

On Tuesday, the markets bid higher following a statement from the U.S. Trade Representative's office that tariffs will commence on September 1st, but that some products will be delayed until December 15th. [To wit:](#)

*"...some tariffs will take effect on Sept. 1 as planned, 'certain products are being removed from the tariff list based on health, safety, national security and other factors and will not face additional tariffs of 10 percent. Further, as part of USTR's public comment and hearing process, it was determined that the tariff should be delayed to December 15 for certain articles."*

The only part the algos heard was "tariffs delayed," which sent them into stock panic buying mode. However, stocks crashed again on Wednesday as the yield curve inverted, sending "recession fears" through the markets. Of course, since President Trump has pegged the success of his Presidency on the rise and fall of the markets, on Wednesday, as "tweets" about a "trade talks continuing" failed to lift the markets, he resorted to more direct measures to manipulate the markets: [Via CNBC:](#)

*"Trump held the call with J.P. Morgan Chase CEO Jamie Dimon, Bank of America's Brian Moynihan and Citigroup's Michael Corbat, according to people with knowledge of the situation."*


This, of course, was reminiscent of the call made by Steve Mnuchin, U.S. Treasury Secretary, during the market rout last December. But most importantly, this is about the upcoming election:

***"Trump has been reaching out to corporate leaders this week amid his concerns that a slowing U.S. economy could impact his reelection chances, according to a Thursday piece from the Washington Post."***

Hopefully, he will listen to them. But even if the trade dispute was ended today, the damage is likely already done.

- *Economic growth has weakened globally*
- *Corporate profit growth has turned negative.*
- *Tax cuts are fully absorbed into the economy*
- *Interest rates are signaling there is something "broken"*
- *Yield curves are negative as "deflationary" pressures are rising*
- *All of which is leading to rising recession risk.*

In other words, while investors have hung their portfolios hopes of a "trade deal," it may well be too little, too late.



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**Art Of The Deal Versus The Art Of War** This is all assuming Trump can

actually succeed in a trade war with China. Let's step back to the G-20 meeting between President Trump and President Xi Jinping. As I [wrote then](#):

*"There is a tremendous amount of 'hope' currently built into the market for a 'trade war truce'•this weekend. However, as we suggested previously, **the most likely outcome was a truce?but no deal.**•That is exactly what happened. While the markets will likely react positively next week to the news that 'talks will continue,' the impact of existing tariffs from both the U.S. and China continue to weigh on domestic firms and consumers. More importantly, while the continued 'jawboning' may keep 'hope alive' for investors temporarily, these two countries have been 'talking'•for over a year with little real progress to show for it outside of superficial agreements. Importantly, we have noted that Trump would eventually 'cave' into the pressure*



uring the G-20 summit.

By agreeing to continue

talks without imposing more tariffs on China, China gained ample running room to continue to adjust for current tariffs to lessen their impact. More importantly, Trump gave up a major bargaining chip - Huawei.

*?One of the things I will allow, however, is ? **a lot of people are surprised we send and we sell to Huawei a tremendous amount of product that goes into a lot of the various things that they make** ? and I said that that's OK, that we will keep selling that product.? - President Trump*

**Oh...so all the spying, technology stealing, etc. doesn't matter now?** As I stated then, it was only Trump who was surprised. Not by the amount of product sold to Huawei, but rather by the pressure applied by U.S. technology firms to lift the ban. While Trump appeased his corporate campaign donors, he Trump gave up an important "*pain point*" on China's economy. Yes, China agreed to buy more agricultural products from U.S. farmers, which was crucially important as the "*rust belt*" were big supporters of Trump during the 2016 campaign, but•China had no intention of following through. As I wrote on [May 24, 2018](#):

***?China has a long history of repeatedly reneging on promises it has made to past administrations.***

***By agreeing to a reduction of the 'deficit' in exchange for 'no tariffs,' China removed the most important threat to their economy as it will take 18-24 months before the***

## **current administration realizes the problem.?**

What the current administration fails to realize is that China is not operating from short-term political-cycle driven game plan. Their goal is very different. [To wit:](#)

1. **China is playing a very long game. Short-term economic pain can be met with ever-increasing levels of government stimulus.** The U.S. has no such mechanism currently, but explains why both Trump and Vice-President Pence have been suggesting the Fed restarts QE and cuts rates by 1%.
2. **The pressure is on the Trump Administration to conclude a ?deal,? not on China.**
  - Trump needs a deal done before the 2020 election cycle AND he needs the markets and economy to be strong. If the markets and economy weaken because of tariffs, which are a tax on domestic consumers and corporate profits, as they did in 2018, the risk of electoral losses rise. China knows this and are willing to ?wait it out? to get a better deal.
3. **China is not going to jeopardize its 50 to 100-year economic growth plan on a current President who will be out of office within the next 5-years at most.** It is unlikely as the next President will take the same hard-line approach on China that President Trump has, so agreeing to something that won't be supported in the future is doubtful.?

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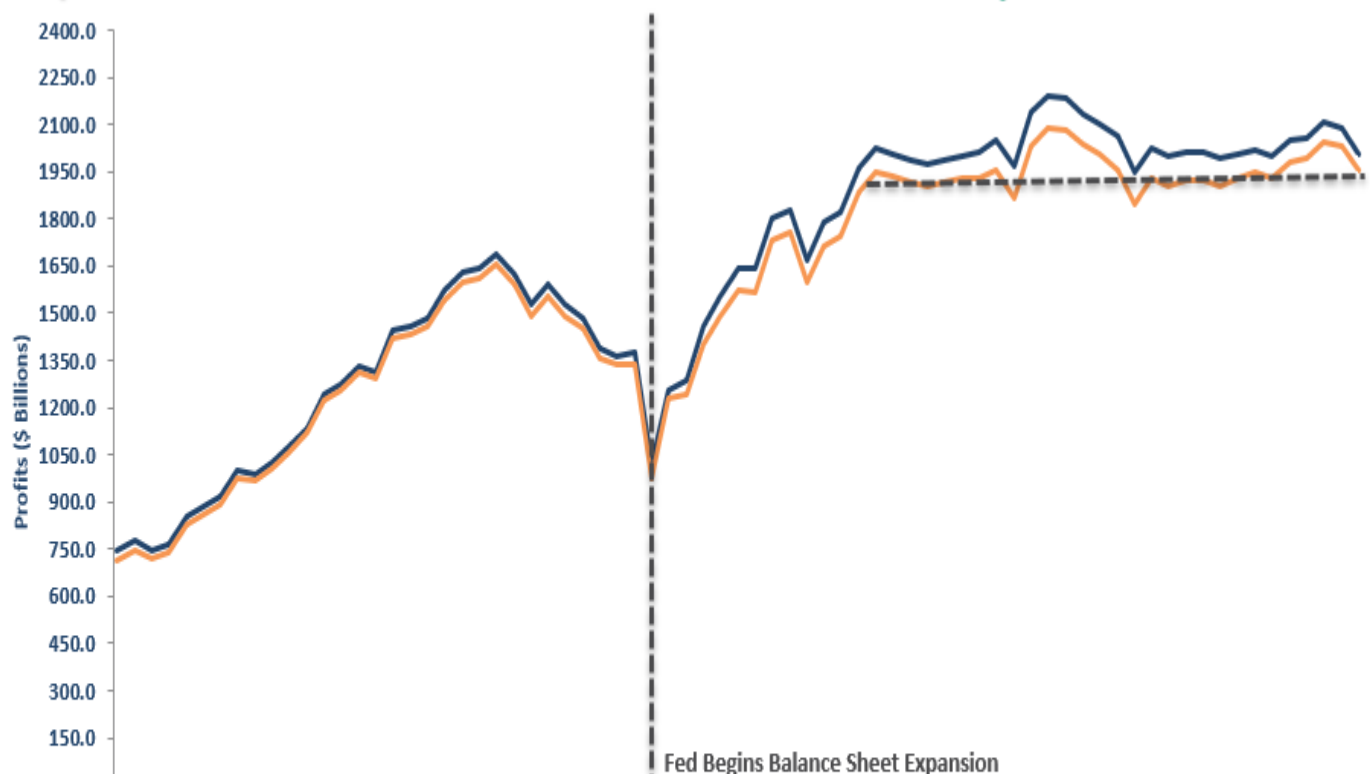
## **A War Trump Can't Win**

While President Trump thought **?trade wars would be easy to win,?** they aren't, and the domestic economic pain will likely be more than he bargained for. Such is already evident as [corporate profits continue](#) to come under pressure.

**"Despite a near 300% increase in the financial markets over the last decade, corporate profits haven't grown since 2011."**

### **Corporate Profits Less Fed Reserve Bank Profits**

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But, if you think China is going to acquiesce any time soon to Trump's demands, you haven't been paying attention. China previously launched a [national call in their press](#) to unify support behind China's refusal to give into Trump's demands. To wit:

*"Lying behind the trade feud is America's intention to stifle China's development. The U.S. wants to be a permanent leader in the world, **and there is no way for China to avoid the storm through compromise. History proves that compromise only leads to further dilemmas.** During previous trade tensions between the U.S. and Japan, Japan made concessions. As a result, its political stability and economic development were adversely affected, with structural reform being suspended and hi-tech companies being severely damaged. **The only way for a country to win a war is through development, not compromise.** To achieve development, China will open its door wider to the world and fight to the end."*

These were Xi Jinping's mandates. While China agreed to purchase more agricultural products from the U.S., there was nothing committing China to do anything. Since buying agricultural products would have boosted support for Trump, it should be of no surprise that China failed to follow through. <https://twitter.com/realDonaldTrump/status/1161278978201661440>

[June 19, 2018:](#)

***"The U.S.- China confrontation will be a war of attrition:•while China has shown a willingness to make a deal on shrinking its trade surplus with the U.S., it has made clear it won't bow to demands to abandon its industrial policy aimed at dominating the technology of the future."***

China has no intention of giving in. They are not going to compromise as they know time is growing extremely short for President Trump as the election cycle heats up. The problem for Trump will be the mounting economic, and corporate, pressure the Administration will face. That pressure is what led to the latest mistake.

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## Trump's Latest Mistake

Trump's latest move to delay tariffs is another critical error with respect to dealing with China. As I wrote last time, Trump may well be following his ["Art Of The Deal?"](#) tactics, but Xi is clearly operating on the foundation of **Sun Tzu's** ["The Art Of War."](#)

*"If your enemy is secure at all points, be prepared for him. If he is in superior strength, evade him. **If your opponent is temperamental, seek to irritate him. Pretend to be weak, that he may grow arrogant.** If he is taking his ease, give him no rest. If his forces are united, separate them. **If sovereign and subject are in accord, put division between them. Attack him where he is unprepared, appear where you are not expected.**"*

As noted above, China has been attacking the "rust-belt" states, which are crucial to Trump's 2020 reelection. As noted by [MarketWatch](#):

*"China has lashed back with tariffs on \$110 billion in American goods, focusing on agricultural products in a direct and painful shot at Trump supporters in the U.S. farm belt."*

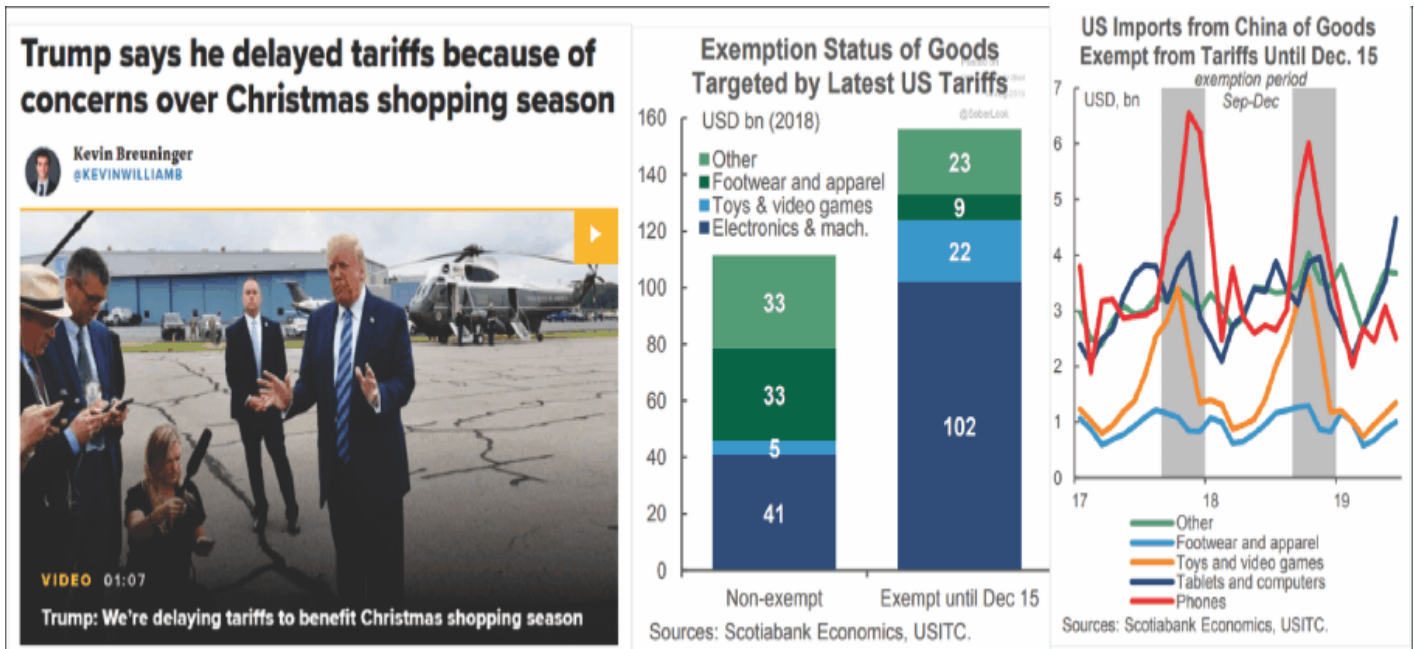
**Trump caved to corporate pressures over Huawei at the G-20 summit, and has now caved to pressures from retailers heading into the critical shopping season.** *(The tariffs on electronics, apparel, shoes, and other items are specific goods which will impact consumers the most during*



the critical holiday shopping season. •

***"We're doing this for the Christmas season. Just in case some of the tariffs would have an impact on U.S. customers.? - President Trump***

**Not "just in case."** • As noted above, this was directly in response to his calls with corporate leaders early last week. **Those tariffs would have further crushed sentiment and the profits of companies who are dependent on the holiday shopping season for a bulk of their annual revenue.** •



From China's perspective, this is another **"nail in the coffin"** of Trump's negotiating strength. While the U.S. will now expect China to reciprocate by buying U.S. agricultural products in the coming weeks, China has no incentive to do so.

***Why does China have to agree to anything, given that Trump is now negotiating with himself to keep his corporate donors happy?***

For China, [\*this is a big "win."\*](#)

***"Chinese experts said the sudden postponing of impending tariffs showed that the maximum pressure tactics of the US are losing their bite when it comes to China. These measures are set to greatly reduce the weight of US tariffs, as electronics goods alone account for about \$130 billion. 'The US has realized that its maximum pressure strategy to force China back to the negotiating table has not worked as expected. Washington knows that only through talks can the two sides reach a deal,' Wang Jun, chief economist at Zhongyuan Bank, told the Global Times on Tuesday."***

With Trump's own economy working against him, China doesn't have to do much, but wait. Yes, China will gladly have meetings to talk about *"trade"* as they now know that following each meeting they will walk away with more time. **Time is all they need.** When Trump is out of office, the next administration will abandon the *"trade war"* as the first order of business. However, with the *"yield curve"* plummeting, there is a rising possibility, China may not have to wait that long. As I wrote last time:

***"While Trump is operating from a view that was a ghost-written, former best-seller, in the U.S. popular press, Xi is operating from a centuries-old blueprint for victory in battle."***

Trump has already lost the "*trade war*," he just doesn't realize it, yet.