

# THE National Investor

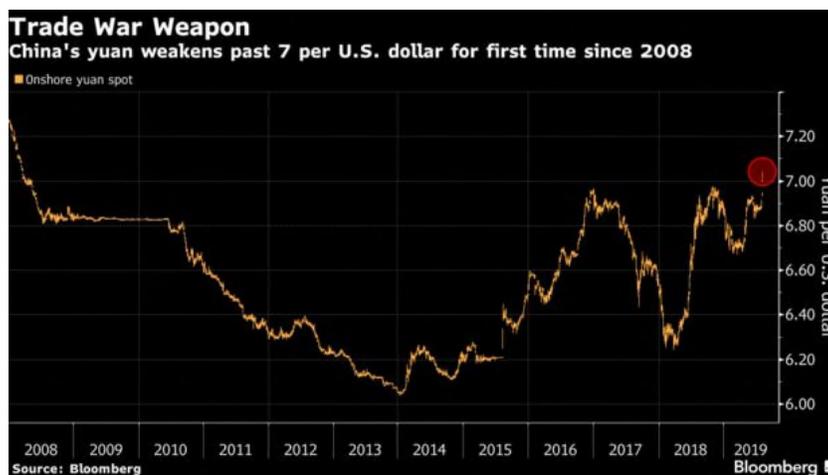
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## CHINA ON THE EDGE OF THE CLIFF

As you know, I have made clear since January my view that the biggest danger to global markets in 2019 was—and still is—a credit collapse or similar type of financial crisis in or concerning China. I have stressed that danger anew many times since, most notably twice: after President Trump around May 1 called China on its walking away from a comprehensive deal **and, NOW, as China especially has demonstrated that it is hunkering down for the longer haul (or at least until after next November, in the hopes that Trump loses his reelection bid) without a rapprochement.**



The latest evidence of that latter came at week's end, when China's central bank fixed the official midpoint "reference range" for the yuan at 7.0136 to the U.S. dollar. That fix was the lowest in over 11 years. More importantly—and with the confirmation in currency markets that has followed—it is just the beginning of China setting a new, lower range for its currency; *one which they hope to still be able to control.*

Though I have *generally* always been in agreement with Trump and his desire to *at least* make level the playing field between the world's two top economic powers these days, his approach on China's alleged currency manipulation specifically is the most ignorant and ham-fisted part of his "strategy." **As people who DO understand such things know, China even now is attempting to control a decline in its currency which—if it let nature take its course and markets work—would go into a free-fall.**

As I reported to you a few months back, China has been forced to institute capital controls to keep precious DOLLARS from leaving the country as well as yuan. I pointed out a few times recently on the podcasts the steadily-growing financial stress from all this within China's own system and, now, in Hong Kong. It may not take much more before something *really* breaks.

A *third* high-profile, major bank is now reportedly circling the bowl in China. As for the day to day economy, parts of the payments system and credit are starting to freeze up despite the renewed efforts by the government and the P.B.O.C. to keep all the balls in the air. Reminiscent of what was happening as the dominoes were falling back in 2008, in China NOW many businesses *already* are out of cash, cannot get new credit, letters of credit or even delivery-contingent financing *and are now relegated to swapping I.O.U.'s between one another with crossed fingers.* (Check out <https://www.informedamerican.com/china-could-be-on-edge-of-breakdown-as-businesses-pay-each-other-with-ious/>.)

Especially with—as I have detailed of late—the Defense and “security” establishments in Washington having taken (or retaken?) a more visible and obviously stronger role in the Trump White House, it begs a question: **Are they all *really* that stupid on currency issues. . .or is all of this a deliberate strategy to push China off the cliff?** For quite a while now as you should remember, one “doomsday” scenario *for markets especially* I have articulated is that those around President Trump who have an aim to do to China what the Reagan Administration did in pushing the former Soviet Union into the dustbin of history will carry the day.

And more so than at any time during this “New Cold War” that seems to be shifting from possibility to probability; at least in the attempt.

## GOING IT ALONE?

Though along the way Trump has more than once held out various olive branches and otherwise claims to still want to be friends with China (and at his core would LOVE to be able to announce that he has made a *viable* deal with his “friend” Xi Jinping), one of the die I believe has been cast is that there is *not* going to be an end to this. **As I have said numerous times of late, reality seems to be setting in that neither side will make the changes necessary in order to go forward; and maybe that's the way things have to be.** China will walk away from the global



***Ready to say “Good bye” to the W.T.O., etc.?***

system of transparent, democratic capitalism and free trade, regroup and attempt to continue building at least a regional power before it succumbs to the LONG-overdue demands finally being put forth by Trump that “If you want to continue to benefit from playing in our ball park, you have to play by the same rules everyone else does.”

That's especially true now, as President Xi prepares to preside over the celebration of the 70<sup>th</sup> anniversary of the Peoples' Republic. **Having for all practical purposes set himself up as “president for life” there is NO WAY most see him giving an inch in what is now more so than ever a clash of very disparate systems and economic cultures, not to mention battle of wills.**

And just as Trump has already told anyone who will listen that it will be the recalcitrant Federal Reserve that's to blame if things unravel *for him* in the markets/economy, China's Xi is making out America as the bad guy risking its own economy and livelihood. **Indeed, I have recently used the attack on the U.S. of September 11, 2001 as an analogy for what we could see.** Back then—through

September 10—it was the Federal Reserve, speculators specifically and Wall Street generally that were under proper criticism for having brought about the tech bubble and subsequent bust, and then the worsening recession. **But that changed on September 11;** and thereafter, all the bad stuff in the markets and the economy was the fault of “those dirty Arab terrorists.”

In this regard—much more so than the *relatively* more vulnerable Trump as he runs for reelection—Xi pretty much has a free pass in one sense. He can alternately stand his ground and take steps to further set up an economic and trade framework apart from the dwindling ability to continue doing business as usual with the U.S. specifically, and even the West generally. At the same time, he is fighting the battle to keep the credit system, etc. from falling apart; *but with the scapegoat already identified if he (for a while) fails in this.*

**Diplomatically, things are getting nastier.** Right or wrong, China is blaming the U.S. for helping foment the crisis in Hong Kong. The U.S. calls China a “thuggish regime.” China retorts (backed by news of a “low profile expert on subversion” from the U.S. it claims to have outed) that “...the blatant slander of China has exposed the U.S.’ gangster logic and hegemonic thinking.”

China is increasing its necessary activities to go it alone; or at least outside the system it has “gamed” for a quarter century. Seeing the handwriting on the wall for Huawei, that corporation has now just trotted **out its own operating system to rival Apple’s and Google’s, which it is calling its HarmonyOS.** Elsewhere, China is ramping up its efforts to maintain some forward momentum on its Belt and Road efforts (which have hit a rocky patch as I have mentioned previously) and with tighter trade *and increasing monetary relationships* with its closest neighbors.

## A MORE DRAMATIC INCREASE IN “HOSTILITIES” LOOMS?

It’s now being suggested (see <https://www.cnbc.com/2019/08/09/oil-us-likely-to-be-chinas-next-target-as-trade-war-rages-analysts-warn.html>) that China will move away from buying U.S. oil as this “tit for tat” war ramps up. *What if they decide to replace it with Iranian oil, and come up with a way to insulate the financial fallout (U.S. adding bank and financial sanctions) somehow?*



VS.



***THIS is when a currency war will start to get serious!***

As with hurriedly trotting out the new Huawei OS this week, China is looking to replace those elements of its economy *and payments system* that have been dependent on U.S. or U.S.-centric elements. **If/when this gets to replacing U.S. energy with fresh imports from Iran (whose oil exports have crashed to levels not seen in over three decades) AND finding a way to pay for them around the U.S. currency and sanctions, this New Cold War will have hit a new and dangerous phase.**

China wants and needs cheap oil, and can get all it wants from Iran. Indeed, if that were to start happening (and *already* oil traders are looking over their shoulder, aware of this possibility) it will add to global oversupply/price weakness. China won't have to pay much.



China can “push back”—and cause a credit crisis [HERE](#)

**There will be other “benefits.”** This will be the sharpest economic and strategic retort to America yet. A renewed fall in oil which would be a net benefit to China would threaten the U.S. oil patch and bloated credit structure anew; a “pay back” for the U.S. pushing at *its* economic and credit market health. An increasingly nervous Saudi Arabia—U.S. ally and Iran’s rival—will again have to put off an I.P.O. for part of Saudi Aramco, which it recently put *back on* the table in the hopes of stable oil prices lasting.

It’s not that there already isn’t PLENTY to worry about. But all of a sudden this scenario—not to mention American and Chinese naval vessels bumping into one another in the Persian Gulf—is in the realm of possibility to raise the economic and military/war risks.

## DOES TRUMP REALLY NEED A PRE-ELECTION DEAL?

Now, something more along the lines of an editorial comment, as I feel the need to push back against some notions that—among other things, but for our specific purposes here and attempting to divine market directions—I think some folks are getting wrong. By that I generally mean the idea that *most* commentators *still have* that Trump will blink if the market gets even shakier, and rush to do a deal with China. The corollary to that is that the calendar will also push him in that direction, so he can brag of his grand deal before Americans go to the polls next November.

**I am increasingly of the belief that his heels will remain dug in.** Though he is tragically not nearly as eloquent about it, Trump *has* more than ever adopted the larger mindset that is being propounded often recently by one time campaign honcho Steve Bannon (at right with his Boss-for-a-moment.) I personally don’t see Bannon engaging in mere hyperbole when, as he recently did again, he characterized this New Cold War with China as “...the defining event of our time.”



One of the more comical things about the motley assortment of Democrat Party presidential candidates is that *almost* all of them have such a knee-jerk reaction to take the opposite tack of *anything* Trump says/does that **they have turned their backs on one of the most important Democrat Party positions of the last generation**. It was once (generally speaking, of course) the Democrats standing up for U.S. business and workers and “America First,” and the Republicans who were the greedy international capitalists sacrificing both on the altar of “free trade.” A key reason why Trump is president is that he broke that mold. Virtually every Democrat Party candidate, as that party’s standard-bearer, would be cast as the one who would protect the status quo (and let China escape.)



*“Yes, but Trump’s a RACIST! Orange man BAD!”*

Only Sen. Elizabeth Warren (D-MA) has offered a regimen that would be even more draconian on China, albeit from a different mindset (no need to get into that today.) Can you imagine former Senator and Vice President Joe Biden as the nominee. . .and the subject of China comes up? This would be akin to the previous Democrat nominee trying to talk tough on Russia; that dog won’t hunt like they say in the South. Aside from his own compromised record, Biden will be beat over the head with his son’s firm being heavily financed by China and then using some of that dough to come up with the security apparatus with which China spies on its own population.

Make no mistake: Trump may be vulnerable on many things. As I said on this weekend’s *KER Politics* (at <http://www.kereport.com/2019/08/10/hour-2-politics-18/>) if the Democrat Party were a viable political party right now, they could combat him *on policy* on numerous fronts. Instead, the combination of mostly crackpot far-left policies and the incessant name calling isn’t doing that party a whole lot of good, in my estimation.

**Further, where China is concerned specifically, Trump could win with China still being unresolved just as Nixon won re-election in 1972** (though hated almost as much as Trump by both the Democrats and the Establishment) claiming he had a “secret” plan to end the Viet Nam war, and America would be nuts to give anyone else the controls and screw up that possibility. Indeed, I increasingly wonder (and granted, it’s early yet, so anyone making predictions now is just speculating) whether the Democrats aren’t in the process of doing to themselves exactly what they did in 1972: thinking they needed someone WAY to the left to beat Nixon. We saw how that ended.

While I don’t see Trump running the table as Nixon did on Sen. McGovern back then for numerous reasons, I DO see the possibility (certainly, if the election were held *today*) that Trump would win by a far more comfortable margin now than in 2016. That would be despite China being unresolved; indeed, perhaps *because* of that, and Trump clearly being the only man who would see this necessary and long-overdue task through to its end. And it would likewise be because the Democrat Party is so blinded by T.D.S. (Trump Derangement Syndrome) and their personal, transparent hatred for a sitting U.S. president that they talk themselves out of what could otherwise be a winning contest.

**THE TAKEAWAY HERE:** I'm having to remind people constantly, it seems, that I am neither a Trump sycophant nor one with that T.D.S. affliction. **As with the markets, I call things as I see them; and hope I am right the great majority of the time.** So if, for example, I am critical of the president's sometimes shocking lack of understanding of currency policy specifically, it does NOT mean that I am not on board with the larger issue of China as an economic and strategic competitor (and THREAT).

I have, I believe, fairly presented the GREATLY increased risks of late *to the markets*. The point I have stressed over and over again of late is just that: economies can bob and weave, as I put it the other day, and move supply chains, facilities, rejigger product components and the like. A lot of that is already going on. People—and economies and business—can be adaptive and resilient. All our lives we've seen what Schumpeter called "the creative destruction of capitalism." Products come and go. So do new technologies and the like. Sometimes the old and sick (companies and technologies) die in order that new life may flourish.

**But the danger today with this New Cold War necessarily being fought by both sides is that MARKETS are not as ready for this as are the economies at risk if *they* (markets) fall in on themselves.**

And thus, as I reiterate my more dramatic shift of just recent days to that "Going to the mattresses" mode. . .

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