Brian McCarthy
Chief Strategist
(o) 203-614-8600
brian.mccarthy@macrolens.com

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Markets in High Resolution

Beating the Phase One Horse and Weekend Links

Believe me, I'm as sick of "Phase One" as you are. Unfortunately, there is still a fair amount of nuance and misinformation to unpack…

First, as to the question of "who won" (spoiler alert: the bad guys), **this deal cannot be viewed statically**. There is no agreement in a static sense: it is implausible that China would agree to $200bn of increased purchases over the next two years while allowing tariffs to remain permanently at Phase One levels (25% on $250n / 7.5% on $110bn).

The Chinese have suggested the purchases are simply a marker of what might unfold **in the event of further gradual tariff reductions**. Phase One is not so much a deal as an outline for an arrangement that is anticipated to be dynamic. And in that dynamism lies potential market risk: further tariff reduction will be critical for China in signaling that decoupling risk has gone into reverse and that therefore its supply chain is safe.

On "structural components" of the deal, judgement may be premature based only on a 2-page fact sheet, but there is **little basis for optimism**. The policy compartments – IP theft, forced transfer of technology, financial services opening and currency – line up too neatly with areas in which China has already announced half-measures, such as allowing foreign firms majority ownership of financial companies, a new Foreign Investment Law widely viewed as inadequate, and IMF commitments on transparency in official FX activity.

Worse still, it hardly even matters what China agrees to on structural issues because **the U.S. folded on its demands for unilateral enforcement**. Administration spokesmen from Lighthizer ("totally enforceable") to Navarro ("penalties can be imposed without China retaliating") appear to be **flat out lying** on this issue.

This is how USTR's fact sheet describes the mechanism (emphasis mine):

> *Dispute Resolution: The Dispute Resolution chapter sets forth an arrangement to ensure the effective implementation of the agreement and to allow the parties to resolve disputes in a fair and expeditious manner. This arrangement creates regular bilateral consultations at both the principal level and the working level. It also establishes strong procedures for addressing disputes related to the agreement* ***and allows each party to take proportionate responsive actions that it deems appropriate****.*

One of the biggest disagreements was over the unilateral versus bilateral enforcement mechanism. **China won**.

The unilateral enforcement mechanism Lighthizer had described was to permit the U.S. to

Brian McCarthy
Chief Strategist
(o) 203-614-8600
brian.mccarthy@macrolens.com

determine and impose penalties on China *without threat of retaliation*. This would allow the U.S. to take **incremental action** to ensure compliance.

Instead, both sides now have this right. Yes, the U.S. can impose proportional penalties on China if an issue proceeds through the various layers of dispute resolution unresolved. But if that happens it's **because China does not agree that they are in breach.**

If the U.S. then imposes a penalty by raising a tariff, **by definition, the U.S. then becomes out of compliance in China's eyes**. The obvious result: retaliatory tariffs.

Instead of enjoying a mechanism which allows for isolated, incremental acts of enforcement, the U.S now only possesses a nuclear option – one enjoyed by any sovereign in any such deal – which is to effectively blow up the deal **by triggering a series of retaliatory counteractions**. The burden of "going nuclear" has shifted from China in the unilateral structure to the U.S. in the bilateral structure.

This greatly raises the hurdle to any enforcement action, meaning the Chinese will **"salami slice" the U.S. with acts of non-compliance**.

But at least, as Mnuchin told CNBC, this enforcement mechanism will serve as the foundation for Phases Two through 'X'! That allows China to promise just about anything in return for further near-term tariff relief. **Phase Two might not be so hard after all**, so long as President Trump is willing to display ongoing weakness in this regard. One can begin to see the political costs of this Phase One deal.

As I noted in this space some weeks ago, the last Democratic Presidential debate notably sidestepped the issue of China. President Trump had left them nowhere to go on the issue. Not so last night. Mayor Pete was the most effective of several candidates attempting to exploit Trump's newly-exposed weakness on the issue:

Brian McCarthy
Chief Strategist
(o) 203-614-8600
brian.mccarthy@macrolens.com

While **Phase One does not provide a sufficiently stable equilibrium to get us smoothly through 2020**, it does set the stage for a Q1 reflation trade (as I noted on Tuesday). A likely deal-signing in early January should prove a boost to and reflationary momentum, particularly given **the Chinese tendency to ensure that such events are visibly well-received** by markets. China has now largely confirmed Lighthizer's contention that "the deal is done:"

China says in touch with U.S. on signing of Phase 1 trade deal

> *Both the Chinese and U.S. trade teams are in close communication, Gao Feng, a spokesman at the Chinese commerce ministry, told reporters at a regular briefing on Thursday, adding there is no specific information on the deal to disclose currently.*
>
> *The two countries have reached a consensus over the protection of trade secrets, guarding intellectual property rights for pharmaceutical products, and cracking down on counterfeits and pirated goods on e-commerce platforms, Chinese Vice Minister of Commerce Wang Shouwen said on Friday.*
>
> ***China will step up protection of intellectual property but at its own pac**e, Wang said.*

In response to Friday's tweet from President Trump announcing his call with President Xi, the Chinese leader himself confirmed the agreement. Via Xinhua:

> *In a phone conversation with his U.S. counterpart, Donald Trump, Xi noted that the two countries have reached the phase-one agreement on the basis of the principle of equality and mutual respect.*

Aside from suggesting the deal parameters remain well within Chinese red lines ("equality and mutual respect") the call readout went out of its way to note that it had occurred "**at the U.S.' invitation**." One is left with the impression of President Trump chasing down the Chinese leader for his public stamp of approval. He will not catch him for a photo op in Switzerland, apparently:

China's Xi Jinping set to skip World Economic Forum in Davos, scuppering hopes of meeting with Donald Trump

> *Chinese President Xi Jinping isn't planning to attend the World Economic Forum in January, according to people familiar with the matter, taking one option for a face-to-face meeting with his U.S. counterpart Donald Trump off the table.*
>
> *Beijing still plans to send its top trade negotiator Vice Premier Liu He to Washington to sign the phase-one deal in early January, an official said separately, asking not to be identified because the discussions were private.*

Brian McCarthy
Chief Strategist
(o) 203-614-8600
brian.mccarthy@macrolens.com

One of the sillier aspects of “Phase one” has been the debate around “can they really buy that much?” Of course they can. They can buy all of it if they want to, via central command:

China Expert Says Buying $40 Billion in U.S. Farm Goods Viable

> *China won’t have a problem buying $40bn in U.S. farm goods a year despite growing concerns over the feasibility of the deal, an influential Chinese industry expert said.*
>
> *Shanghai JC Intelligence Co., China’s most clued-in agricultural consultant and researcher, says that the Asian country could spend $18.7bn a year on U.S. soybeans. It could also buy about $7bn worth of other grains and related products, more than $2bn in poultry and chicken feet, and $2.5bn worth of nuts, JCI said. Cotton, fish and ethanol are also on the table, it said.*

And if needs be, they can always fudge the numbers…
China Plans to Buy Ethanol, Count Hong Kong Trade in U.S. Pledge

> *Beijing plans to restart purchases of ethanol by lifting or waiving trade war tariffs on the fuel, said people familiar with the matter, who asked not to be identified discussing the plans.*
>
> *In addition, **China is considering re-routing trade that currently passes through Hong Kong to mainland ports, the people said. That could enable around $10 billion a year in goods transshipped there from the U.S. to be directly booked** in the mainland, boosting the tally. The U.S. does not count shipments that go through Hong Kong as part of its trade with China.*

Gordon Chang points out a gaping hole in any potential agreement on forced technology transfer…

The Big Hole in the China Trade Agreement

> *There's something missing from the "Phase One" trade agreement with China, announced Friday. And it's something critically important. Yet, Larry Kudlow, President Trump's director of the National Economic Council, appeared not to know about it afterwards.*
>
> *"We will see," said Kudlow in response to Maria Bartiromo on "Sunday Morning Futures," her Fox News Channel show, as she asked him about Beijing's new "cybersecurity" rules. "There's a large IP chapter in this deal and there's also a large forced technology transfer*

Brian McCarthy
Chief Strategist
(o) 203-614-8600
brian.mccarthy@macrolens.com

> *chapter in this deal. I don't think we know enough about these new Chinese rules and we'll have to look at that and by the way if they do violate them of course we will take action."*
>
> *Bartiromo was referring to two sets of Chinese rules. On December 1, Beijing implemented the Multi-Level Protection Scheme 2.0, issued pursuant to the 2016 Cybersecurity Law. On January 1, China's Cryptography Law becomes effective.*
>
> *These measures prohibit foreign companies from encrypting data so that it cannot be read by the Chinese central government and the Communist Party of China. Businesses will be required to turn over encryption keys. Companies will not be able to employ virtual private networks to keep data secret, and some believe they will no longer be allowed to use private servers.*
>
> *Together**, these measures allow Beijing to take all the data and communications of foreign companies**.*

This is what I'm reduced to: hoping that Justin Trudeau of all people somehow saves us from this inane Phase One deal…

Trudeau to Trump: Don't sign US-China trade deal until Canadians released

> *Trudeau said Canada has asked the Trump administration to use ongoing trade talks with China as leverage in securing the release of the two Canadians.*
>
> *"We've said that the United States should not sign a final and complete agreement with China that does not settle the question of Meng Wanzhou and the two Canadians,"*

No one's focused on this yet, but if Congress could really put Trump in a jam in 2020 by taking up legislation on this issue. Beijing will go absolutely bonkers…

Lawmakers urge NBC to shun 2022 Beijing Olympics over human rights abuses

> *Senators Rick Scott and Josh Hawley have called on NBCUniversal, which has broadcast rights for the Olympics, to refuse to air the 2022 Winter Games in Beijing, according to a letter obtained exclusively by Axios.*
>
> *Why it matters: Consider this the opening shot in the struggle between human rights advocates, who believe that a country currently operating concentration camps should*

Brian McCarthy
Chief Strategist
(o) 203-614-8600
brian.mccarthy@macrolens.com

> *not host the Olympics, and the Chinese Communist Party, which will defend its successful bid to host the 2022 games at all costs.*

Good news, bad news for U.S. etch companies with regard to monetizing the sale of technology to China.

A proposal to broadly limit the sale of technology to "rival powers" has been narrowed considerably…
Exclusive: U.S. finalizing rules to limit sensitive tech exports to China, others

> *…**the rules appear to be narrowly tailored to address specific national security issues**, which should go a long way to calming the nerves of those in industry concerned that the administration would impose controls over broad categories of widely available technologies," said Kevin Wolf, former assistant secretary of commerce for export administration.*
>
> *Republican Senator Tom Cotton said he was "disappointed at the lack of political will" at the Commerce department, accusing it of a "troubling" lack of urgency.*
>
> *"While bureaucrats and industry shills twiddle their thumbs, the Chinese Communist Party continues to purchase sensitive U.S. technologies with clear military applications," he said. "I will be digging deep into the Commerce Department's actions."*

…But restrictions on Huawei are being tightened:
Tech Industry Shudders as U.S. Weighs New Limits on Huawei Sales

> *Some U.S. companies have continued selling to Huawei even after the blacklisting, citing rules that limit the government's ability to restrict exports. De minimis provisions exempt certain products if companies can prove the majority of work done to create the items happens outside the U.S. **The current threshold effectively kicks in when 75% of the work occurs overseas. The administration is considering raising that to 90%, and broadening the list of products**, people familiar with the discussions said. The change could come as soon as January, added the people, who asked not to be identified discussing policy deliberations.*
>
> *Many U.S. tech companies have operations outside the U.S. that help them argue their products are exempt. Chipmakers run design bureaus around the world to support 24-hour development cycles and many have outsourced manufacturing to Asian contractors.*

Brian McCarthy
Chief Strategist
(o) 203-614-8600
brian.mccarthy@macrolens.com

But if the de minimis threshold rises to 90%, the industry will struggle to keep slipping through this loophole.

The Germans are dithering, but it looks like Merkel is going to be forced into doing the right thing…

Merkel Faces Revolt Over Huawei as Lawmakers Seek Full Ban

A bill drafted by lawmakers in Merkel's ruling coalition stipulates that German authorities should be able to exclude "untrustworthy" 5G equipment vendors from "core as well as peripheral networks." That goes beyond previous calls that sought to ban the Chinese firm from the more sensitive core network alone.

The effort in the Bundestag, Germany's lower house of parliament, is a ***major challenge to Merkel's attempts at balancing security considerations over 5G with Germany's delicate economic ties with China****. Hawks in her government, including German intelligence agencies and the Interior Ministry, have warned that Huawei's ties to the government in Beijing pose a security risk.*

The draft legislation obtained by Bloomberg News says that security guidelines set out by Merkel's government, which include a certification process and a declaration of trustworthiness, don't go far enough. The political and legal systems in a vendor's country of origin must also be taken into account, the draft says in a direct allusion to China.

"Nice auto business you have there. Shame if something should happen to it…"
China Threatens Retaliation Should Germany Ban Huawei 5G

China's ambassador to Germany threatened Berlin with retaliation if it excludes Huawei Technologies Co. as a supplier of 5G wireless equipment, citing the millions of vehicles German carmakers sell in China.

"If Germany were to take a decision that leads to Huawei's exclusion from the German market, there will be consequences," Ambassador Wu Ken said Saturday at a Handelsblatt event. "The Chinese government will not stand idly by."

Having "belatedly woken up" to the fact that China is an authoritarian state, Europe, after exhausting all alternatives, will begrudgingly come around to the U.S. view on this…
Why Europe will choose the US over China

Brian McCarthy
Chief Strategist
(o) 203-614-8600
brian.mccarthy@macrolens.com

> *attitudes in Europe are now shifting. Mr Trump lobbied hard at Nato and claimed to have secured* ***Italian agreement to shut Huawei out****. Boris Johnson, UK prime minister, said that* ***Britain would not allow Huawei into its 5G network if that endangers the "five eyes" intelligence-sharing arrangement*** *with the US. This pledge hands the Americans a powerful lever. There are also suggestions in Congress that a UK-US free trade agreement would be endangered if Britain works with Huawei.*
>
> *The European shift is partly down to American pressure. But many Europeans were already taking a more jaundiced view of China. An important moment came earlier this year, when the European Commission issued a paper that described China as a "systemic rival".*
>
> *The EU has belatedly woken up to the fact that China is much more than a large market. It is also an authoritarian state with an increasing influential presence in Europe.*

Six years of wheel-spinning on a bilateral investment treaty can't be helping China's cause…
EU-China investment treaty talks in jeopardy

> *The EU's top trade official has warned that plans to broker an investment treaty with China by the end of next year are in jeopardy,* ***saying talks are moving at a "snail's pace"*** *and urging more political commitment from Beijing.*
>
> *The treaty is a priority for EU capitals as they seek greater access to the Chinese market for European investors and businesses — potentially outflanking the US, which recently concluded a "first phase" deal with Beijing on trade.*
>
> *But Sabine Weyand, the European Commission's director-general for trade, said on Tuesday that commitments from Beijing earlier this year to intensify talks had yielded little real progress.*
>
> *"At the moment we are not yet on a pathway to that," Ms Weyand told an event organised by the European Policy Centre in Brussels. The talks "need more political commitment on the Chinese side."*
>
> ***Brussels has been striving to secure the deal for six years****, as it seeks to prove it has the negotiating muscle to broker meaningful agreements with Beijing that can defend European companies from unfair competition.*

Brian McCarthy
Chief Strategist
(o) 203-614-8600
brian.mccarthy@macrolens.com

Hong Kong

Amazing...
Hong Kong House Prices Stay Stubbornly High in Face of Unrest

> *A much-feared plunge in property prices hasn't eventuated -- values in the secondary market have fallen just 5.6% from a record high in late June, when protests started to intensify. Sales centers for new developments are still packed, and the number of transactions between June and November in 35 estates tracked by Midland Realty International Ltd. climbed 37% from a year ago.*
>
> *Strong pent-up demand, low interest rates and easier access to credit, and confident developers have supported the property market.*

China Economy & Finance

Signaling from on high remains consistent – no "flood-like stimulus:"
China's economy may face greater downward pressure in 2020 - premier

> *China's economy could face more downward pressure in 2020 than it did this year, but the government will take steps to keep growth within a reasonable range, state television on Thursday quoted Premier Li Keqiang as saying.*
>
> *The government will strive to stabilise economic growth while promoting reforms and preventing risks, Li was quoted as saying.*
>
> *"Next year, **China's economic development is likely to encounter greater downward pressure** and face a more complex situation," Li said.*

It's a deluge of default stories now. We all know the macro dynamic:

- Tight global liquidity / weak commodity prices depress China's nominal growth
- Debt service pressures increase
- Demand for rollover liquidity increases
- Credit growth remains capped (though not low ~12%)
- That leaves less credit to fund new investment
- Growth slows
- Rinse
- Repeat

Brian McCarthy
Chief Strategist
(o) 203-614-8600
brian.mccarthy@macrolens.com

Corporate default hotspot tests Beijing's appetite for bailouts

The distress in Shandong has become a harbinger for financial risk across the country this year. A wave of defaults on corporate bonds has pushed China's private sector default rate to a record 4.9% as of the end of November, according to Fitch Ratings, up from 0.6% in 2014.

With economic growth at its slowest in three decades and financial pressure on companies increasing, investors are questioning how much Beijing will continue to cushion distress among private companies in places such as Shandong.

"A lot of people are betting that the government will support these companies because they are big taxpayers and employers," said Edmund Goh, Asia fixed-income investment director at Aberdeen Standard Investments in Shanghai. "But we think ***there are too many for them to all be bailed out****."*

China vulture funds feast as corporate defaults rise

The value of junk bonds doesn't depend on credit analysis,*" said Larry Hu, an economist at Macquarie Group in Hong Kong. "It depends on the likelihood of a government bailout."*

Yet state-led bailouts appear to be in jeopardy, as central and local governments struggle with shrinking revenues. Some vulture funds have already suffered heavy losses, after an expected rescue package failed to materialise.

Wang Yizhong, a Shanghai-based bond portfolio manager, said he lost more than Rmb30m on one-year commercial paper issued by Xiwang Group, a distressed industrial group in eastern Shandong province.

Mr Wang bought the debt after a government-led investment fund pumped Rmb3bn into the troubled corn oil producer. But the money did not resolve Xiwang's problems and local governments were too stretched to provide any further help.

*"The Chinese government is not as powerful as you think," said Mr Wang. "****They can't save everyone."***

Brian McCarthy
Chief Strategist
(o) 203-614-8600
brian.mccarthy@macrolens.com

We know the pain will fall disproportionately on the non-State sector, but I was actually quite surprised it was this bad: a 4.9% default rate among private companies?!?

Explainer: Behind the climb in Chinese companies' defaults on bond payments

> *A record **4.9% of privately-owned companies defaulted** on yuan debt payments in the first 11 months of the year, compared with 4.2% for the whole of 2018, according to Fitch. The credit rating agency estimates the size of the onshore corporate debt market at 19 trillion yuan (2.1 trillion pounds).*
>
> *Taken together, state and private companies have missed payments on more than 100 billion yuan ($14.2 billion) of bonds in the year to end-October, not far off the 111 billion yuan for all of 2018, according to S&P Global.*
>
> *Reuters calculations show **six state-owned firms and 42 private companies defaulted** on payments this year.*

The process for LGFV's will be no different from that for banks or SOE's: the weak will be swallowed by the currently viable, rendering them less so…
China warned of local debt vehicle default risk

> *Ma Jun, an external adviser to the People's Bank of China, called on the government to introduce "intervention mechanisms" to contain the risk associated with LGFVs — special entities used in the country to fund billions of dollars of roads, bridges and other infrastructure.*
>
> *"Among the tens of thousands of platform-style institutions nationwide, if only a few publicly breach their contracts it may lead to a chain reaction," Mr Ma said in an interview published on Wednesday in the state-controlled Securities Times newspaper.*
>
> *"Therefore, measures should be created as soon as possible to prevent and resolve local hidden debt risks to effectively prevent the systemic risks of platform default and closure," he added.*
>
> *One potential measure, Mr Ma said, was to **allow for distressed LGFVs to be taken over by healthier ones**.*

And land sale revenue hasn't even tanked yet (although 6.9% nominally is not enough to keep the wheels spinning)…

Brian McCarthy
Chief Strategist
(o) 203-614-8600
brian.mccarthy@macrolens.com

Local Government Land Revenues Expected to Hit Record High in 2019

> *The finances of China's local governments still remain heavily dependent upon revenues from land sales, which are on track to hit another record high in 2019.*
>
> *The "October 2019 Financial Revenues and Expenditures Report" released by the Ministry of Finance indicates that in the first ten months of 2019 China saw nationwide land transfer revenues of 5.07977 trillion yuan, for an increase of 6.9% compared to the reading of 4.7519 trillion yuan for the same period last year.*

Another tiger Chinese policymakers have by the tail: household exposure to developers through pre-sale arrangements.

Nearly all primary residential real estate is sold on a pre-sale basis, meaning at any point in time several quarters of developers' funding requirements might be met by what are effectively loans from households. Restricting pre-sales will not work unless they open the credit taps to developers, otherwise their funding will evaporate.

As the market softens, "runners" will only become more prevalent…
459 Real Estate Bankruptcy Filings Raise Concerns of Homebuyers Losing Out

> *As of Nov. 27, **459 real estate companies had filed for bankruptcy this year**, slightly more than the 458 bankruptcy filings seen in the whole of 2018, according to calculations by research firm China Real Estate Information Corp.*
>
> *The rise in bankruptcy filings may lead to an increase in unfinished developments, **with homebuyers who pre-purchased apartments "off-the-plan" losing out**. Although there is no official data on how many properties have been left unfinished as a result of developer bankruptcies, some local governments have begun to tighten regulations governing the funds property developers take from sales of off-plan homes.*
>
> *Xi'an, the capital of Northwest China's Shaanxi province, called for public comment on Friday on draft regulations ordering that funds used to pre-purchase real estate be deposited in special bank accounts subject to strict oversight by local regulators. Under the draft regulations, property developers would not be allowed to take money directly from buyers or open other accounts to receive the funds. Yan'an, another city in Shaanxi, issued a similar regulation in October vowing to ensure that funds from sales of off-plan properties not be embezzled.*

Brian McCarthy
Chief Strategist
(o) 203-614-8600
brian.mccarthy@macrolens.com

> *Li Yujia, chief researcher of a housing policy research institution in South China's Guangdong province, told Caixin that the Xi'an policy is meant to prevent homes from being left unfinished due to potential breakdowns in property developer funding chains.* ***If developers run away with the money****, it could "create risks for financial institutions, and defaults on project payments and* ***attempts by buyers to defend their rights will affect social stability****," Li said.*

"Homes are for living in, not speculation." Except, **when they build homes for living in, not speculation, no one buys them**.
Beijing Has Built Thousands of Cheap Apartments No One Wants

> *When Beijing introduced price caps for almost two-thirds of apartments in late 2016 as part of a program to provide homes for millions of middle-class citizens to buy, an array of cheap condominiums began springing up on the city's outskirts. Three years on,* ***the cramped, poor-quality units that are far from anywhere lie mostly empty****.*
>
> *More affordable apartments -- about 20% cheaper -- should sell like hotcakes, developers and officials thought.*
>
> *There was an initial rush but before long, interest tapered off. Buyers balked at the quality -- some units were delivered with cement-clad walls, leaving purchasers to do the tiling and occasionally even the electrical wiring themselves.*
>
> *Many are also on the outskirts of Beijing, with the nearest metro line three kilometers (1.9 miles) away, a struggle for young families reliant on public transport.*
>
> *In total, China Index Holdings Ltd. estimates around 51,000 units have been released in Beijing under the program; as of mid-December, 46% had been sold.*
>
> *That has turned an undersupply in the capital's new-home market into an oversupply. Whereas once there were at least two bidders for every apartment, now there are two apartments for every one buyer.*

LATAM

Strange silence on that re-imposition of steel tariffs on Brazil and Argentina. Empty threat? Trump changed his mind? He thinks it's been actioned but the order is sitting in someone's desk drawer? Kudlow mentioned recently that this was "under consideration" or some such. Do they think it will just fade down the public memory hole?

Brian McCarthy
Chief Strategist
(o) 203-614-8600
brian.mccarthy@macrolens.com

> **Chad P. Bown** @ChadBown
>
> Dear Trade Twitter,
>
> Have been waiting for official Federal Register notice on the Argentina/Brazil tariff conversion to update the @PIIE Trade War Timeline.
>
> Not surprisingly, IT NEVER ARRIVED.
>
> So, do we all just agree this never happened?
>
> Thanks,
> Chad
>
> > **Donald J. Trump** @realDonaldTrump · Dec 2
> > Brazil and Argentina have been presiding over a massive devaluation of their currencies. which is not good for our farmers. Therefore, effective immediately, I will restore the Tariffs on all Steel & Aluminum that is shipped into the U.S. from those countries. The Federal....
> > Show this thread

A Stiglitz acolyte is the last guy you want for Finance Minister in this Argentine situation. It'll be nothing but tax hikes and devaluations in a quixotic chase for ever-elusive "competitiveness."

Martín Guzmán shows a better way to deal with debt crises

> *An economist at Columbia University and protégé of the Nobel laureate and IMF critic Joseph Stiglitz, Mr Guzmán understands that if struggling nations need sufficient breathing room to grow. If they are locked into unrealistic debt repayment programs, they will be more likely to default again. He co-edited a book with his mentor arguing that sovereign debt restructuring tends to come too little, too late, which is one of the reasons that more than half of them are followed by another restructuring or default within three to seven years.*
>
> *The conventional way of dealing with sovereign crises over the past 40 years, as practised by the IMF and the World Bank has been to prioritise the interests of private creditors over everyone else including citizens on the ground. But this strategy tends to lead to situations like the one we have witnessed in Greece, where efforts to make debt more "sustainable" resulted in a 25% drop in gross domestic product. That not only reduces the*

Brian McCarthy
Chief Strategist
(o) 203-614-8600
brian.mccarthy@macrolens.com

likelihood of repayment, but creates political polarisation that drives the interests of politicians and creditors even further apart.

So far, there has been a gaping divide between those who believe in "fiscal discipline" and the more progressive policy types who want to acknowledge the painful reality that austerity can create for average citizens. Mr Guzmán may, in fact, be able to bridge that gap. "The thing about Martín is that he's terrific at mathematical models and high theory [of the sort that orthodox economists and markets love] but he's also interested in changing things in the real world," says Prof Stiglitz.

Argentina Plans Fresh Tax Hike as Farm Nightmare Comes True

Argentine farmers' worst fears were confirmed Tuesday as the new government proposed an increase in export taxes just three days after a first hike roiled the Pampas crop belt.

Taxes on soybean shipments will reach 33% under a bill sent to lawmakers, Economy Minister Martin Guzman told reporters. That compares with 30% now and 24.7% last week. Corn and wheat would be charged 15%, up from the current 12% and 6.7% last week.

Fernandez first raised taxes Saturday, just days after he took office, triggering outrage among rural leaders who said they hadn't been told the hike was coming and warned output on the Pampas may shrink. The swift move also put them in a panic about more increases -- though even Tuesday's double whammy wasn't expected.

"We are deeply worried about the latest measures," one of Argentina's biggest farm associations, CRA, said in a statement moments before Guzman spoke.

Hottest Job in Argentina: Helping the 1% Hide Their Cash Abroad

***Argentina already has a high tax load, close to 30% of gross domestic product**, which is substantially higher than the Latin American average of 22.8%, according to the Argentine Institute of Fiscal Analysis.*

"The country has a real tangle of taxes, fees and contributions: 163 taxes at the three levels of government (national, provinces and municipalities)," Nadin Arganaraz, director of the institute, said. The tax load is close to 33% of income for individuals and reaches 50% when they do everything within the formal economy.

Brian McCarthy
Chief Strategist
(o) 203-614-8600
brian.mccarthy@macrolens.com

A challenge to the strategy to hide wealth from the new government, is that many Argentines were persuaded to take part in a sprawling tax amnesty plan under former President Mauricio Macri in 2016. In that process they paid a flat rate of up to 15% to declare what they had abroad with the expectation they would be safe from further taxation for now.

"Those who brought their assets back into the country during the tax amnesty, now want to take them abroad again," Caunedo said.

Fernandez told the Telefe network late Monday that taxes on personal assets held abroad will be double the 2015 level, meaning the rate could be as high as 2.5%. The measure is intended to persuade Argentines to bring their cash back to the country, he said.

For some, the solution is to change residency or move abroad to skirt the impact of Fernandez's tax policies, Martin Litwak, head of a boutique legal and tax advisory firm with offices in Miami, said. For those seeking a change of residency, they must live 180 days a year in their host country.

*"Argentina is exporting wealth: **thousands are leaving the country to live outside, others take their businesses abroad** and others put their money in these trusts," Sardans said. "The government is set to lose taxable assets."*

U.S. Politics

Warren has come off the boil. Is the market sleeping on Bernie risk?
Hail to the Bernie

The first way to approximate a Sanders administration is to look at the hints dropped by the candidate himself. When it comes to the vice presidency, nearly everyone around him believes that if he became the Democratic nominee, a likely choice would be Warren, his friend and ideological bedfellow.

responding to a question this year from ABC News about whether Rep. Alexandria Ocasio-Cortez of New York would play a part in his administration, Sanders replied, "If I am in the White House, she will play a very, very important role, no question, in one way or the other."

Sanders knows people who could cause corporate America discomfort. He told Bloomberg Politics in 2015 that for his Treasury secretary, "Somebody like a Bob Reich would be somebody who I think would be good." He has praised Joseph Stiglitz, the economist and

Brian McCarthy
Chief Strategist
(o) 203-614-8600
brian.mccarthy@macrolens.com

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Nobel laureate. The economist Stephanie Kelton, a professor at Stony Brook University, is an economic adviser to his campaign.

(P.S. – Kelton is an evangelist for Modern Monetary Theory and my guess for the next Fed Chair in a Warren or Sanders administration).

For now, none of this is of much concern, with the Democrats having shot themselves in the foot with a tragically uninspiring impeachment effort…

More Investors Expect Trump to Win in 2020, RBC Survey Says

A growing majority of equity investors expect President Donald Trump will win re-election in 2020, according to an RBC survey.

In the firm's December survey, ***76% of 119 respondents said they thought Trump will win,*** *a "big jump" from September's 66%*

U.S. Economics

I came across this on Twitter this week: from AQR's October letter, a helpful discussion of the NIPA / GAPP earnings divergence. They dismiss buybacks as the answer, but fail to identify a solitary culprit while identifying several possible contributing factors.

Bridging the Earnings GAAP

We don't think this gap is indicative of any major structural issue or has an obvious use for market timing. It does perhaps indicate that the economy is not as cyclically strong as the earnings of a few large companies make it appear.