Trend Macrolytics, LLC
Donald Luskin, Chief Investment Officer
Thomas Demas, Managing Director
Michael Warren, Energy Strategist

MACROCOSM

Impeachment and China-Bashing 2020

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Donald Luskin

The Ukraine uproar may make both Trump and Xi want to defer a deal till after the elections.


Hu Xijin 胡锡进 @HuXijin_GT 2d
You can say in the last 30 years, 50 percent of the US presidents faced an impeachment inquiry. American presidents have to spend more than half of their time playing these kinds of political games, actively or passively. So don't complain that China grows too fast.

You can't fault China's president-for-life Xi Jinping for authorizing his designated Twitter surrogate – *Global Times* editor-in-chief Hu Xijin – to mock the United States for its self-paralyzing habit of impeaching half its modern presidents. *The current mania over President Donald J. Trump's alleged attempt to pressure Ukraine has possibly moved Xi in the direction of thinking he can outlast Trump, and avoid having to conclude trade negotiations.* Based on what we know now, it looks to us like if Trump can survive Robert Mueller, Michael Flynn, Paul Manafort, Michael Cohen and Stormy Daniels he can sure survive Hunter Biden. But if Xi is like the Soviet ambassador in *Dr. Strangelove* – that is, "Our source was the *New York Times*!" – then he must think surely *this time* Trump's goose is cooked.

- *If waiting is Xi's game, it is a dangerous one. Time is not on China's side.* It is a fragile economy that has never had the learning experience of going through a recession, and if Trump's trade war pushes it into one, the landing could be quite hard, and have global repercussions.
- *The latest round of tariffs has pushed the Chinese currency through the seven yuan-to-the-dollar level, triggering a run on the bank that led to a 4% weakening within the month of August.* That weakening seems to have run its course, at least for the moment, without China having done anything by way of supportive intervention. So maybe that's all the currency crisis there will be. Or maybe not. It's rarely that easy (see "China's Currency Crisis is Over... Yuan to Bet?" September 10, 2019).
- *Now Trump has upped the pressure with targeted US sanctions on Chinese shipping giant Cosco for transporting Iranian oil.* For Trump that's a two-fer – yet another blow in the trade war, and at the same time a push-back to China's Belt and Road deal with Iran (see "The Oil Glut Even Drones Couldn't Fix" September 16, 2019).
- *And the White House was reported last week to be considering new rules to limit US investment in China, including restrictions on portfolio investments (to counter the ever-increasing weighting of Chinese securities in global indices) and a ban on listing Chinese companies on US securities exchanges.* It's not clear under what

Update to strategic view

US MACRO, ASIA MACRO, FX:
Impeachment risk arising from the Ukraine matter is probably exaggerated, but Xi may believe it weakens Trump, making it more likely he can be outlasted. But Warren's China position is as tough as Trump's, indeed even broader in scope. Trump may want to defer a deal until after the election, lest he be accused of being "soft on China," and cede the issue to Warren – and at the same time give up a useful tool to reboot the news cycle as necessary if the present impeachment mania continues. We reiterate that the current risk-back-on mood is premature. Trump is keeping the pressure on, with sanctions on Cosco and rumors of investment restrictions. For both presidents, the risk is that the pressure will throw China into a disorderly recession with global repercussions. RMB remains the canary in the coal mine.

[Strategy dashboard]

statutory authority Trump could do this – although we're certain he could find some enabling passage in one of the several statutes passed in the 1970s granting presidents extraordinary powers over trade, as he did when he threatened Mexico with tariffs to force it to restrict immigration at its southern border (see "On the Mexico Tariffs" May 31, 2019).

- *Such a move would be a follow-through on the Trump administration's campaign of financial destabilization already begun by forcing RMB through the seven-level* (see "Never Let a Good Currency Crisis Go to Waste" August 14, 2019). It has been advocated for several months by various Republican hangers-on as a cheap alternative to tariffs, and last week's leaks about it may have been nothing more than the attempt by one of them to run the idea up the flagpole and see if it goes viral. The Treasury has already denied that it is looking at delisting, the part of the idea that would have the most disruptive impact on current investment practices. Comically, in response, China has promised to further open its financial markets to foreign investment
- *If Xi can hold China together through 2020 while the Trump administration keeps the pressure up – he nevertheless runs the risk that Trump will both not be impeached in the meantime, and will win re-election. Trump won't be happy that his "good friend" and "great leader" Xi made him wait. Our quantitative model still shows Trump winning by a landslide, providing the economy doesn't fall into recession, which appears not to be happening* (see this morning's weekly "Investment Strategy Summary").
- *For that matter, if a Democrat is elected president in 2020, Xi may find he has no easier a negotiating counterparty.*
- *The Democratic field of aspirants is universally tough on China, and loathe to criticize anything about Trump's trade war other than the arguably erratic style with which he prosecutes it.*
- *Elizabeth Warren (D-MA), seemingly the current Democratic front-runner – indeed, a beneficiary of fallout from the Ukraine matter that entangles rival Joseph Biden – has in some sense established an anti-China position even tougher than Trump's.* In an official campaign policy statement, she calls for "economic patriotism," which she defines as putting "the interests of American workers and families ahead of the interests of multinational corporations." This slogan – "economic patriotism" – strongly echoes the "economic nationalism" promoted by Trump's controversial campaign manager Stephen Bannon during the 2016 campaign and in the early days of the administration. Trump himself came close to using Warren's language in his China-bashing address to the United Nations General Assembly last week, in which he said, "The future does not belong to globalists. The future belongs to patriots."
- Warren's anti-China agenda is broader and deeper than Trump's, embracing not only the familiar issues of trade reciprocity and currency manipulation, but also environmental, human rights and labor practices about which Trump has generally been silent. *We think if Warren is elected in 2020, Xi will strongly regret he didn't do a deal with Trump while he still could.*

Contact TrendMacro

On the web at
trendmacro.com

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Donald Luskin
Chicago IL
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

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- *All that said, it's becoming increasingly unclear with each passing day that it is in Trump's interest to do a China trade deal before the election.* To be sure, by waiting, Trump takes the same risk Xi does – the risk that China will fall into a disorderly recession that would trigger a global recession, which would make Trump's re-election difficult. But betting that China will hold body and soul together just for another 13 months, Trump may well wish to campaign as a warrior still in the midst of a great and glorious battle – one who must get re-elected to complete it just as Franklin Delano Roosevelt was in 1944. *Why cede the issue to Elizabeth Warren? And for that matter, why not have the issue in reserve to re-boot the news cycle, as needed, as the latest impeachment mania cranks forward?*
- The well-advertised corrosive effects of tariffs haven't materialized – we believe they have been entirely offset by yuan weakness, as we predicted. Political appeals in farm states by #NeverTrump Republicans such as the Koch Brothers have been abandoned – offset by trade-adjustment payoffs (though the Trump administration would still rather Chinese delegations not roam free on "good will tours" through the farm belt). Considering that if Trump were to do a deal, his enemies in politics and the media would accuse him of being "soft on China" no matter how good a deal it is – and considering that the effects of any deal would take a while to percolate into the real economy – perhaps especially in the swing rust-belt states that Trump carried in 2016 with this China-bashing message. *Trump may think he's better off fighting than winning*.
- *At the very least, we're stronger than ever in our belief that Trump has shifted to a negotiating posture in which he will not even consider anything but a great deal. We said so in early August* (see "RMB Breaks 7: Is this 'the Edge of Chaos'?" August 5, 2019)*, and Trump confirmed as much last week. We don't hold out much hope for a breakthrough at the next trade talks, in Washington in October.*
- *The key issue for markets, then, is China's ability to resist recession and hard-landing. As ever, our canary in the coal mine will be the yuan. Weakening to new lows, below the August lows, which would surely trigger the expenditure of China's foreign reserves in defense, will be the sign that things are getting dangerous. We think the risk-back-on mood of the last several weeks is premature.*

Bottom line

Impeachment risk arising from the Ukraine matter is probably exaggerated, but Xi may believe it weakens Trump, making it more likely he can be outlasted. But Warren's China position is as tough as Trump's, indeed even broader in scope. Trump may want to defer a deal until after the election, lest he be accused of being "soft on China," and cede the issue to Warren – and at the same time give up a useful tool to reboot the news cycle as necessary if the present impeachment mania continues. We reiterate that the current risk-back-on mood is premature. Trump is keeping the pressure on, with sanctions on Cosco and rumors of investment restrictions. For both presidents, the risk is that the pressure will throw China into a disorderly recession with global repercussions. RMB remains the canary in the coal mine.