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USD/CNY – On Trump-Xi Trade Talks at the G-20

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Key Points:

- Substantive means specific
- If there are specific details out of Trump-Xi talks in Buenos Aires, this is not PR; if not, think North Korea
- Hard to believe many – or even any – of a reported 142 American demands can be resolved by the G-20
- But Trump is directing a trade “deal” be ready by 30 November
- It is the crazy hours right before US midterm voting
- Maybe China-bashing wasn’t working that well for Republicans in battleground states
- A trade war helped send USD/CNY higher, but it’s not the only factor
- Trump’s tweet and USD/CNH pushing down seemed conveniently coincident

What Happened

Just had a long and very good conversation with President Xi of China. We talked about many subjects, with a heavy emphasis on Trade. Those discussions are moving along nicely with meetings being scheduled at the G-20 in Argentina. Also had good discussion on North Korea! HT @realDonaldTrump, 1 November 2018

President Donald Trump is interested in reaching an agreement on trade with Chinese President Xi Jinping at the Group of 20 nations summit in Argentina later this month and has asked key U.S. officials to begin drafting potential terms, according to four people familiar with the matter ... Trump asked key cabinet secretaries to have their staff draw up a potential deal to signal a ceasefire in an escalating trade conflict, the people said, adding that multiple agencies are involved in the drafting of the plan. (Bloomberg)

Initial Reactions

1/ Twas five days before midterms.

Anyone who does not realize it’s midterms and midterms only in the mind of Donald J. Trump right now doesn’t understand him. His following eight tweets, after the one above, were *all* about campaigning for midterms.

An intriguing thought we’ve nursed throughout this campaign is whether all this China-bashing on trade is helping Trump/Republicans or not?

Earlier on, [Bloomberg](#) reported Trump had thought all the China-bashing was helping him and Republicans in the midterms. If so, ahead of an important national referendum on his leadership with a number of tight races, it would seem illogical to bring up US-China rapprochement just before main voting begins (a higher-than-usual number of early ballots having already been cast), if China-bashing was winning votes. But it wouldn’t seem strange if the tariffs are actually *hurting* Republicans¹ in midterms (the Trump tweet also contributed to global equity market

Under promise and over deliver

Trump directs a trade “deal” be prepped for the G-20

The midterms may have something to do with the timing of this announcement

If China bashing wins votes, why stop now?

But if internal party polling shows China bashing hurts, makes more sense

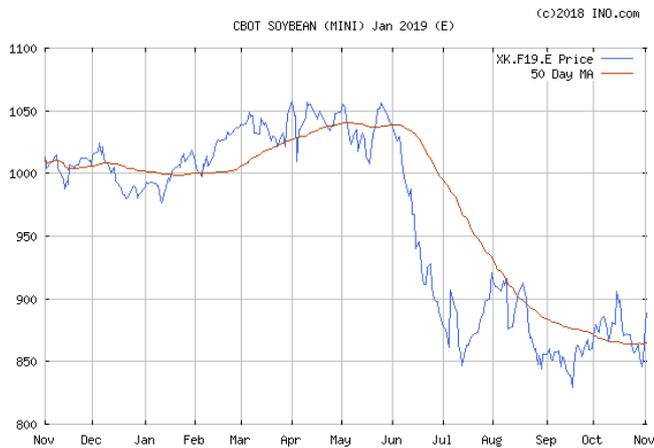
¹ One comment to the Trump tweet above (HT @clayton_b_shaw) read: *Due to your tariff disaster, my small business is getting endless price increase/price uncertainty notifications from vendors. Cost chaos is a biz killer, but you don’t really care do you?*

rallies yesterday and today). Eg, we have read of Midwestern farmers who, though they supported Trump, seemed antsy at the collapse of agricultural prices.

Those long-suffering soybean farmers

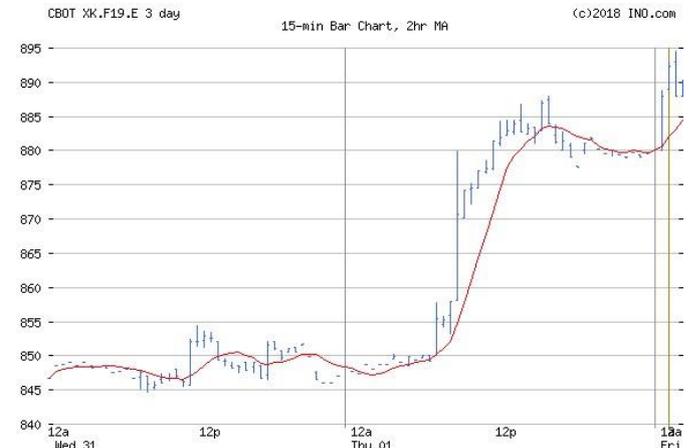
We'll show you the soybean price reaction to this to give you an idea of how the US-China trade spat is affecting some of the farmers in America.

SOYBEANS: 1-YEAR REACTION TO TRUMP TARIFFS



Source: ino.com

SOYBEANS: 3-DAY REACTION AROUND THE TWEET



Source: ino.com

The Trump tweet and USD/CNH seem awfully coincident, and convenient

Putting our conspiracy theorist hat on (seems popular in America these days), the response of soybean prices *yesterday* along with the USD/CNH price movements we discussed in our week-ahead range (in the [MUFG FX Weekly](#)) make us wonder whether this Trump-Xi phone call might have been less happenstance than something coordinated? Both Trump and Xi get a stronger RMB, which they both want, with nary a currency manipulation report in sight. So much of Trump's Presidency seems about showmanship we can't rule this out.

North Korea also comes to mind

2/ Both Trump's tweet and Xinhua's press dispatch mentioned that the two men discussed **North Korea** on their call, and we think it's actually good to be reminded of the June 2018 Trump--Kim Summit.

To repeat ourselves: *Trump asked key cabinet secretaries to have their staff draw up a potential deal to signal a ceasefire in an escalating trade conflict, the people said, adding that multiple agencies are involved in the drafting of the plan.*

Both may have been generated from a Trump whim

For anyone who has read any one of the contemporaneous accounts of the Trump White House, this sounds suspiciously like one of Trump's famous whims followed by all gears of the Executive Branch grinding furiously to back him up.

Xinhua is emphasizing these are talks about having talks

Because Xinhua's dispatch on the same phone call seemed to only confirm Trump and Xi will have talks about having talks in Buenos Aires, not a done deal (maybe the UK is watching). Of course we had the Trump-Kim Summit itself, which some Singaporean friends told us cost the Lion City USD12mn in security costs. We wonder if Singapore, much less the rest of the world, felt it good value?

Previously the US was waiting for a substantive offer from the Chinese

Earlier reporting by *The Wall Street Journal* indicated the US was not prepared to engage in talks unless the Chinese offered something substantive, particularly with regard to intellectual property rights.

<https://www.wsj.com/articles/u-s-wont-resume-trade-talks-without-firm-proposal-from-a-wary-china-1540465201?mod=searchresults&page=1&pos=5>

Substantive means specific

So President Trump's tweet might mean the Chinese are now prepared to advance something substantive on the IPR front. But substantive to us means very specific. The example we've been using with clients is this. Suppose Americans are upset with Chinese subsidies in electric vehicles. A substantive, specific offer from the Chinese side would involve something like saying we are proposing to lower the degree of subsidy we offer from x% of a vehicle's cost to y%.

A delay is better than no deal, but not as good as an actual deal

To be fair we add were the Trump-Xi talks later this month to produce, say, a standstill in the raising of tariffs from 10 to 25% for USD200bn of US imports from China (while talks are underway), that would be better than if the tariffs had gone up. But it wouldn't be nearly as good as the prior situation when we had no tariffs at all. Asset prices that recognize the first but ignore the second are not thinking with full faculties.

Four weeks before the G-20 with a reported 142 demands from the Americans

With some advisors – most notably National Economic Council head Kudlow – having done their best to downplay expectations ahead of the Trump-Xi meeting (at one point just a couple of days ago suggesting trade might not even be on the agenda; Kudlow is now celebrating the “thaw” in Trump-Xi ties) and with only four weeks before the G-20 Summit begins, it seems a tall challenge for the Trump Cabinet to craft a deal when prior news reports suggested the Chinese had not responded to even **one** of a reported 142 demands from the American side.

Much of the 142 can be negotiated; but by 30 November?

Don't get us wrong; we think it's not impossible some of the 142 demands can be negotiated with give and take from both sides; but the idea in four weeks following a months-long vacuum in trade talks the Trump Cabinet can artfully put together a “deal” to show a big win for the President seems a tall order.

If specifics, this is not just PR; if not, think Kim Jong-Un

So we advocate looking, hardheadedly, at the specific details coming out of Buenos Aires. If no specifics, think Kim Jong-Un.

Cross-tabbing *The Wall Street Journal's* reporting on this:

Yet, there was no sign the U.S. would yield in its refusal to resume trade talks with China until Beijing presents a concrete proposal to address Washington's broader economic complaints.

The administration followed Mr. Trump's upbeat comments with a characteristic shot across China's bow, a reminder of the technological rivalry that has sparked significant tensions between the world's two largest economies. The U.S. Justice Department accused Chinese state-owned Fujian Jinhua Integrated Circuit Co., its Taiwanese partner United Microelectronics Corp. and three Taiwan nationals of stealing trade secrets from the largest U.S. memory-chip maker, Micron Technology Inc., in a grand jury indictment unsealed on Thursday.

<https://www.wsj.com/articles/trump-signals-progress-on-trade-after-phone-call-with-chinese-president-xi-1541083811?mod=searchresults&page=1&pos=1>

A trade war contributes to higher USD/CNY

3/ **On CNY/CNH** itself, we have argued all year that in an actual trade war, the USD should gain strength, especially against EM.

But so do slowing growth, narrowing interest rate differentials and credit problems

But even before that, we posited what we called in our latest monthly the triangle of renminbi weakness for 2018: Slowing Chinese growth; narrowing interest rate differentials with USD; and reappearing credit problems. The trade war is in addition to those three factors and obviously all factors interplay off of one another.

Even if Trump unilaterally surrenders,
other drivers will be there

If you make the extreme assumption Trump unilaterally surrenders his Trade War and undoes everything he has instituted to date (we see zero chance of that happening), you'd still have the triangle of weakness. Eg, if China was determined to have onshore interest *below* US interest rates in 2019, there'd still be an argument in favor of weaker renminbi even if the trade war wasn't there. It's true (as we wrote in our weekly) we may be in for a protracted period of USD/CNY drops, but this, too, shall pass. Meanwhile, the other three drivers remain.

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