

MACROCOSM

China Votes Trump 2020

Thursday, November 7, 2019

Donald Luskin

The fentanyl busts confirm China has lined up with Trump against Elizabeth Warren.

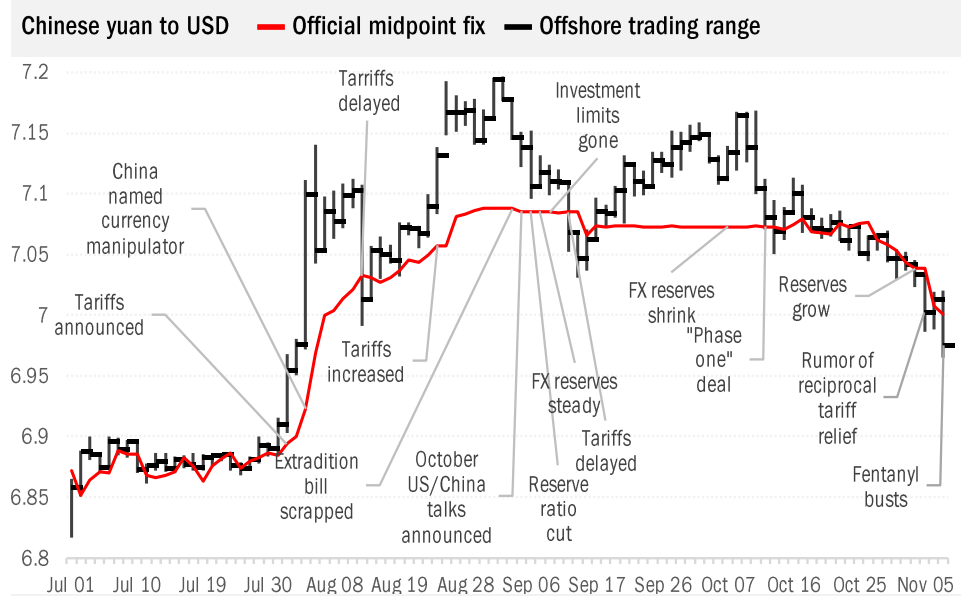
Clients thought we were crazy several weeks ago when we said that China had gone from a trade war strategy of waiting out President Donald J. Trump, betting he'd lose in 2020, to one of actively supporting his re-election (see ["The \("Phase 1"\) \(Unpapered\) \(Unsigned\) China Trade Deal"](#) October 14, 2019). That entails handing Trump a victory with a "Phase 1" trade deal, and enabling him to run for re-election as a China-bashing trade-warrior actively pursuing further "phases." Nothing has changed our mind since then, and much has confirmed it.

- After new US tariffs announced in August drove the weakest single month in history for the Chinese currency (please see the chart below, and see ["RMB Breaks 7: Is this 'the Edge of Chaos'?"](#) August 5, 2019), and after strongly anti-China Elizabeth Warren (D-MA) emerged as the most likely 2020 Democratic challenger (see ["Trump♥Muslims \(In China\)"](#) October 9, 2019), *Chinese president Xi Jinping has decided he's better off after 2020 with a grateful President Trump than a wild-card Warren – if the Chinese economy could have stayed out of recession that long.*
- A pure political gift to Trump is [today's announcement of the Chinese execution or incarceration of fentanyl smugglers](#) after a

Update to strategic view

US MACRO, ASIA

MACRO, FX: Today's announcement of Chinese execution and incarceration of fentanyl smugglers, following a joint US/Chinese investigation, is another Chinese political gift to Trump. It confirms that China has reversed its outlast-Trump strategy, and is now actively working for his re-election. That is seen as a better alternative to an anti-China wild-card Warren, or an angry Trump is he is re-elected over Chinese opposition. China has announced agreement with the US to roll back "additional" tariffs as part of a "Phase 1" deal, making such a deal highly likely at this point. Yuan is trading stronger than 7 for the first time since early August, indicating market ratification that the crisis has passed, and that a deal is forthcoming.

[\[Strategy dashboard\]](#)


joint criminal probe with the US. It's a photo op-ready win right in Trump's political sweet-spot – tough on China with a big dash of law-and-order protect-the-border.

- It's more of the same, following [last month's resumption of Chinese purchases of US agricultural products](#) – rescinding a boycott that had been explicit retaliation for the 2018 US tariffs – in exchange for nothing more from the US than Trump's agreement to defer increasing those tariffs (again, see [“The \(“Phase 1”\) \(Unpapered\) \(Unsigned\) China Trade Deal”](#)).
- And overnight [Chinese Minister of Commerce Gao Feng announced](#) that the US and China had agreed to “cancel the tariff increase in stages” as a deal moves through “phases.” This was something of an embarrassment to [Bloomberg, which only yesterday had griped in its daily trade bulletin](#) – which has become an ongoing train-wreck of anti-Trump agitation – that a deal was impossible because “China Insists Trump Give Up His Favorite Trade Weapon—Tariffs.” Well, once again, as last month, all he's giving up are *additional* tariffs. And Bloomberg can't claim, [as it usually does](#), that this positive development is Trump braggadocio unconfirmed by the Chinese: this bit of very good news comes very directly from the Chinese.
- [China can see the writing on the US political wall](#). For all the talk about unreconstructed protectionism, since the 2016 election and in the course of the trade war that began in April 2018, Trump has succeeded in turning the balance of US sentiment strongly against China. Many have criticized him for not engaging our allies in a global effort to reform China, but at least domestically Trump's anti-China diplomacy has worked across the aisle. There is no Democratic 2020 hopeful who is on record saying he or she would rescind the existing tariffs. Warren is the most extreme. [Her anti-China platform](#) vilifies it as a co-conspirator with greedy global corporations, and pledges to up the pressure to force it to unionize its labor force, stop using coal for electricity generation, and redress human rights abuses in Hong Kong and Xinjian.
- And among many bi-partisan bills in Congress aimed against China, [now there's one in the Senate](#) that would legislate a prohibition of the Federal Thrift Retirement Plan – the 401(k) plan of the US government, which we helped design in the 1980s at Wells Fargo – from investing in Chinese securities.
- [As to America's “allies” whom, supposedly, Trump has failed to woo as partners in the trade war, they are now fearing that they missed the bus. When the US does a series of deals with China to increase its purchases of US exports, as a first-order effect those will come at the cost of reductions in China's purchases from other countries.](#) That's why French president [Emanuel Macron is in Beijing lobbying the Chinese](#) not to leave France behind when, as now seems increasingly inevitable, a US/China deal is consummated.
- We have always said the key indicator to watch is USD/RMB – which ruptured the critical 7 level in early August when new US tariffs were announced (again, see [“RMB Breaks 7: Is this ‘the Edge of Chaos’?”](#) August 5, 2019), and then weakened a record-

Contact TrendMacro

On the web at
trendmacro.com

Donald Luskin
Dallas TX
312 273 6766
don@trendmacro.com

Thomas Demas
Charlotte NC
704 552 3625
tdemas@trendmacro.com

Michael Warren
Houston TX
713 893 1377
mike@trendmacro.energy

[\[About us\]](#)

Recommended Reading

[Texas voters say yes to ban on state income tax](#)

María Méndez
Dallas Morning News
November 6, 2019

[The Warren Plan to Paper Over the Costs of Medicare for All](#)

Charles Blahous
E21
November 4, 2019

[The Story behind the Surreal Photograph of Salvador Dalí and Three Flying Cats](#)

Jacqui Palumbo
Artsy
October 8, 2019

[\[Reading home\]](#)

breaking 4% in that single month. The People's Bank of China's midpoint fixing still hasn't quite strengthened all the way back through 7, but yuan is trading stronger than that now in both the onshore and offshore markets (again, please see the chart on the previous page).

- Financially, it is a sensitive indicator of expectations for US tariffs – joint expectations, we might say, of the PBOC that sets a daily fix, and the market that both nudges the PBOC in the first place, and then trades around the fixing. So Mr. Market is saying here loud and clear that the August tariffs are off the table – that is, the round scheduled for mid-December won't happen; the round that had been scheduled for October 15, but deferred, will stay deferred; and the round that went into effect on September 1 will be rescinded. For any of that to happen, it means there will really be a "Phase 1" deal.
- At the same time, Mr. Market is saying the crisis has passed. Before we were sprinting, while blinded by the fog of war, headlong toward a cliff – China's first-ever recession, which would likely be highly disorderly and would have global implications. The cliff is still there, but the sprint has slowed to a walk. So the cliff has gotten further away, in time if not in distance. And walking in the fog, not sprinting, gives us a better chance of seeing the cliff and do something to stop ourselves before we plunge over it. This is a very positive risk-back-on development for global markets.

Bottom line

Today's announcement of Chinese execution and incarceration of fentanyl smugglers, following a joint US/Chinese investigation, is another Chinese political gift to Trump. It confirms that China has reversed its outlast-Trump strategy, and is now actively working for his re-election. That is seen as a better alternative to an anti-China wild-card Warren, or an angry Trump is he is re-elected over Chinese opposition. China has announced agreement with the US to roll back "additional" tariffs as part of a "Phase 1" deal, making such a deal highly likely at this point. Yuan is trading stronger than 7 for the first time since early August, indicating market ratification that the crisis has passed, and that a deal is forthcoming. ▶