
On the Margin: Well, We Said “Brace Yourself”

Wednesday, December 5, 2018

Developing items of interest and deeper color on themes from our regular reports.

A US/China trade deal will be done. For 90 days volatile markets will be told it won't.

In our “TrendMacro Live!” note following the trade negotiation breakthrough agreed by President Donald J. Trump and Chinese President Xi Jinping, we said, “Brace yourself over the coming 90 days of negotiations for stall-outs in the process, or even out-right walk-aways. All that is a perfectly expectable and normal part of the theatrics of negotiation” (see [“On the US/China Trade Breakthrough”](#) December 2, 2018). We should have also mentioned that the media, whose business model relies on churning out bad news about Trump, would dump on the breakthrough and sow doubts about the negotiations before they even begin. That has to be a big part of the markets’ sell-off yesterday. In a report tomorrow, we’ll deal separately with the matter of the yield curve.

In the immediate aftermath of the Trump/Xi agreement in Buenos Aires, the breakthrough was universally characterized as a mere “truce” or “ceasefire” in [virtually every media account](#). No, this agreement is in fact what *we* called it: a “breakthrough.” It was only weeks ago that [Chinese vice-minister of commerce Wang Shouwen was saying](#) China wouldn’t even negotiate with the US while Trump holds “a knife at its throat.” Now China is negotiating. That’s a breakthrough. And the US has not rescinded one single tariff currently in effect. That’s no “ceasefire.” It’s ongoing pressure is what will keep the Chinese negotiating.

Next, media accounts doubled down by claiming the Trump/Xi agreement is [“mired in confusion,”](#) casting doubt on whether the two presidents actually agreed to anything at all. [“Trump’s advisers are scrambling to explain a trade deal he claimed he’d struck.”](#) China [“isn’t yet able to formulate its response to the summit on trade...as senior officials are still out of the country.”](#) Oddly, China did produce an official statement immediately, and indeed many media accounts cite [the differences in US and Chinese statements](#) in their [respective languages](#) as evidence that there is no agreement. But we pointed to these differences as features, not bugs. They are necessary to allow both

Update to strategic view

US MACRO, ASIA MACRO, US STOCKS:

The media is falsely characterizing the Trump/Xi trade negotiation breakthrough as a mere “truce” or “ceasefire,” indeed claiming that there isn’t even any actual agreement arising from the Buenos Aires summit. This is no “ceasefire,” as no existing US tariffs are being withdrawn. And there is an agreement – both sides officially say so. The differences between official statements reflect domestic political needs to save face. The appointment of “hard-liner” Lighthizer to negotiate for the US is not remarkable – he is US trade representative, and it is smart to have a tough negotiator at the table. Trump’s tweet about being “a Tariff Man” has been taken out of context. Market volatility will continue to be driven both by the theatrics of negotiation, and the media business model based on bad news about Trump. A deal will get done.

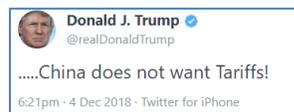
[\[Strategy dashboard\]](#)

presidents to save face despite compromises they had to make to each other (see [“On the US/China Trade Breakthrough”](#)). Now, overnight, the Chinese finance ministry has [issued a statement](#) resolving some of those differences and committing to implementation “the soon the better.”

This statement comes despite the fact that virtually every [major US media](#) outlet wrung its hands about Trump’s appointing Robert Lighthizer to lead the negotiations – in every case calling him a “hard-liner.” What can we say? He is the US Trade Representative. Wouldn’t we expect him to represent the US in a trade negotiation? As to his being a “hard-liner,” wouldn’t we expect any US president to appoint a strong negotiator? Besides, [Mister Rogers](#) isn’t available.



Finally, [much is being made](#) of a Trump tweet yesterday – particularly [his self-characterization](#) as “a Tariff Man.” As always, the media fails to put this remark in its context – as a threat, in order to drive the negotiation forward forcefully. It was the [third](#) part of a [four-part tweetstorm](#), the rest of which was devoted to optimistic expectations for the negotiations. Remember, Trump is also a Wharton Man. [He said in June](#), “...you go tariff-free, you go barrier-free, you go subsidy-free. That’s the way you learned at the Wharton School of Finance. I mean, that would be the ultimate thing.” Hey, that gives Trump and Xi something in common, at least according to another Trump tweet yesterday.



Again, “brace yourself.” This is going to go on for a while. Game theory dictates that any negotiation must go all the way to its deadline, and usually a little beyond. That means three months of the media and the “Washington shops” telling you there *can be* no deal and *never was going to be* a deal – right up until the moment there *is* a deal, and they’ll pretend they knew it all along (yeah, but it’s not a *good* deal). Just as with the enactment of last year’s landmark corporate tax cuts, we’re the ones saying there will be a deal and that it will be good. ▶

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James Tarmy
Bloomberg
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[I’m a Democrat and a Feminist. And I Support Betsy DeVos’s Title IX Reforms.](#)
Lara Bazon
New York Times
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