

 **AGF** Insights and Market Perspectives**The Only Issue That Matters for U.S. Markets This Week****Author: Greg Valliere****December 9, 2019**

THIS COULD BE A VERY INTERESTING WEEK, with an FOMC statement that may acknowledge problems in the repo market, with the U.K holding a cringe-inducing election, with impeachment momentum continuing despite reservations by some Democrats, and with Mike Bloomberg starting to make a move. But there's only one issue that could make a major difference for the markets – the U.S.-China trade talks, facing a Dec. 15 deadline.

**WON'T GET FOOLED AGAIN:** There was surge of euphoria on Oct. 11 when an "agreement in principle" with China was announced by Donald Trump, but the details were hazy and the talks subsequently hit the rocks, once again. This much appears certain – no one will fall for the "agreement in principle" hype; the devil will be in the details.

**SOME REASON FOR OPTIMISM:** At long last, an agreement appears to be imminent on a U.S.-Mexico-Canada deal to replace NAFTA; negotiators are close to finalizing provisions on compliance with labor standards. It's possible that final signatures may not come until early 2020, but this deal is 98% finished, a source told us this weekend.

**WHILE THE U.S, CANADA AND MEXICO** seem to close to a final agreement, the same cannot be said of the contentious talks between the U.S.and China. Both sides need a deal but it may be a limp agreement, perhaps focusing only on Chinese purchases of U.S. agricultural products in exchange for no new tariffs from Washington before the Dec. 15 deadline. If more tariffs are imposed then, the Chinese almost certainly would retaliate.

Here are our odds on three scenarios as the deadline approaches:

1. A modest deal with the threat of new tariffs pushed back until spring (but with previous tariffs kept in place): 40% chance, the best bet – kicking the can down the road. A modest market positive.

2. A surprisingly robust deal, with progress on intellectual property theft, an agreement by both countries to open up markets, no new tariffs, and the lifting of some existing tariffs: a 25% chance. A major market positive.

3. No deal, not even a modest one, with new tariffs taking effect on Dec. 15 amid a realization that a nasty trade war will persist well into 2020: 35% chance. Probably a market negative but the markets have learned to live with trade uncertainty.

**BOTTOM LINE:** Trump has decent support in both parties – and the general public – for maintaining an aggressive stance on China. The strong jobs report last Friday confirmed that the U.S. economy can grow by about 2% even without a trade deal. We think growth could approach 2-1/2% if there's a trade deal, which would be still another plus to accompany enormous monetary and fiscal stimulus.

**OUR GUESS IS THAT TRUMP** is in no rush for a China trade deal. He's nearly certain to win acquittal from the Senate later this winter, the Democrats don't have a strong field challenging him, and the economy is growing despite the trade uncertainty. We'll get a meaningful trade deal with China, eventually, but maybe not by Dec. 15.

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