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A TARP Moment & Weekend Links

My call for in imminent tradeable bottom in yesterday's CoronaCrash Roadmap IV will likely swing on events in Washington, DC this weekend. Betting on the U.S. Congress not to screw up is surely and uncomfortable proposition, but I think we have a few things going for us this time.

For one, money really is no object. There seems **no cap on the "price tag"** for this stimulus bill, and with an existential crisis at hand and long-Treasury rates are all-time lows, that is as it should be. Worse comes to worse, the Fed can monetize a chunk of it and maybe actually hit their inflation target for once.

Secondly, the players must understand that **failure is not an option**. Memories of the market response to the failed TARP vote in 2008 are institutionally fresh. And the downside seems even more frightening this time. We seem staring into the abyss of not only financial, but societal breakdown. Even to those Democrats who might have relished the thought of recessions to tilt electoral prospects their way will see that this is far more than they bargained for.

Here's the state of play:

McConnell sets Friday night deadline for bipartisan deal on stimulus

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Senate Majority Leader Mitch McConnell (R-Ky.) is pushing an aggressive schedule, asking Republican and Democratic negotiators who met Friday morning in the Hart Senate Office Building to reach an agreement in principle on a $1 trillion stimulus package by the end of the day.

"I've tasked these bipartisan teams to reach an agreement by the end of the day today, midnight," the GOP leader told reporters after convening the first round of bipartisan talks.

*McConnell said he **hopes to draft the legislation on Saturday** and begin moving immediately to set up the procedure **for a Monday vote** on the bill, which would then need to go to the House before reaching President Trump's desk.*

It's an ambitious timeline, as Democrats have already panned the Senate GOP plan released Thursday as too focused on business and not doing enough to help workers. It does not include the massive expansion of unemployment benefits that Democrats have called for.

"We are beginning to review Sen. McConnell's proposal and on first reading, it is not at all pro-worker and instead puts corporations way ahead of workers," Speaker Nancy Pelosi (D-Calif.) and Senate Minority Leader Charles Schumer (D-N.Y.) said in a joint statement issued Thursday evening.

Schumer slams 'inadequate' GOP coronavirus stimulus plan

Senate Minority Leader Charles Schumer (D-N.Y.) on Friday panned a coronavirus stimulus plan introduced by Senate Majority Leader Mitch McConnell (R-Ky.) as "inadequate," signaling that bipartisan negotiations could drag on for a few days.

"Leader McConnell's proposal does not do nearly enough to address the public health crisis in terms of hospitals, medical supplies, beds, doctors, nurses, measures to ensure that Americans can access and afford coronavirus treatment," Schumer said on the Senate floor.

Schumer has called for a "Marshall Plan for our hospitals," referring to the U.S.-led plan to rebuild Europe after World War II, and asserted Friday that the Senate GOP plan does little to put money into expanding hospital capacity in the event that coronavirus infections jump dramatically.

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The Democratic leader also criticized the GOP plan for including major tax breaks for businesses, such as deferring the employer side of payroll taxes until 2021 and 2022, and dramatically easing the ability of businesses to claim losses against prior years' income.

"Leader McConnell's proposal is also skewed in favor of corporations rather than the workers and families who much more urgently and acutely feel the pain in reduced hours and unemployment," Schumer said.

They also say the GOP plan fails to adequately expand unemployment benefits, a core piece of the Democratic stimulus plan.

"Leader McConnell's proposal includes a few ideas that shouldn't be included at all, such as tax cuts for multinational corporations and restrictions on paid sick leave that Congress just expanded," Schumer said.

The Democratic leader instead is offering a plan to provide "unemployment insurance on steroids" while modifying federal programs so that workers won't have to be fired to collect benefits. Schumer is proposing unemployment benefits to allow employers to furlough workers and then bring them back to their jobs once the health crisis has passed.

He said every worker who is unemployed should get a paycheck equal to what they were earning before the crisis, paid for by the federal government.

"That way business, small, medium, large can put them on furlough and then when the crisis is over, they're back but there's money in their pockets," he said.

That Schumer idea to pay the salaries of furloughed workers isn't the worst idea, so long as something is done to ensure they have jobs to return to. Furloughs will be a necessary but not sufficient conditions for small business survival. More will be needed.

The worst idea is actually this one. Mnuchin has outlived his usefulness and is doing real damage now. I'm not sure if he's so hot on sending checks because he likes the politics of it, or he's just totally out to lunch on economics….

Mnuchin Sees GOP Bill as Too Small, Wants Broader Cash Payments

Treasury Secretary Steven Mnuchin sees the proposed Senate Republican stimulus measure as too small in some aspects and wants it to include direct payments to more

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> *individuals to mitigate the economic consequences of the coronavirus outbreak, according to people familiar with his thinking.*
>
> *Mnuchin views parts of Senate Majority Leader Mitch McConnell's proposal, released Thursday, as not doing enough for the economy, the people said. The Treasury chief wants Congress to spend more on sending cash directly to Americans, the people said, speaking on the condition of anonymity.*
>
> *President Donald Trump on Friday also suggested that the current GOP bill doesn't go far enough, and he pledged to "keep going" with subsequent bills.*
>
> *"I want to get workers money," Trump said, adding if there's not enough money in this round of stimulus, "we'll do something later, I'm sure."*

This will be the key component to any package:

Congress, White House Race to Rescue Economy With Huge Stimulus

> *Small business assistance has widespread bipartisan support, but exactly which form it will take is still to be negotiated.*
>
> *GOP Senators Susan Collins and Marco Rubio said they are drafting language that would funnel **about $300 billion to small businesses** to cover their payroll and other expenses retroactive to March 1, provided they don't lay anyone off or use the money for things like boosting profits.*
>
> *Under their outline, small businesses would get federally guaranteed **loans that would be forgiven** if they comply with the requirements.*
>
> *"We want to make sure that businesses that otherwise would be thriving and doing well make it through this pandemic," Collins said.*

Fortunately, there is a pretty easy solution to this partisan dispute: just double the size of the package and do what each side wants. That sounds extreme, but these are extreme times. A $1.5T headline wouldn't be all that surprising.

The problem with the Rubio-Collins plan is that at $300bn it is **orders of magnitude too small**. Sustainability of community business is the most pressing issue facing the economy. This is

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along the lines of what needs to be done. It's a huge failing of the Trump Administration that they aren't making this point and pushing the politics in this direction…

A business fiscal response to a COVID-19 recession | American Enterprise Institute

> *The federal government should offer significant assistance to small- and mid-sized service sector businesses so that they can retain their workers. **Financial assistance to small business is financial support to workers**, allowing workers to continue being paid by their employers during the coronavirus crisis. The goal should be to replace a large portion of the revenue (not just the payroll expenses) those businesses would have generated in the absence of being shut down due to the coronavirus. Low-margin businesses will face great financial difficulty losing multiple months of revenue, and many if not most small businesses would rather shut down or lay off a significant fraction of their workforce than take out a loan, even with a favorable or zero interest rate. **The number of potential layoffs the U.S. economy is facing is deeply troubling**, and an aggressive policy response is urgently needed. **We estimate the cost of replacing 80 percent of the revenue for three months of private-sector firms with fewer than 500 employees, excluding the manufacturing, health, education, and finance industries, to be $1.2 trillion.***

Maybe this will help the Administration to get the narrative back on track. Larry Kudlow seems to have gone MIA since claiming the virus was contained a couple of weeks back. Hassett is highly capable…

Economist Kevin Hassett returns to White House to advise Trump amid coronavirus

Economist Kevin Hassett is returning to the White House temporarily as an adviser to President Trump on economic policy, a White House official confirmed Friday.

A spokeswoman for the White House Council of Economic Advisers told The Hill that Hassett would serve temporarily as an adviser on economic policy in his personal capacity and that he would not be a government employee.

> *In recent media appearances, Hassett has warned of steep job losses that could result from the coronavirus outbreak. Hassett told CNN on Thursday that the pandemic could prompt another "Great Depression" unless the U.S. takes action to ensure Americans can get back to work even if the outbreak continues for several months*
>
> *"**You really can't shut down the global economy for six months** and expect anything to continue," Hassett told CNN on Thursday.*

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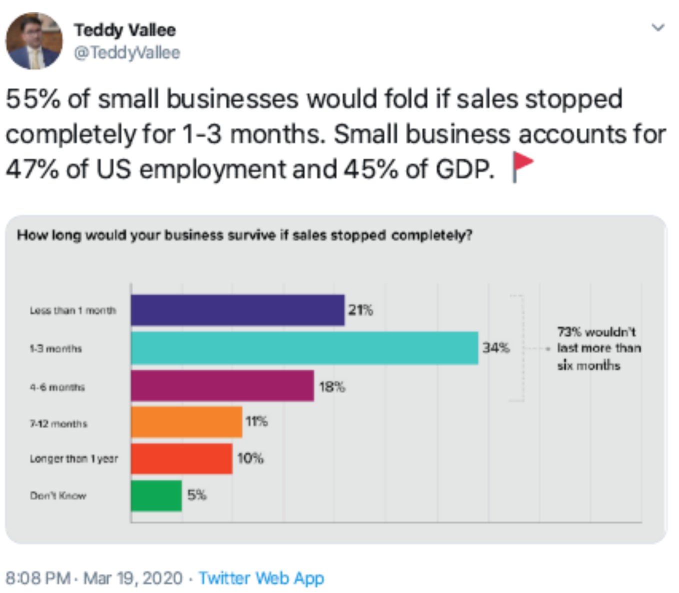
Without an effective small business survival plan, commercial real estate is going to get obliterated. Picture half of every strip mall in America boarded up…

Shopping-Center Owners Urge Trump to Provide Relief

> *"Without ensuring the stability of our tenant base, the repayment of up to $1 trillion of secured and unsecured debt underlying the shopping center industry will be at risk," ICSC CEO Tom McGee wrote in the letter. "This will jeopardize the entire industry and cause long-term damage to financial markets."*
>
> *The industry "will require further federal support associated with outstanding debt obligations as well as tax and regulatory relief," he wrote.*

This is a community tragedy – for every community in America – in the making. The solution isn't that complicated. If the current political class proves incapable of dealing with this with a reasonable degree of effectiveness they will all be swept from the scene. I'm guessing that proves sufficient motivation. But, as President Trump likes to say, we'll see what happens.



U.S. – China Relations

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Once the coronavirus smoke clears markets can settle into pricing the ramifications of a U.S. shift to aggressive decoupling from ChIna.

The expulsion of U.S. nationals working for the NY Times, Washington Post, and Wall Street Journal from China is a watershed in bilateral relations. It should call into question the work of any outlets remaining. If China expels outlets which produce work that is disagreeable to the Party line, what does that tells us about the work of the outlets remaining? At the very least, they've been put on notice.

Given the lack of journalistic accessibility to China, investors should be treating any investments in China as highly speculative. You may be making investment decisions based almost entirely on fake news. Index providers should be heeded to take note.

<u>US-China relations near breaking point?; More US journalists expelled; Response to disinformation about the origin of the virus</u>

> *I cannot think of a more dangerous time in the US-China relationship in the last 40 years, and the carnage from the coronavirus has barely begun in the US.*
>
> *The CCP is stirring anger against America inside China while embarking on a global campaign to sow disinformation about the origin of the virus and the CCP's initial mishandling of the outbreak as part of the "we did everything we could, we tried to save the world, we bought you time" propaganda push, while now also offering help to fight the epidemics in other countries.*

China handed Trump an easy opportunity for deflection and the creation of a "common enemy." It's unfortunate, but China's approach – including State media making threats to cut medical supplies and public advocacy of an inane conspiracy theory that the US Army originated the virus – has been beyond stupid. I believe it reveals a deep insecurity in Chinese leadership. They wanted to create a "common enemy" for purposes of deflection and here we are.

Furthermore, it's quite possible that decoupling was the Trump agenda all along, merely sidelined this year in favor of a robust economy and vibrant stock market. Well, that's out the window. As China's economy veers towards the brink, they are unlikely to find the kind of safety net they did in early 2016 and again with last year's stillborn Phase One trade deal.

<u>Trump blames China for coronavirus pandemic: 'The world is paying a very big price for what they did'</u>

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"The world is paying a very big price for that they did," Trump said, referring to his claim that Chinese officials did not fully share information sooner about the coronavirus outbreak after it began in China.

"It could have been stopped right where it came from, China," Trump said at a White House news conference.

He argued that American officials would have been able to act faster if China's government had fully shared information about the outbreak, which began around the city of Wuhan.

"It would have been much better if we had known about this a number of months earlier," the president said.

Asked if there would be repercussions** for China given his view of how that country handled the outbreak, **Trump said, "I don't want to comment on that right now."

U.S.-China Ties Are Tanking Just When They Need to Get Along

In Beijing, as in Washington, the virus crisis has boosted hardliners over those who favor preserving relations with a key trading partner and military rival. One Chinese official said Wednesday that the two sides were entering a difficult period that could last a long time. The official, who spoke on the condition of anonymity because the remarks weren't authorized, said that **"a new Cold War is indeed unfolding."**

"The government of Xi Jinping has crossed a Rubicon that puts the U.S. and China on opposite banks in an increasingly antagonistic and irreconcilable state of play," said Orville Schell, director of the Asia Society's Center on U.S.-China Relations and a former dean of the Berkley Graduate School of Journalism. "With this kind of self-destructive retaliatory action, it makes it increasingly unlikely the two nations will soon find ways to work together on other critical issues of common interest like the present pandemic, much less future trade and climate change."

Even the Washington Post has gotten in on the China-bashing..

Opinion | This virus should be forever linked to the regime that facilitated its spread

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> *Want to know why the U.S. economy is in free fall? Why restaurants and bars are closing, putting millions out of work, and why the airline industry is facing possible bankruptcy? Why schools across the nation are shutting down, leaving students to fall behind and parents without safe places to send their children everyday? Why the stock market is plummeting, wiping out the retirement and college savings of millions of Americans? Why the elderly are isolated in nursing homes and tens of millions who don't have the option of teleworking have no idea how they will pay their bills?*

Answer: Because China is a brutal totalitarian dictatorship.

> *We are in the midst of a pandemic lockdown today because the Chinese Communist regime cared more about suppressing information than suppressing a virus.*

Hardcore stuff from National Review

The Other Chinese Virus

> *This epidemic will subside. But we will not forget Beijing's irresponsibility, nor its cowardice and dishonesty in the early days of the outbreak. The Beijing regime has long been a boot on the neck of the Chinese people, but it is now a menace to the world at large. There are many things that we hope will change in the wake of this crisis. The character of the government in Beijing should be one of them.*

Cotton, Gallagher Introduce Bill to End U.S. Dependence on Chinese-Manufactured Pharmaceuticals

> *Senator Tom Cotton (R-Arkansas) and Congressman Mike Gallagher (R-Wisconsin) will tomorrow introduce the Protecting our Pharmaceutical Supply Chain from China Act, which would end U.S. dependence on China for pharmaceutical manufacturing. The bill's key restrictions would go into effect in 2022 and have no impact on the current coronavirus pandemic. No FDA resources will be diverted to begin implementation.*
>
> *"The Chinese Communist Party has threatened to cut off America's access to vital drugs in the midst of a pandemic caused by its own failures. It's time to pull America's supply chains for life-saving medicine out of China and make the CCP pay for contributing to this global emergency," said Cotton.*

The Virus in China

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We'll know that China is genuinely in the clear when the big shots themselves display the confidence to gather. Sounds like that's at least another month away…

China reports no new local coronavirus transmissions for first time

> *China tentatively plans to hold late in April or early in May its annual gathering of parliament, two people involved in preparations told Reuters, after a delay, caused by the outbreak, from an initial date of early March.*

China's Economy

The Global Times is hilarious….

China's 6 pct growth goal for 2020 remains the same

> *Since the outbreak of the novel coronavirus (COVID-19), media have expressed concern over the Chinese economy. COVID-19 may impact the domestic economy, but its fundamentals will remain unchanged. The engines that drive the domestic economy are just as powerful before the outbreak. The country will not have a problem achieving a 6 percent GDP growth in 2020.*
>
> *Some have suspected that consumption, the most powerful force driving the economy, has suffered major damage. But China's consumption will skyrocket after the outbreak subsides.*

As I've been saying for weeks, any Q1 GDP forecast with a + in front of it was a fantasy. Well, the market's gettin' real now. And it's not just Q1. If Wang Tao of UBS is lowering her forecast for the full year to 1.5% I can promise you that **a significant downgrade to the official 2020 GDP target is in the works**…

Chinese Economy May See First Quarterly Contraction Since 1992

> Goldman *Sachs (Asia) Ltd. revised down its projection for China's first quarter GDP to a year-on-year contraction of 9% from a previous estimate of 2.5% growth, according to a Tuesday research note. Standard Chartered Bank wrote in a Monday note that it had lowered its estimate to a 4.2% year-on-year decline from 2.8% growth.*

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> *Wang Tao, an economist of UBS Group AG, wrote in a Caixin column Wednesday that she had lowered (link in Chinese) her first-quarter GDP forecast to a 5% decline and full-year estimate to 1.5% growth.*

These estimates of the current run rate are probably as good as any…

Coronavirus: Getting China back to work - Trivium China

> *The vast majority of businesses in China have at least turned the lights back on – with 94% of large companies having resumed operations.*
>
> *18 provinces are reporting full resumption rates (of between 99-100%) for large businesses. These provinces account for 75% of GDP. An additional four provinces have large business resumption rates above 90%. That said, capacity utilization at many of these companies is still closer to 70-80% of normal levels, with many far below that.*
>
> *Overall, then,* ***industrial enterprises appear to be operating at 75% of normal activity levels****. This is an impressive pace of normalization given that our estimate stood at just 21.1% exactly one month ago.*
>
> *SMEs continue to struggle. We estimate that small businesses are now operating at 71% of their normal activity. This is a vast improvement from just 48% two weeks ago, but still leaves a long way to go.*

Can we finally ditch the notion that Chinese monetary policy is unconstrained by the exchange rate? Banks can't cut lending rates because PBoC can't cut their main funding rates – the Benchmark Household Deposit Rate, which has been pegged at 1.5% since 2015…

China unexpectedly keeps lending benchmark rate unchanged

> *China kept its benchmark lending rate steady on Friday, defying expectations for a reduction to ease borrowing costs in an economy jolted by widespread disruptions to businesses from the coronavirus pandemic.*
> *The one-year loan prime rate (LPR) was left unchanged at 4.05% from the previous monthly fixing while the five-year LPR remained at 4.75%.*
>
> *Forty respondents, or 71.4% of all participants, in a Reuters snap survey had expected a reduction in the LPR, with 36 predicting either a five basis point or 10 basis point cut in the one-year tenor and no change to the five-year rate.*

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As I've implored in recent weeks, ignore the splashy headlines about infrastructure plans. Less funding = fever shovels in the ground…

China Touts 50 Trillion Yuan in Infrastructure Spending, Yet Just 7.5 Trillion Scheduled for 2020

> *While domestic media reports have high-lighted plans for nearly 50 trillion yuan (ap-prox. USD$7.15 tril-lion) in infrastructure spending in China as the economy reels from the impacts of the coronavirus, only 7.5 tril-lion (ap-prox. $1.07 tril-lion) of this amount is scheduled for implementation in 2020.*
>
> *Research from Zhongtai Securities has fur-ther de-ter-mined that the amount of infrastructure spend-ing for many of China's regional governments has declined compared to 2019.*

China NPLs – it's like magic…

China's Banking Regulator Says Bad Loans under Control Despite Coronavirus Bump, Property Financing Policy Remains Unchanged

> *CBIRC says that the coronavirus out-break has had a modest impact on the nonperforming loans (NPL) of Chinese banks.*
>
> *Xiao Yuanqi, CBIRC's chief risk officer, said that as of the end of February the NPL ratio of Chinese commercial banks had risen 0.05 percentage points compared to the start of the same month as a result of the impacts of the coronavirus.*

Hong Kong

Here's another issue that has been temporarily swept aside, but remains wholly unresolved…

China's Expulsion of American Journalists Raises Red Flags Over Hong Kong

The Chinese government's move to ban more than a dozen journalists expelled from the mainland from reporting in Hong Kong heightened concerns about a further erosion of the city's relative autonomy.

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Chinese authorities said they would be revoking the press credentials for American journalists working for The Wall Street Journal, the New York Times and the Washington Post, effectively expelling them from the country. Beijing said it was retaliation for restrictions placed by the Trump administration on the number of Chinese journalists working in the U.S.

In an unusual move, **China's Foreign Ministry stipulated that the expelled foreign correspondents wouldn't be allowed to continue reporting in the Hong Kong** *and Macau special administrative regions. Previously, some journalists expelled from the mainland have relocated and worked in Hong Kong.*

The action struck at the city government's right to control its own immigration policy, an encroachment that could affect the reputation of the business and financial hub. *The announcement may further dent confidence in the rule of law in Hong Kong, especially among foreign investors who expressed alarm in 2018 when a foreign correspondent was expelled from the city for the first time.*