



Basis Points – May 16, 2019

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Above the Fold

While there hasn't been much reported progression since the weekend on the China trade debacle, there seems to be a growing voice from the people of both nations to stop the bickering and make a deal happen. It's fair to say that some negotiations require hardball tactics, but to drag these tactics on for months and months in such a public way erodes the benefits of using them in the first place.

It's safe to say that Americans want a fair deal with China, as the Asian nation has enjoyed an asymmetrical advantage for some time. And while most experts agree that the U.S. truly has the upper hand, Chinese officials seem to believe the same thing — and this is likely why we have a stalemate. The NY Times recently reported that propaganda is being heavily used to denounce "American bullies," and prepare the Chinese people for potential turmoil, placing the blame squarely on America's shoulders.

The flow of public economic data also means a steady stream of potential fodder for each side's negotiations, but the rationale isn't so simple. The recent 0.5% drop in U.S. industrial production and an unexpected 0.2% decline in U.S. retail sales could be a motivator for U.S. negotiators to get a deal done and reinvigorate the economy. At the same time, weak data could be an ego boost for China, supporting the argument that the tariffs and ongoing feud are working to their advantage.

China's economy is looking increasingly shaky, with the government slashing taxes and ramping infrastructure spending as growth slows to an almost 30-year low. Xi and Trump are also expected to meet in Japan during the G20 in June; hopefully there will be some progression before then.

What's Ahead

Preliminary consumer sentiment data is due out tomorrow; the consensus forecast is for a slight increase in the index to 97.8.

Three Things

- *Futures Predict Rate Cut* – Federal funds rate futures have shifted from a more flat forecast to a high probability of decline. Futures on the Chicago Mercantile Exchange are now predicting a more than 70% chance of one, and a 22% chance of *two rate cuts by the end of 2019*.
- *Oil Supply Cuts* – U.S. sanctions pressured a 164,000 barrels per day (BPD) decrease in Iranian crude output in April. America was responsible for the largest cut by a non-OPEC member, dropping production by 91,000 BPD during the same month.
- *The Faces of San Francisco* – The Golden City became the first in the nation to ban the use of facial recognition by local agencies. The good news is that iPhone 10 users can still unlock their devices without recourse.

Did You Know?

You can thank America for reading this blog — well sort of. Back in 1965, MIT researcher Lawrence Roberts and Thomas Mill connected a computer in Massachusetts to another in California, creating the first wide area network or WAN. Mr. Roberts went to the Department of Defense (DARPA) with his detailed plan for ARPANET and discovered that similar ideas were already being researched and developed.

After a few years of collaboration with the Department of Defense and others, the architecture had become more stable. By 1969, four computers were connected to the ARPANET, forming the genesis and basic framework for what has become a global game changer for the flow of information and commerce.

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