. Similar legislation **passed the House of Representatives unanimously**. If, as expected, the Senate approves its own version, the House probably would pass that, too.*

*Rather than risk scuttling the trade deal that the White House devoutly wishes to be consummated, Trump could veto the Hong Kong rights bill.*

That piece echoes the discussions I had this week. The President might veto the bill because he is "desperate to make a deal," and or "doesn't care about human rights."

In reality (at least according to the movie I'm watching), those attempts at Presidential mind-reading may or may not be true, but they are irrelevant to the political calculus. The bill is set to **unanimously pass both chambers!**

That means a) the measure is broadly popular and b) there is no chance a veto would be sustained. A **veto would be a political kamikaze mission**.

If I'm watching the right movie, the odds of passage of the Hong Kong Human Rights and Democracy Act are approaching 100% and the odds of a veto are zero. (There may be some slight chance that if Trump really wants to avoid sticking a finger in Xi's eye he could sit on the bill without signing it for 10 days, after which it becomes law. Unlikely, but possible.)

That said, there is some mystery as to what's going on with the bill. The bill has been "fast-tracked" via the Senate "hotline," through which bills are proposed for passage by unanimous consent unless a Senator picks up the "hotline" to lodge a dissent.

According to [today's SCMP](#):

*The United States Senate on Thursday initiated an expedited "hotline" process to pass the Hong Kong Human Rights and Democracy Act, as the escalation of violent clashes between the city's police and protesters continue to make headlines worldwide.*



*US Senator Marco Rubio, the bill's sponsor, and Senate Foreign Relations Committee chairman Jim Risch, started the quick passage process in a bid to speed up the passing of the bill, which would clear the way for sanctions against individuals deemed to have violated Hong Kong's autonomy from mainland China.*

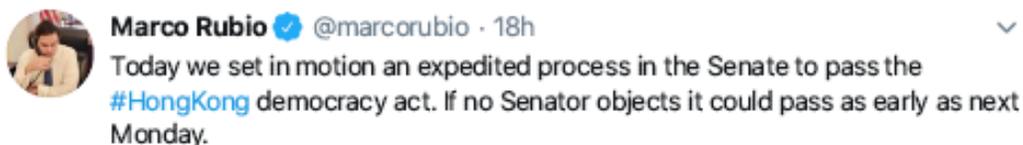
*The strategic procedure carried out by the Senate's leadership checks for last-minute opposition to bringing a bill immediately to the floor for a vote. If no senators voice opposition to sidestepping a formal vote, the bill passes.*

*However, Rubio and Risch were not able to clinch passage by the end of the Senate session on Thursday, according to a Senate foreign relations committee aide.*

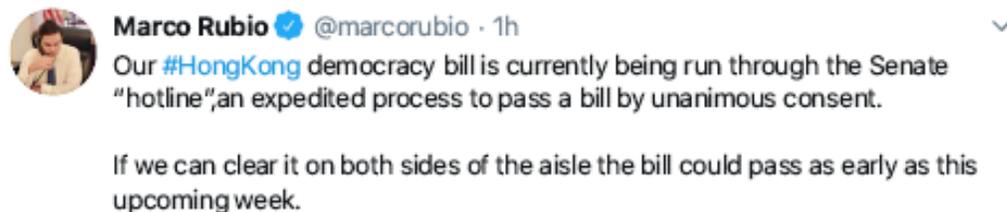
*"Sometimes the hotline process takes more than a day, so it's still moving along," the person said, adding that the floor was closed until Monday.*

It is unclear why passage was not able to be secured on Thursday, and a pair of tweets from Senator Rubio raise some concern that one or more Senators might be holding up passage for some reason:

Rubio's Thursday tweet:



Rubio's Friday Tweet



To someone who's trying to hold on to a tactical short position in U.S. equities, the transition from "as early as Monday" to "as early as next week" raises questions...

As for mysteries, as of Friday's close there is yet no word as to the "constructiveness" or lack thereof of today's scheduled call between the principal negotiators on U.S.-China trade. In fact, we can't even be sure it happened.



We did get, however, [a Friday afternoon report from the Hill](#) suggesting that NEC Director Kudlow is putting the already emaciated Phase One deal on a further diet:

***President Trump and Chinese President Xi Jinping may not be the ones signing a potential initial trade agreement** between the U.S. and China, the White House's top economic adviser, Larry Kudlow, said Friday.*

*Kudlow's suggestion that Trump and Xi may not sign the deal seemed to indicate that a final agreement may not end up being too significant.*

*Speaking to reporters, Kudlow insisted that a minister-level signing — which he joked could be held in his own office — was not a sign for concern: "don't read much into it" he said.*

*Kudlow also insisted there was progress on the negotiations, but **refused to set a date or timeline** and brushed away questions about the time it's taking to get to a signature of the deal.*

*"We never set a timeline. We hoped to get something done around APEC. APEC didn't happen," he said.*

*He also confirmed that a **rollback of existing and scheduled tariffs was part of the discussions.***

As I explained last week, agreeing to tariff rollback would be a disastrous decision for President Trump from every angle – economics, politics and national security. I still see the **odds of a phase one deal signing at less than 30%** and stick by the pledge to “eat my hat if Trump agrees to tariff rollback.”

We should find out soon whether or not I’m watching the right movie.

On to the links...

## U.S. – China Relations

Here’s a small bone the Administration can throw China to keep the Phase One hopium alive...

[U.S. likely to extend limited export waiver for Huawei](#)



*The Commerce Department is expected to grant a six-month extension to permit rural telecommunications firms to do some transactions with blacklisted Chinese equipment-maker Huawei, said two people familiar with the decision.*

*The administration has already extended the so-called temporary general license once before. The current waiver is [set to expire on Monday](#). It allows U.S. firms to continue to engage in a limited number of transactions with Huawei, such as supplying existing networks and equipment and providing software updates and patches to Huawei handsets.*

*The temporary export license, however, **does not cover major transactions between U.S. semiconductor manufacturers** like Intel, Qualcomm and Micron that supply microchips to the Shenzhen-based company, which is one of the world's largest manufacturers of telecommunications equipment.*

*Commerce is still sitting on applications for export licenses that would allow those transactions to continue, and there's no schedule for when those waivers might be granted, the people said.*

Senator Rubio must really think he's found an issue with traction here...

### ['We must combat China': US senators' new bill to counter Beijing's rise](#)

*US senators have moved to introduce legislation that would require the government to regularly outline its global economic security strategy in a bid to confront the economic threat from "near-peer competitor" China.*

*The so-called Global Economic Security Strategy Act would require the president to produce a report on the United States' economic competitiveness, threats to its economic security and ways to deal with them.*

*The bill was introduced by Republican senators Marco Rubio and Todd Young, and Democratic senators Jeff Merkley and Chris Coons*

### [U.S. Retirement Fund Okays China Investment After Senate Threat](#)

*The board that oversees retirement savings for U.S. government employees will allow one of its funds to invest in an international index that includes Chinese companies, despite*



*the threat of legislation from lawmakers who say the investments will undermine national security and contribute to China's economic and corporate growth.*

*"Investing in emerging markets is not only legal but is the overwhelming choice of fiduciaries across industries and the choice of individual Americans," Michael Kennedy, the FTRIB chairman, wrote in a letter to the senators. "The board is fulfilling its role as fiduciary of a retirement plan."*

*Marco Rubio, the bill's lead sponsor, condemned the decision as "unconscionable" and said it would direct the retirement savings of military service members and federal employees to the Chinese Communist Party. He vowed legislative action on the issue and said the board's "refusal to act in the best interests of the United States will not go without consequence."*

*Rubio introduced the Taxpayers and Savers Protection Act last week along with a bipartisan group of senators including Jeanne Shaheen, Mitt Romney, Kirsten Gillibrand, Josh Hawley and Rick Scott.*

Looks like the hawks might have the advantage now in the German political tug of war over Huawei...

### [Merkel to Ratchet up Huawei Restrictions in Concession to Hawks](#)

*Chancellor Angela Merkel's government is prepared to make **a key concession to security hawks** by tightening barriers aimed at Chinese equipment supplier Huawei Technologies Co., according to people familiar with the plans.*

*A draft of security measures being rolled out by the German government aims to **block Huawei components from entering the core network** of the country's ultra high-speed fifth-generation technology, the people said on condition of anonymity. The new rules may assuage officials in Merkel's intelligence services and the U.S. administration who have warned about the risks of Huawei's ties to the Chinese government and 5G's susceptibility to sabotage or espionage.*

*The German leader, who has cultivated relations with Beijing and insisted that her government won't single out a Chinese vendor, has **come under increasing pressure** to toughen her stance on Huawei to ensure that German data is protected. Security hawks have accused Merkel and her allies in the Economy Ministry of taking a soft line on China in an effort to bolster trade relations.*



*Now Berlin's planned move **could potentially upset Beijing** which has lobbied governments across Europe and the West to resist a U.S. campaign against the company. Moves to restrict Huawei's market access have already strained Beijing's ties with nations ranging from Australia to the Czech Republic.*

**An under-the-radar big event:** Nov. 22 announcement on U.S. intentions towards the WTO:

### [U.S. Raises Prospect of Blocking Passage of WTO Budget](#)

*If the U.S. unilaterally kills off funding, it could imperil the future of the WTO's work and force countries to fundamentally rethink their reliance on it to negotiate trade deals and settle the surging number of disputes.*

*The move marks an escalation in the Trump administration's approach toward the trade body, which President Donald Trump has threatened to withdraw from entirely. The Trump administration also blames the WTO partly for allowing China to grow into a rival economic power over the past two decades by flaunting the rules.*

*Trump, U.S. Trade Representative Robert Lighthizer and other U.S. critics argue that the WTO dispute settlement system threatens America's sovereign rights and has strayed from its mandate.*

***The U.S. plans to deliver a statement about the "systemic concerns regarding the compensation of appellate body members" at the Nov. 22 meeting of the WTO dispute settlement body, according to a document published Tuesday by the WTO.***

### [Hong Kong](#)

The rhetoric has really taken a turn for the worse. Here were the [comments from President Xi on Thursday](#):

*China President Xi Jinping said **restoring order and stopping violence is the most urgent task** right now for Hong Kong, China's state television CCTV reported on Thursday.*

*Xi said China continues to firmly support Hong Kong's Chief Executive Carrie Lam to implement policies according to law and punish rioters, CCTV reported.*



*China opposes any external forces to interfere with Hong Kong affairs, and its determination to implement the “one country, two systems” principle is unshakable, the report quoted Xi as saying.*

And an ominous comment from Hong Kong’s second in charge (via Bloomberg):

*Cheung, the city’s chief secretary, promised “**more decisive measures**” to halt protest violence, including suspending civil servants who are arrested during demonstrations. Cheung -- joined by Civil Service Secretary Joshua Law, Transport Secretary Frank Chan, Education Secretary Kevin Yeung and Constitutional and Mainland Affairs Secretary Patrick Nip -- said departments would step up coordination.*

*Law said that civil servants should make it their responsibility to suppress violence. **While Cheung declined to rule out further invocations of the city’s powerful Emergency Regulations Ordinance, he reaffirmed that the city would hold District Council elections as planned Nov. 24.***

Another great Hong Kong missive here from the FT’s Jamil Anderlini. Only a profound sense of disenfranchisement could have led the city to this point...

### [Events in Hong Kong reveal the thin veneer of civilisation](#)

*Demonstrators and police officers are experiencing a kind of epiphany when they realise there are no repercussions for smashing the thin veneer of civility. As a consequence, the range of acceptable behaviour has widened dramatically and the most brazen and outrageous actions are becoming normalised. This is fed by social media echo chambers. Pro-Beijing government supporters see and share only the vandalism and beatings carried out by demonstrators, while protest sympathisers focus only on police or triad violence.*

*This willingness to stomach previously unthinkable acts is astonishing in a place ranked seventh by the UN in terms of human development, with some of the healthiest, longest-living, best educated, richest and most worldly citizens on earth.*

*If this breakdown can happen in Hong Kong it can happen anywhere. And while a civil society can be torn apart virtually overnight, it almost always takes decades to build it back up.*

### [China Economy & Finance](#)



**Stay short Chinese growth.** The stimulus well has run dry...

## China fall in fixed-asset investment growth sparks stimulus doubt

*China's fixed-asset investment growth has sunk to its lowest level in two decades as the Chinese leadership's cautious stimulus fails to prop up the domestic economy in the face of a deepening slowdown.*

*Accumulated investment from January to October grew at 5.2% over a year previously, the lowest level for the period since publicly available records began in 1998.*

*The deepening economic slowdown, intensified by the US-China trade row, has ratcheted up pressure on Beijing to launch renewed stimulus measures.*

*Other industrial data released on Thursday also showed a broad slowing across the board, with industrial output growth for October at 4.7%, below the 5.4% growth expected by analysts.*

*Asked about whether the most recent figures reflected growing downwards pressure on the economy, Liu Aihua, a spokesperson for the statistics bureau, said October's poor numbers were caused by "short-term factors", adding that, despite the slump, fixed-asset investment in technology sectors had grown at about 14%. "Destabilising and uncertain factors from outside the country are currently continuing to grow," said Ms Liu. **"The risks and challenges facing the economy are still relatively numerous, so we cannot underestimate them."***

## China will further prioritize stabilizing growth: premier Li

*China's Premier Li Keqiang said the country will further prioritize stabilizing growth, according to state media on Thursday citing a meeting he had with local officials.*

*China's regional differentiation in economic performance is widening, with some regions showing weakening growth, said Li. China will further prioritize maintaining growth within a reasonable range, he said.*

*China's economic operations are maintaining stability in a **"complex and severe environment,"** said Li, according to the report.*



The Head of CASS basically argues for helicopter money here. (Pro tip: “supply-side structural reform” is BS)...

## [China’s 2020 growth to drop below 6.0 per cent, says government-linked body](#)

*The National Institution for Finance and Development (NIFD) on Wednesday said that China’s economic growth rate will slow to 5.8% in 2020 from an estimated 6.1% this year.*

*“The economic slowdown is already a trend,” said former central bank adviser Li Yang, who heads the institute that is affiliated to the Chinese Academy of Social Sciences (CASS). “We must resort to deepened supply-side structural reform to change it or smooth the slowdown, rather than solely rely on monetary or fiscal stimulus.”*

*Li said the government’s fiscal deficit problem will stand out in the future, adding that the central government may have to issue more bonds to fulfil its expenditure responsibilities. This could demand **more bond holdings by the central bank and better coordination and institutional arrangement between fiscal and monetary authorities.***

*“The macro control regime needs to be revamped,” he added.*

“Pay on credit” is sort of an oxymoron, but yeah, Chinese local governments are broke...

## [Contractors hit as China local government defaults rise](#)

*China’s lower-tier governments are under financial stress because their **revenue falls far short** of their rising public expenditure obligations in areas such as education and healthcare. Local governments, for example, spent Rmb3.9tn on education in 2017, up from Rmb1.1tn a decade ago.*

*That has forced many cash-strapped governments to **pay vendors on credit**, said Wang Dianxue, a Beijing-based lawyer who has represented contractors on government default cases.*

*“When you become a government contractor, you don’t expect to get paid once your work is completed,” said Mr Wang, “**you expect an IOU and an uncertain payment date.**”*

*China’s economic slowdown is putting extra stress on local governments that have **seen fiscal revenue growth in the first three quarters of this year fall to 3.1%, an 11-year low.***



Despite being broke, they're somehow going to rise to the economy's rescue. It's called "being broke with Chinese characteristics." (Pro Tip 2: a Yuan 1T in extra local bond issuance isn't going to move the needle).

### [Local govt spending to stabilize growth](#)

*Local government spending will play a major role in stabilizing China's economy, depending on the speed of issuing special debt instruments when companies slow investments, according to economists.*

*The 661.3 billion yuan (\$94.47 billion) in renminbi-denominated new loans in October, the lowest level in nearly three years, indicated a weaker fund demand especially in non-financial companies, in line with the further dip in production prices...*

*To stabilize growth, provincial-level local governments have proposed new quotas of the special purpose bond, which is a debt instrument especially to raise capital for infrastructure construction. **Local governments are waiting for the approval by top-level policymakers**, some experts close to the Ministry of Finance told China Daily on Tuesday.*

*Some economists expected that the total quota of **additional special bond may exceed 1 trillion yuan and that figure is nearly half of the total special bond quota in 2019**. An executive meeting of the State Council said in September that a part of the special bond quota will be issued in advance, without specifying the time.*

(Pro Tip 3: by "tighten liquidity risk management" they mean run a money-hose directly from PBoC to each struggling institution).

### [China to tighten liquidity risk management on smaller banks: regulator](#)

*A run on Yingkou Coastal Bank in the northeastern Liaoning province, China's second bank run in less than two weeks, has revived worries about the health of the country's smaller lenders.*

*"The banking industry is a very sensitive industry, which requires us to **improve the mechanism of liquidity risk management, and fend off systematic financial risks**," Liu Rong, vice department chief of city commercial banking at China's Banking and Insurance Regulatory Commission (CBIRC), told a media briefing in Beijing.*

## U.S. Politics



One benefit of impeachment is that it completely boxes Pelosi into having to pass USMCA. This is the “big win” Trump needs on trade. **A phony Phase One deal with China will only detract from the accomplishment.**

### [Nancy Pelosi says a USMCA trade deal breakthrough could be 'imminent'](#)

*House Speaker Nancy Pelosi indicated progress Thursday toward a final agreement on President Donald Trump’s North American trade deal replacement.*

*House Democrats have negotiated with the Office of the U.S. Trade Representative as they push for better tools to enforce labor and environmental standards under the United States-Mexico-Canada Agreement. Speaking to reporters, the California Democrat said “we are moving positively” toward a deal.*

*“I do believe that if we can get this to the place it needs to be, which is imminent, that this can be a template for future trade agreements. A good template,” Pelosi said.*

### [Battleground Democrats make USMCA push amid impeachment furor](#)

*A group of battleground House Democrats on Thursday staged a dramatic show of support for President Donald Trump's NAFTA update at a special caucus meeting on the issue, upping pressure on Speaker Nancy Pelosi in the final stretch of negotiations.*

*“Some of them said, ‘Hey, we’re the ones that brought the majority and we want this. We need to go back and show that we can do something,’” Rep. Henry Cuellar (D-Texas), a vocal supporter of USMCA, told POLITICO. “Nobody wants to just talk about impeachment.”*

I have an interest to short here if anyone has the other side...

### [Poll: Bloomberg Is Top Choice for 4% of Democratic Primary Voters](#)

*According to the Nov. 8 poll, **4% of Democratic primary voters said the billionaire and former Republican would be their first choice** for the party’s nomination to take on Trump next year — placing him above 10 candidates currently in the race.*

*Bloomberg’s initial entrance would do little to disrupt the current state of play, according to the national survey of 2,225 registered voters who indicated they may vote in the*



*Democratic primary or caucus in their state, which had a margin of error of 2 percentage points. At 31%, former Vice President Joe Biden held his spot as the race's front-runner, while Sen. Bernie Sanders (I-Vt.) and Sen. Elizabeth Warren (D-Mass.), with 20% and 18%, respectively, continue to vie for second.*