

TRENDMACRO LIVE!

On the Trump/Xi Osaka Meeting

Saturday, June 29, 2019
 Donald Luskin

The two preconditions for a deal are now met: pressure is higher and the sides are talking.

 **Donald J. Trump** @realDonaldTrump 46m
 I had a great meeting with President Xi of China yesterday, far better than expected. I agreed not to increase the already existing Tariffs that we charge China while we continue to negotiate. China has agreed that, during the negotiation, they will begin purchasing large.....

 **Donald J. Trump** @realDonaldTrump 46m
amounts of agricultural product from our great Farmers. At the request of our High Tech companies, and President Xi, I agreed to allow Chinese company Huawei to buy product from them which will not impact our National Security. Importantly, we have opened up negotiations...

 **Donald J. Trump** @realDonaldTrump 47m
again with China as our relationship with them continues to be a very good one. The quality of the transaction is far more important to me than speed. I am in no hurry, but things look very good! Their will be no reduction in the Tariffs currently being charged to China.

The meeting this morning in Osaka between Presidents Donald J. Trump and Xi Jinping went about as we predicted two weeks ago, before it was certain they would meet at all: “speed dating followed by heavy petting, but no consummation” (see [“Video: What you're not hearing about the US/China trade war after Trump's Mexico tariff gambit”](#) June 14, 2019). That was out-of-consensus then, but [once the meeting was announced](#), the consensus shifted – with US and Chinese equities rallying (US to new all-time highs) – toward an expectation of just about what we seemed to get this morning. [Trade talks are, in Trump's words, “right back on track,” with additional US tariffs held in abeyance, again in Trump's words, “for at least the time being.”](#) [But there is no concrete agreement.](#)

• In some sense it seems we are only right back where we were seven months ago after the two presidents' prior G20 meeting (see [“On the US/China Trade Breakthrough”](#) December 2, 2018).

- [But there are important differences that give reason for optimism that markets probably haven't fully taken on board.](#)
- [Now US tariffs on imports from China are already higher](#), even without new ones being imposed. That's more US pressure on China's currency and its economy. Such pressure is why China is even negotiating with the US in the first place, after repeatedly saying it will not. And now there is more of it (see [“Our Knife at China's Throat”](#) October 8, 2018).
- [Now the US has Huawei, China's show-piece global technology company with over 320,000 employees, effectively on death row.](#) Biased headlines this morning [are claiming Trump “relented”](#) on Huawei by agreeing to loosen sales restrictions on less security-sensitive parts from US manufacturers. And Senate minority leader Charles Schumer (D-NY) posted a [tweet](#) accusing Trump of “backing off” on “one of few potent levers we have to make China

 **Chuck Schumer** @SenSchumer 1h
 Huawei is one of few potent levers we have to make China play fair on trade.

 If President @realDonaldTrump backs off, as it appears he is doing, it will dramatically undercut our ability to change China's unfair trades practices.

play fair.” Well, it's in the nature of such “levers” that “backing off” is

Update to strategic view

US MACRO, ASIA MACRO, US STOCKS, ASIA STOCKS: Trump and Xi have agreed to resume trade negotiations, as expected, but markets are probably not sufficiently optimistic. This time success is more likely because the pressure on China is so much greater than before. New US tariffs are held in abeyance, but the new ones imposed a month ago are staying. There will be some relief for Huawei from a total US boycott, but the most sensitive US sales will still be banned, and the matter – including the extradition of Meng – will be held by Trump until the very end of negotiations. And additional tariffs are only suspended “for the time being.” Trump continues to be personally generous to Xi, as he has been by not mentioning the Hong Kong protests, this time by publicly assuring China of student access to US universities. This signals Trump will help Xi save face when a deal gets done.

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what one does to utilize them – in the same sense that one holsters one’s gun after one’s victim has agreed to hand over his wallet. But actually, that gun is still pointed squarely at China’s heart, with [Trump stating in a press conference](#) that he told Xi, “We’ll have to save that until the very end. We’ll have to see.”

- And for the moment, Meng “Sabrina” Wanzhou, the chief financial officer of Huawei and the daughter of its legendary founder, will remain effectively a US hostage, under house arrest in Vancouver awaiting extradition to the US on fraud charges. [Trump said](#) he and Xi “didn’t discuss her situation.”
- [Respective statements by the US and China differ somewhat in side-by-side comparison, just as they did last December after the Buenos Aires summit.](#) Trump claims now, just as he did then, that “China is going to be buying a tremendous amount of food and agricultural product, and they’re going to start that very soon, almost immediately.” China has said nothing on the subject now, just as it said nothing then, and we can be sure the US media will make the most of the contradiction now, as it did then. We predict China will affirm Trump’s claim within days, as it did then.
- [We note that this time Trump has for the first time openly showed congruence with Xi on an issue of urgent importance to China, but one which is all but invisible to Americans – continued access by Chinese students to US universities.](#) Trump said, “They’ve been great students and tremendous assets. ...we did discuss it. It was brought up as a point.”
- [This is an example of Trump’s personal magnanimity toward Xi](#) – the same magnanimity that kept him from shaming Xi over the mass protests in Hong Kong. We believe it is intended to demonstrate that, when a deal gets done, Trump will do everything he can to help Xi save face with his internal and external domestic audiences (see [“Quick Thoughts on the Road to Osaka”](#) June 27, 2019).
- [And if you really want to get into the Kremlinology of it all, White House’s resident China hawk, the normally loquacious Peter Navarro, avoided press questions coming out of the meeting, ostentatiously shrugging his shoulders.](#) That has to be good.
- Perhaps most important in supporting optimism that the coming sequence of negotiations are more likely to produce a deal than the post-Buenos Aires round is, simply, that [time has passed and all the parties have acquired knowledge and experience.](#) High-stakes negotiations are an iterated sequence of experiments of coming together, falling apart, and coming together again – learning, at each confrontation with the interface of order and chaos, what each side’s strengths, weaknesses, opportunities and threats are, and what optimizations are possible. Trump and Xi are very strong and self-actualized men who have a great tolerance for ambiguity, and are willing to live at the [“edge of chaos”](#) for much longer than we mere mortals. What seems to us like a forever-war is, to them, an exercise in gaining the knowledge it takes to come to a decision. [It looks to the rest of us like they can never decide, but indeed this is how they decide.](#)

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- If that seems too much like arm-chair psychology, then let's just go back to the basic truth: this is a pressure-game. This morning the US relieved some expected future pressure, but all the past pressure is still on, and even more so than after the December Buenos Aires summit. And the two sides are talking again.
- This is so important, we're going to say the same thing again. We now have the two preconditions for significantly more optimism about actually getting to a deal: 1) the pressure has increased, while at the same time, 2) the two sides are talking again.

Bottom line

Trump and Xi have agreed to resume trade negotiations, as expected, but markets are probably not sufficiently optimistic. This time success is more likely because the pressure on China is so much greater than before. New US tariffs are held in abeyance, but the new ones imposed a month ago are staying. There will be some relief for Huawei from a total US boycott, but the most sensitive US sales will still be banned, and the matter – including the extradition of Meng – will be held by Trump until the very end of negotiations. And additional tariffs are only suspended “for the time being.” Trump continues to be personally generous to Xi, as he has been by not mentioning the Hong Kong protests, this time by publicly assuring China of student access to US universities. This signals Trump will help Xi save face when a deal gets done. ▶