



Some Thoughts On The Trade Wars

Financial markets have been buffeted by expectations of an imminent settlement in the U.S. – China trade wars, in ways that may not reflect the realities of the situation. These trade wars, the rhetoric, could last for a long time. They could disappear next week, too. Which way it goes has little to do with resolving long-standing issues related to bilateral U.S. Chinese trade.

At the risk of sounding jaded, the current trade dispute between the United States and China may have little to do with trade imbalances between the two countries and almost everything to do with U.S. domestic politics.

As a result of this, the trade negotiations with China are unlikely to find a quick resolution. Trump has domestic political reasons to create furor and focus on external ‘adversaries,’ as a Trump official called China last week. He will play this out as long as it works for him and his base of domestic political supporters, and as long as the trade wars have minimal negative impact on the real U.S. economy. Given that many of the tariffs appear to be being waived on individual imports by U.S. manufacturers and retailers, the actual imposition of tariffs has not had a negative impact on the costs of goods in the United States or U.S. manufacturers’ ability to source Chinese materials cheaply.

Trade complaints will disappear when a) it stops being an effective distraction to domestic political issues and/or b) it starts to hurt the health of the U.S. economy. Trump would not want to walk into an election year with a major economic drag, but he will if it helps him rally a group of supporters.

There are potentially two ways forward. First, and most likely, is that Trump continues to put barriers up to U.S. and China trade. The second way is that he could drop it and hope it goes away. Remember how he focused the political world’s attention on North Korea, threatening nuclear war, and then suddenly reversed his way and went all nice and cuddly toward Kim Jun Un. He did that when he realized that North Korea was backing off for a time on its testing due to (a) something having gone terribly wrong with its underground warhead tests and (b) the Chinese government ‘invited’ Kim to Beijing on short notice due to that explosion. Remember how we had a crisis on the Mexican border, which he has barely mentioned for a month or so once the polls showed most people did not actually see these folk as a threat to their jobs, liberty, and pursuit of happiness as they did economic recession risks.

So, too: If Trump feels the China trade war is not working for him, he could drop it and ‘resolve’ it in a week. Right now, he has pulled out all the stops on foreign threats: from phony ‘credible threats’ about Iran, to renewed saber rattling against North Korea, to renewed nastiness toward China. All three of these Trump-made crises in the past week likely had one reason: Distract the country from the gathering legal and political storms related to his failed attempts at collusion and obstruction.

Markets react when Trump says something even if they only half believe it or understand the true intentions behind certain comments. Stocks and bonds, so called ‘risk assets,’ meanwhile should be expected to become more volatile in the near future. This could benefit diversification or ‘safe haven’ assets like gold. As mentioned above, the trade conflict can be resolved once it stops being an effective political distraction or begins to have negative ramifications for the United States’ economic health.

Aside from the current trade dispute between the United States and China, frictions between the two countries will continue into the long-term. It is a long term risk that fits in with other longer term risks such as burgeoning debt or the socio-economic problems that are building up around the world.

None of this is to suggest there are not real trade issues between the two countries. There are, but they have existed for decades without major complaints and threats by the U.S. government, and do not warrant the sort of belligerence being exhibited by the U.S. government. To paraphrase Shakespeare, methinks the President doth protest too much.

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