Weekly Commentary 17

Spinning the truth on inflation, China and then Ukraine
(NB: As usual, I emphasise key points in third party articles by putting them in red, and I also add my own comments, in red and within parenthesis.)

Spin No 1: Inflation is ending in the US, and interest rates have peaked.

I am afraid that I am going to be right about the direction of interest rates in the G7 economies. In Dec last year and even as of today, there are many interest rates bulls who expect that the Fed will cut interest rates three times this year, on expectations that they may have met their inflation target, and hence are prepared to ease up on tight monetary policy. I did not think so and said that. With the latest data on employment in the US economy released on Friday night, my worst fears have been confirmed, at least for the rest of this year.

As I wrote last week, there is a trade-off between unemployment and inflation. When Biden came into his job, he was faced with the prospect of the pandemic and its attendant lockdowns freezing the US economy and bring about another great depression of the 1930's. So he launched a massive stimulus program, throwing cash from helicopters and working with the Fed to ease interest rates as much as he possibly could.

This led to the highest inflation in forty years. There were many causes of this plight, but a lot of it can be attributed to the largesse that was associated with massive money printing. From about a year ago, the Fed knew it had to reverse the price pressure and endeavoured to raise interest rates to dampen aggregate demand. It was lucky that this did not crush employment as the stimulus from 2020 was still in play and it coincided with an upsurge of productivity. Until last year, most economists and Fed watchers were comfortable that the tight monetary policy did not have a deleterious effect on the productive economy. That was the proverbial "soft landing" that everybody was looking for.

However, I was not so sanguine. I wrote that since the Fed was just watching the data, ie being empirical, without knowing where they should be at, they are at risk that new circumstances would derail the smooth transition to lower inflation and prevent the Fed from acting out its playbook. To just expect the economy to cruise along was just too hands-off. It is not that inflation was not being lowered. It is. And it is not that there is no soft landing. It is just that inflation is not under control, at least not yet, and as such interest rates are not yet ready to be returned to the lower levels that used to prevail before it crushes the economy. In short, there is no soft landing yet, since the flight is in progress.

Lo and behold. On Friday, we saw unemployment data jump. And the markets immediately reacted. Here is a report from the Financial Times on what happened.

US jobs growth of 303,000 outstrips forecasts and weighs on rate cut bets

Traders further reduce probability of Federal Reserve starting its policy easing cycle in June

James Politi in Washington 12 HOURS AGO

Traders dialled back their bets on imminent Federal Reserve rate cuts after data showed US employers added 303,000 jobs in March, in a further sign of a buoyant labour market and a boost to President Joe Biden's re-election bid. The figures released on Friday by the US labour department were much stronger than the 200,000 job gains anticipated by economists polled by Reuters, and higher than those for January and February. The unemployment rate edged down to 3.8 per cent, compared with a predicted 3.9 per cent.

The data comes as the Fed is weighing when to start cutting interest rates from their current range of between 5.25 per cent and 5.5 per cent. Bond yields rose after the release, as investors scaled back bets that the Fed would cut interest rates three times this year. The two-year Treasury yield, which moves with interest rate expectations, was up 0.11 percentage points at 4.75 per cent in late-afternoon trading and on course to settle at its highest level since late November. Stocks advanced, with the S&P 500 closing 1.1 per cent higher to recoup almost all of its fall on Thursday that marked the biggest drop since mid-February. Futures markets now indicate a roughly 50 per cent probability of a first rate cut by June, down from an almost 66 per cent chance on Thursday, according to CME FedWatch.

"The Fed obviously won't cut rates soon with jobs this strong and next week's core [consumer price index] likely to remain hot," said James Knightley, chief international economist at ING. The figures provide a boost for Biden as he builds up his campaign to retake the White House, touting his strong record on employment creation.

Polls, however, have shown voters disapprove of his economic performance, owing mainly to the surge in inflation during his first term. Strong jobs data and higher than expected inflation figures in recent months have caused the Fed to signal there is no rush to start lowering interest rates.

This week, Fed chair Jay Powell said the economic outlook had not "materially changed". However, he said he needed "greater confidence" that inflation was falling to the central bank's 2 per cent target before cutting rates, saying there was "time" to weigh the decision.

Dallas Fed president Lorie Logan on Friday said risks were increasing that progress on inflation could stall. In light of those risks, she said, "I believe it's much too soon to think about cutting interest rates."

Dean Maki, chief economist at Point72, said: "It's hard to look at this report and say, 'the economy needs rate cuts'. But the Fed has said they want to cut rates." "I don't think this significantly reduces the odds that the Fed cuts rates as soon as June, because the Fed has said that is contingent on inflation data.

Powell does not see a strong job market interfering with rate cuts as long as inflation is coming down," he added. Economists have cautioned that monthly job figures can be substantially revised over time, but the changes to January and February in the March report added a total of 22,000 jobs, bolstering the picture of a stronger labour market.

The monthly jobs report will become increasingly important to Biden's re-election chances as the November vote draws closer. "Today's report marks a milestone in America's comeback," Biden said, ahead of a visit to Baltimore, Maryland, where the collapse of a bridge last month killed six workers at one of the east coast's top commercial ports. Biden said the US economy added more than 15mn jobs since he took office. "That's 15mn more people who have the dignity and respect that comes with a pay cheque," he said.

Employment growth was particularly strong in the healthcare, leisure and hospitality, and construction sectors, as well as in government jobs. Average weekly earnings and hours continued to rise last month. The separate household survey showed a surge of 469,000 people into the US labour force, and an increase in the labour force participation rate. This will also bolster the case for the Fed to hold off on rate cuts, economists say.

"The remarkable strength of the US labour market, the stubborn persistence of inflation, and the continued easing of financial conditions undercut the case for imminent interest rate cuts," said Eswar Prasad, an economics professor at Cornell University. "The Fed has the luxury of waiting to ease monetary policy but is also constrained by sticky inflation dynamics, making it that much harder to predict the optimal moment to start cutting rates," he added.

There are even analysts who argue that as a result of recent economic data, the hope of an interest rate may need to be put off for the time being. Here is one assessment, published in the South China Morning Post:

Macroscope

by Nicholas Spiro, a partner at Lauressa Advisory

Why we better not count on US interest rate cuts this year

- In a matter of three months, amid strong US economic data and all-time S&P 500 highs, the outlook for interest rates has changed considerably
- The Fed may want to see inflation quashed without triggering a recession, but the more likely scenario is rates will come down only if the economy slows sharply.
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Monthly data on manufacturing activity invariably receives little attention from investors. However, in China and the United States, the latest readings have generated more interest than usual. A Chinese gauge of manufacturing output entered expansion territory last month for the first time since last September, providing further evidence that the economy is stabilising.

Yet, while China's recovery is an important theme on trading floors, it does not move markets the way US economic data does, especially in a year when the world's most influential central bank expects to start cutting interest rates.

A report on Monday showing US factory activity expanded for the first time since September 2022 not only exceeded the expectations of analysts, it cast further doubt on the most widely anticipated policy shift this year: the Federal Reserve's signal that it expects to cut interest rates by three quarters of a percentage point.

At the end of 2023, bond markets were pricing in 1.5 percentage points worth of monetary easing this year, with the first reduction expected in March. By the end of last month, however, the timing of the first cut had been pushed back to June. Following the publication of the stronger-than-expected data, the odds of a June cut fell to 50-50. Indeed, markets now expect slightly less monetary easing this year than the Fed itself, data from Bloomberg shows.

Investors have consistently misjudged the timing of US rate cuts. According to a Deutsche Bank report last November, markets have priced in a dovish pivot by the Fed at least seven times, only to scale back their predictions about the timing and magnitude.

This begs the question of whether the Fed will actually reduce rates this year. At the end of 2023, when America's central bank signalled that it was done tightening policy, the suggestion that borrowing costs would remain unchanged this year seemed preposterous.

Not only had inflation fallen sharply – the core rate, which strips out volatile food and energy prices, stood at 3.9 per cent last December, down from 5.7 per cent at the end of 2022 – fears of a recession or a sharp slowdown lingered, partly because of concerns that the Fed would keep policy too tight for too long.

Fast-forward three months and the possibility that the Fed will not cut rates this year is being taken more seriously. Torsten Slok, chief economist at Apollo Global Management, is the most prominent Fed watcher to make the case for no cuts in 2024.

In a provocative report on March 1, Slok said that "the Fed will spend most of 2024 fighting inflation", pointing out: "The economy is not slowing down, it is reaccelerating." Other economists note the Fed has become more divided over the pace of easing. On March 22, Franklin Templeton noted that just under half the Fed's policymakers expected borrowing costs to be cut by half a percentage point or less this year.

It is clearly becoming more difficult for the Fed to justify easing policy. First, the long-anticipated recession has still not materialised. Instead, the economy has picked up steam, powered by a remarkably resilient labour market, with unemployment below 4 per cent.

Generous pandemic-induced stimulus and a flexible jobs market have helped underpin relatively brisk growth. The private sector added 184,000 jobs last month – the biggest monthly gain since last July – while wage growth for those who changed jobs increased at an annualised pace of 10 per cent.

Second, inflation is coming down at a slower pace, and by some measures is reaccelerating. The Fed's preferred gauge of inflation – the so-called core personal consumption expenditures price index – has gained momentum in recent months, standing at 3.5 per cent in the first quarter. This lends weight to the view that the last mile of the Fed's battle against inflation is the hardest.

Not long ago, the prospect of borrowing costs staying higher for longer would have rattled markets. Yet, the benchmark S&P 500 equity index has hit 22 fresh all-time highs this year. If rates stay high because the economy is strong, that is no bad thing.

Buoyant growth is good for corporate earnings. Even emerging markets – which have borne the brunt of the Fed's aggressive tightening campaign due to the surge in the US dollar – could benefit, in particular those more reliant on US demand.
However, there are also risks in keeping rates at high levels. Bank of America warns that financial conditions could tighten sharply if the Fed waits until next year to loosen policy. Indeed, if borrowing costs do not fall by June, the Fed may have little choice but to wait until 2025 because of unfavourable base effects for its preferred inflation gauge in the second half of the year, dubbed "jump risk" by Bank of America.

Investors are not prepared for a "no cuts" outcome this year. Markets have priced in a soft landing for the US economy whereby inflation continues to decline, the Fed starts to reduce borrowing costs and growth holds up. The Fed would also like to have the best of both worlds, quashing inflation without inducing a recession.
Many investors believe it can square the circle. Yet they should be careful what they wish for. If the Fed cuts rates while inflation is still fairly high, further tightening may eventually be required. Indeed, given how sticky prices are, significant easing is only likely to occur if the economy slows sharply, something Donald Trump would relish as he attempts to reclaim the White House.

So, all that BS about inflation going to 2%, that thfe Fed has succeeded and interest rates would trend downwards is just spin. Bond yields are as about at the record levels reached in Nov 2023. Declining rates is not happening, at least not yet.

Spin No 2: China is overproducing

(Besides the hot jobs data, there are other factors which may put rates higher, so that a Fed approach of watching the data will not work. As Lawrence Summers, former Treasury Secretary said, the Fed does not have a "neutral interest rate."
Which makes it difficult for them to benchmark policy or know when to stop raising rates. Then there is the problem of the interest burden on the Federal deficit and the

National Debt which is now so large that it is essentially unsustainable. Borrowing continuously has a cost which will affect the economy eventually. Then there is the recent trend in oil prices, which has been rising and will likely close in on 90 dollars a barrel soon. That will translate into higher gas pump prices just in time for the Nov elections.

(Then you have the US government doing its own citizens in, by casting China as the economic enemy when in fact Chinese exports is the only thing that can enable the American economy to enjoy lower prices on a very wide range of goods. The Sino US trade has benefitted both sides, one side with economic growth and the other with lower inflation for three to four decades. But the Americans are scared of the Chinese. We just saw Janet Yellen go to China and starting to complain about how China's factory output is producing too much. Fuck, producing too much?

(Look, if the Chinese are producing too much, it must lead to supply outstripping demand and will lower prices, revenues and profits. At some point, the effects of this would be to bankrupt Chinese enterprises, even if the enterprises are state owned. This must mean that over production in China will destroy Chinese companies and the rest of the world buying Chinese production with unprofitable margins must be laughing all the way to the bank. In other words, there cannot be such a thing as "overproduction".

(Take the case of solar panels and EVs. The west is essentially concerned about these two products, in which they claim that China is overproducing and will dump the output on the countries in which there are also manufacturers. They are worried that this will mean western companies will be uncompetitive, industry will shut down in the face of Chinese competition leading to structural unemployment in these countries. What? Isn't the problem unemployment being too low? The right way to look at this is that when the Chinese overproduce, they bankrupt themselves, and there will also be structural unemployment in China. And the US does not need to worry about American jobs since there are plenty of them and inflation does not come down fast enough. So where is the problem??

(The problem is simply that the Americans have bee((n caught lying about their economy and it is not what the bliss that they want it to be. And they need someone to blame. China is just a convenient scapegoat. And they will continue to spin Chinese economic success by using talking points that their own citizens would want to hear.

(Look, the fact of the matter is that it is nothing more than the collective west becoming uncompetitive against Chinese manufacturers. The ultimate beneficiaries are consumers in the world, who will get to enjoy lower prices from Chinese efficiency.

(Here is a FT report on the US attitude regarding Chinese exporting.)

US warns China against dumping goods on global markets

Western governments fear Beijing may try to ease domestic overcapacity with cheap exports The EU has launched an anti-subsidy probe into China's electric car industry

Demetri Sevastopulo in Munich and Edward White in Shanghai FEBRUARY 19 2024

Washington has warned Beijing that the US and its allies will take action if China tries to ease its industrial overcapacity problem by dumping goods on international markets, according to American officials. Two senior Treasury officials told the Financial Times that a US delegation made its concerns clear in a recent visit to China, including in conversations with He Lifeng, the vice-premier responsible for China's economy.

"We are worried that Chinese industrial support policies and macro policies that are more focused on supply rather than thinking about where the demand will come from are both careening towards a situation where overcapacity in China . . . is going to wind up hitting world markets," said Jay Shambaugh, the under-secretary for international affairs, who recently led an economic team to Beijing.

The US is most concerned about advanced manufacturing, and particularly clean energy sectors such as electric vehicles, solar panels and lithium-ion batteries. (What the heck? According to the spin doctors, these Chinese industries have been sanctioned for a long time, starting with HuaWei five years ago during the Trump Administration. They should all be bankrupt by now. The fact that they are now still surviving is because they are so good at what they do that they have adjusted to unfair competition and learned how to prosper in spite of it.) Shambaugh said he had stressed it was not just the US that was concerned and that China should not see any US or other responses as being "out of the blue". The under-secretary heads the US side of one of two working groups that Washington and Beijing created after Treasury secretary Janet Yellen's visit to Beijing last year to discuss tough issues such as overcapacity in an effort to ease tensions.

"The rest of the world is going to respond, and they're not doing it in a new anti-China way, they're responding to Chinese policy (well, the west has been beating up Chinese companies for the last five or more years, and it is not working)," said Shambaugh in an interview with the FT. He was joined by his colleague Brent Neiman, deputy under-secretary for international finance, who also recently led a team to China.

The EU last year launched an anti-subsidy probe into China's EV industry. EU competition commissioner Margrethe Vestager on Saturday said the bloc was prepared to use trade tools to tackle unfair Chinese trade practices.

One official said Washington wanted to make sure Beijing was taking the issue seriously. The topic would be a "major part" of the agenda when Yellen visits Beijing later this year, he added. Yellen is also expected to raise Chinese overcapacity with her G20 counterparts when they meet in São Paulo later this month.
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Chinese officials point to the fact that the US Inflation Reduction Act makes it cost-prohibitive to import Chinese lithium batteries and EVs. (Think about it, the Inflation Reduction Act does not cut inflation; instead, it raises the prices of inputs and cheap products sourced from China!! How is that inflation reducing?) Some experts also point out that nearly one-third of Chinese EV exports last year were cars that Tesla, a US company, produced at its factory in Shanghai. Scott Kennedy, a Chinese economy expert at the CSIS think-tank, said the US should press China to boost internal demand. " (That is already a given, and the Chinese have the largest deployment of solar energy products, EVs and batteries in the world. You cannot blame these companies to then export their stuff, once domestic demand has been met. It is not like they only export to the west and the Chinese market is devoid of these excellent products.) Assuming all of that fails to change things, Washington will have no choice but to follow the EU and launch investigations that likely would result in substantially expanded restrictions on Chinese imports." (Well, let's see how that will work out...)

China has acknowledged the risks from overcapacity, which has been a feature of its industrial development for decades, but has not outlined a clear plan to tackle the issue.

President Xi Jinping last December said overcapacity in some industries was one of the "challenges" that must be tackled to safeguard future economic growth. China's commerce ministry this month announced plans to support the "healthy development" of overseas EV expansion, including enhanced co-operation with foreign partners. Some experts saw that as a sign that it wanted to allay international concerns about EV exports.

But Beijing has also been critical of what it says are rising protectionist behaviour and abuse of trade dispute mechanisms by the west. It responded to the EU probe by launching an investigation into French cognac sales to China.

China's overcapacity a challenge that is 'here to stay', says US chamber While the US and China discuss thorny issues such as overcapacity, they are also stepping up co-ordination on mechanisms to reduce risk in the global financial system and respond to future crisis. Neiman said the sides had started holding technical exercises — similar to those the US does with other countries — to think through how to handle crises.

"We stood up a technical exercise to discuss how we would handle potential stresses at global systemically important banks, either in China or the US, and essentially make sure that we know if something goes wrong, who do we pick up the phone to call," he said, citing one example.

(In all honesty, the western approach on technologically superior Chinese products is to pretend they are not better and just impose tariffs on them. In the case of solar panels, Chinese products have enabled the country to become the largest clean energy country on the planet. In EVs and lithium-ion batteries, why should bureaucrats, like Ursula von der Leyen, decide which are better cars? Put them into the market and let the consumers decide for themselves. No person looking for a EV will buy the inferior product. And if China sells below cost, it can only lose money and its companies will go bankrupt. The west's policy should be to just let them die.)

Yellen says global concerns growing over China's excess industrial capacity

By David Lawder

April 6, 20244:51 AM GMT+8Updated 13 hours ago

Yellen to China: you're making too much stuff

GUANGZHOU, China, April 5 (Reuters) - U.S. Treasury Secretary Janet Yellen said on Friday that concerns are growing over the global economic fallout from China's excess manufacturing capacity, making the issue the main focus of four days of economic meetings with Chinese officials.

China is too large to export its way to rapid growth and would benefit by reducing excess industrial capacity which is pressuring other economies, Yellen said in remarks to an audience of about 40 representatives of the American Chamber of Commerce in Guangzhou. (As I argued above, the consumer, not Yellen, should decide. If Chinese EVs are not good enough for the price they charge, those companies will die. Let them die. The free market is the best arena to decide which products can meet the challenges of consumer demand.)

"Overcapacity isn't a new problem, but it has intensified, and we're seeing emerging risks in new sectors," Yellen said in China's southern export hub of Guangzhou, where she met with Vice Premier He Lifeng and Guangdong Province Governor Wang Weizhong.

Yellen and other Biden administration officials are growing increasingly concerned about China's overproduction of electric vehicles, solar panels, semiconductors and other goods that are flooding into global markets in the face of a demand slump in China's domestic market (demand slump? China has the biggest deployment of solar panels generating green power in the world, and the Chinese EV market is also the largest in the world.)

She said that this is not healthy for China and is hurting producers in other countries, urging Beijing to shift away from state-driven investment and return to the market-oriented reforms that fueled growth in past decades. (If these markets in EVs or solar panels are market -oriented, then if Chinese products are just cheap and not of high quality, they will die out in no time. So be it. Why interfere with the market process.)

FINANCIAL COOPERATION

While Sino-U.S. tensions over a range of issues have been escalating, Yellen highlighted areas of mutual interest in a dialogue launched during her first visit to China last July, including fighting climate change and illicit finance.

She said a financial working group representing both sides had been working on steps to contain the financial risks from a potential bank failure in either economy.

"We've held technical exchanges between our sides, including an exercise on how we would jointly deal with the failure of a large bank in the U.S. or in China," Yellen said, without providing additional detail on the findings of that review.

The U.S. and China announced the financial working group in September as a venue to discuss policy and exchange information. In January, the group met and discussed their respective resolution frameworks for large global banks, according to the Treasury Department.

China has set an ambitious economic growth target of 5% for 2024, fueled in part by more investment in new high-technology sectors as the economy struggles to overcome a property crisis and weak consumer demand. (This is where the real problem for the US is – it has half the growth of China and wants to head it off at the pass before it drops to No 2. With EVs in particular, and with its friends in BRICs, this is the industry where China will overtake the US. And the US fears this, cars being the quintessential American status symbol.) But many economists say China's growth model needs a major overhaul to boost domestic consumption and reduce its traditional heavy reliance on investment.

Yellen started her meeting on Friday with He by saying the two countries needed to communicate closely on difficult issues such as overcapacity and national security-related economic restrictions.

"It is what the world and our citizens expect from us," she said.

TARIFF GROUNDWORK

Some trade experts see the increased U.S. criticism of China's production-focused, subsidy- and debt-driven economic model as an initial step towards raising U.S. tariffs on Chinese EVs and clean energy goods to protect U.S. industry. (In other words, it is all spin. They don't tell people that China has the most extensive solar power infrastructure in the world and its own citizens are great fans of its EVs.)

Yellen has shied away from raising any threats of new trade barriers, but said during her journey to Guangzhou she will not rule out more actions to protect a fledgling American supply chain for EVs, batteries, solar power and other goods from cut-price Chinese imports. (And after five years of protectionism, none of that action has worked. China is still surviving and prospering in all these industries. Very soon we will also see spin on commercial airliners like the Comac C919….)

The Treasury is not expecting a major shift in Chinese policy as a result of Yellen's visit, but U.S. officials believe it was important to explain the risks that overinvestment in some sectors - and relatively weak consumer demand (?) in China - present to both China's economy and its trading partners. (This is truly all spin – China's success in the solar and EV industry is because its own domestic demand has provided its companies with the scale to be the best and cheapest in the world.)

Yellen said on Friday that part of her aim on the trip was to cement a U.S.-China relationship that could "withstand shocks and challenging circumstances."

In addition to factory overcapacity, Yellen also said she would raise concerns about a deteriorating business climate in China for foreign companies, citing an AmCham survey that found one third of American firms in China reported unfair treatment compared to local competitors. (What about America's treatment of Intel compared to TSMC??)

These include "imposing barriers to access for foreign firms and taking coercive action against American companies," she said, adding that ending such practices would benefit China.

CHINA STATE MEDIA PUSHES BACK

Chinese state media have pushed back against Yellen's excess capacity message, saying it was an example of a double standard. (Objectively, this is so true.)

"While it is just basic economics that surplus products naturally seek out markets elsewhere once domestic demand is met, and Western nations have been doing that for centuries, when it comes to China, it becomes an 'overcapacity problem' threatening the world," the China Daily, said. (Fuck, that's all spin...)

Yellen's meetings, which continue in Beijing on Saturday through Monday, come just after U.S. Commerce Department and Chinese Commerce Ministry officials met in Washington on Thursday.

The top U.S. official in those talks, Commerce Undersecretary Marisa Lago, also raised "strong concerns regarding growing overcapacity in a range of Chinese industrial sectors," the department said in a statement. (Like I said, in a capitalist economy that China is, if companies want to bankrupt themselves by overproducing, they will all die off soon enough.)

China's Vice Minister of Commerce Wang Shouwen raised concerns about U.S. tariffs on Chinese imports, sanctions and what he called the unfair treatment of Chinese companies due to national restrictions by the United States.

"The economic and trade relations between China and the United States should be a stabilising force," Wang said, according to a statement from the commerce ministry.

I have also found a response to American spin in the following **Global Times** article.

Yellen's trip eyes on 'further stabilizing' China-US ties; Washington needs Beijing's cooperation to resolve national debt crisis

US should speak nicely when seeking help from China: Chinese experts

By

Yang Sheng and Zhang Weilan, Global Times

Published: Apr 05, 2024 10:48 PM

US Secretary of the Treasury Janet Yellen, a US senior official who is believed to be pragmatic and less hawkish toward China than many of her peers, has arrived Guangzhou, capital of South China's Guangdong Province, and kicked off her 6-day visit to China from Thursday to Tuesday (April 4-9), with Chinese experts saying on Friday that Yellen is trying to seek help from China to solve US economic challenges, and they said US officials need to adjust its arrogant attitude and speak nicely when asking for help. (Indeed...)

He Lifeng, a member of the Political Bureau of the Central Committee of the Communist Party of China and Vice Premier of the State Council, has met with US Treasury Secretary Janet Yellen in Guangzhou. The two sides discussed in-depth key issues related to the global, economic and financial fields of China and the US.

He said the main task for this meeting is to implement the important consensus reached by the two heads of state in their meetings and telephone dialogue, and seek to provide appropriate responses to key concerns in China-US economic relations, state broadcaster CCTV reported on Friday.

"I opened meetings with Vice Premier He Lifeng for frank and substantive conversations on our bilateral economic relationship. It is crucial that the two largest economies in the world seek progress on global challenges and closely communicate on areas of concern," Yellen said in a post on social media platform X on Friday afternoon.

On Friday, Yellen also had round-table discussions with economic experts and business leaders from the US and some other countries from Europe and Japan to discuss the economic situation of Chinese market, as well as opportunities and challenges linked to the Chinese economy. Yellen also attended an event with leading representatives of the American business community in China, hosted by AmCham China, and delivered remarks on the bilateral economic relationship.

According to her released schedule in coming days, which expected to include meetings with Chinese Premier Li Qiang and senior Chinese officials who in charge different economic and financial sectors of China, analysts said Yellen's trip eyes on further stabilizing the China-US relations as US President Joe Biden doesn't want a fragile and uncertain bilateral ties with China, and Washington needs China's cooperation to solve its headaches at home: a national debt problem and save US backward production capacity by adding pressure to China's development in new energy technologies with the pretext of "overcapacity."

Jin Canrong, the associate dean of the School of International Studies at the Renmin University of China, told the Global Times on Friday that "Yellen is an official who is different from the hawkish ones in Washington who actively push for confrontation with China, she is relatively pragmatic and moderate." (That may be, but spin is spin and this overcapacity thing is all spin.)

In the phone call between the presidents of the two countries on Tuesday evening, Biden is probably asking for China to permit Yellen's visit, as we can see Yellen kicks off her visit very soon after the phone call, which means that the US has prepared for the visit for a long time, and they are just waiting for China's green light, Jin said.

"According to this, we can have a conclusion that the US is asking for something urgent. Washington's national debt problem could be the top of the agenda. Yellen might ask help from China in the field of monetary policy," Jin noted.

The Congressional Budget Office warned in its latest projections that US federal government debt is on a path from 97 percent of GDP last year to 116 percent by

2034, which is higher even than in World War II. The actual outlook is likely worse, Bloomberg reported on April 2.

The CNBC reported on March 1 that the debt load of the US is growing at a quicker clip in recent months, increasing about $1 trillion nearly every 100 days. (Yellen is obviously there to ask China to buy more US treasuries.)

Li Yong, a senior research fellow at the China Association of International Trade, told the Global Times on Friday that in this visit, the Biden administration is seeking the further stabilization of China-US relations in the presidential election year. "The two sides are expected to discuss about coordination on macroeconomic policy and trade, and this is not only important to China and the US, but also significant to the world."

But as a US official with pragmatic and relatively friendly image to China, Yellen this time presented her tough stance in some areas. According to the website of US Department of Treasury, "During her engagements in China, Secretary Yellen will advocate for American workers and businesses to ensure they are treated fairly, including by pressing Chinese counterparts on unfair trade practices and underscoring the global economic consequences of Chinese industrial overcapacity."

Washington will not allow "a glut of Chinese production to wipe out American manufacturers of green technology," Yellen has warned ahead of a trip to China, the Financial Times reported on Thursday.

Li said the US should take the issue about "overcapacity" more objectively, because China's productive capacity is determined by the global demand and the efficiency and market size of China.

Lü Xiang, a research fellow on US studies at the Chinese Academy of Social Sciences, told the Global Times that Yellen's expression is a bad signal for China-US trade ties, as this is implying that when the US development in areas like new energy and electric vehicle (EV) is facing backward or even failure, Washington is trying to contain China's productive capacity to protect its backward capacity (see what I mean??).

"This is very disappointing, as this is indecent for a US Secretary of Treasury to blame and contain China's development in advanced areas to protect US' backward productive capacity, (Exactly)" Lü noted.

At present, China's EV export and photovoltaic industry have unshakable status in the world market, the US' measure to contain China in these fields will receive no outcomes, Lü said. "Chinese economic and financial officials can give Yellen a good lecture about how to mobilize resources in the market and whole society to develop a new industry. The EV industry is an example of the success of China's market economy." (Touche…Good for China!)

Chinese analysts said that Yellen and the Biden administration should understand that, if they are coming to China to ask for help and cooperation, they need to adjust their arrogant attitude and speak nicely, and don't ask for unfair competition to confront and contain China, who will never submit to pressure based on hegemonic logic.

(As far as I can see, there is no substance to the overcapacity claim. Domestically, China has succeeded magnificently with the green industries, and after having met the massive domestic demand, it is just catering to global demand for its excellent and cheap products. It will start with the Global South. Watch out, world!)

(In addition to the attempts at economic diplomacy by both Biden and Yellen, there was also an attempt by French defence minister LeCornu to conduct diplomacy with Russia's defence chief, Sergei Shoigu to see if there can be a halt to the Ukraine war. It did not go well because the French were using spin tactics as well. Basically, if you are asking somebody for a favour, spin DOES NOT work.

Spin No 3: On Ukraine

French defence minister Lecornu holds rare phone talks with Russia's Shoigu

The defence ministers of France and Russia on Wednesday held rare phone talks, their first such contact since October 2022, discussing the attack in Moscow claimed by Islamic State and Russia's war against Ukraine, Paris said.

France 24 03/04/2024 - 19:33

French Defence Minister Sebastien Lecornu told Russian counterpart Sergei Shoigu that France had always been ready to face down "terrorism" and was prepared for "increased exchanges with the aim of fighting this threat as effectively as possible," a French defence ministry statement said.

Russian President Vladimir Putin has acknowledged that "radical Islamists" conducted the bloody assault on the concert venue in Moscow that left at least 144 people dead, but suggested they were linked to Ukraine.

Lecornu said that France had no information to establish a link to Ukraine, calling on Moscow "to stop all instrumentalisation" of the attack, the defence ministry said.

"The minister also unreservedly condemned the war of aggression that Russia has launched in Ukraine," the statement said.

"France will continue to support Ukraine as long and as intensely as necessary in its fight for freedom and sovereignty, in order to bring peace and security to the European continent," the statement added.

French President Emmanuel Macron said in March Paris had offered Russian security services "increased cooperation" -- adding that there would be contact on a "technical and ministerial level" rather than direct talks with Putin.

The French leader tried in a series of phone calls in 2022 to warn Putin against invading Ukraine and travelled to Moscow early that year.

He kept up phone contact with Putin even after the invasion began but talks have now ceased, with the last phone call between the presidents dating back to September 2022.

Macron has in the last months further toughened his line against Russia, refusing to rule out putting troops on the ground in Ukraine.

Lecornu and Shoigu last held phone talks in October 2022.

(AFP)

But both sides, after the phone call, did not even agree on what they talked about! That's how bad relations are. The French reported this conversation:

France denies showing readiness for Ukraine dialogue in Russia talks. (So why did Lecornu call Shoigu??)

By John Irish and Ronald Popeski

April 4, 20246:41 AM GMT+8Updated 2 days ago

BRUSSELS, April 3 (Reuters) - France denied Russian claims that it expressed willingness to hold dialogue on Ukraine or discuss possible peace negotiations when the two countries' defence ministers spoke on Wednesday.

Two years after Moscow's invasion of Ukraine, Russia's defence ministry said, "Readiness for a dialogue on Ukraine was noted" in the call between France's Sebastien Lecornu and his Russian counterpart, Sergei Shoigu.

It said a starting point for discussions could be the 2022 talks between the Russia and Ukraine sides in Turkey which ended without results.

"It is not true," a French government source said. "At no moment did we show any willingness to dialogue on Ukraine or negotiations or anything like that."

A French readout of the call, the officials' first since October 2022 and initiated by Paris, said the discussion focused on the heightened terrorism threat following an attack in Moscow claimed by ISIS-K, an affiliate of Islamic State.

The Russian statement also said any notion of holding a meeting in Switzerland on achieving peace in Ukraine was "pointless" if Russia was not a participant. Kyiv has proposed a "world summit", but has said Russia would not be invited.

Franco-Russian relations have deteriorated in recent months as Paris has increased its support to Ukraine, including signing a bilateral long-term security accord and promising to send more long-range cruise missiles.

President Emmanuel Macron has adopted a tougher position on Russia, vowing that Moscow must be defeated, and has not ruled out that European troops may one day go to Ukraine, although he has made clear that France has no intention of instigating hostilities against Russia. (The first part of the sentence contradicts the second part. This is just spin...)

The Russian statement said Shoigu noted any "practical implementation" of Macron's suggestion last month of sending troops to Ukraine would "create problems for France."

In contrast, the French defence ministry statement condemned the "war of aggression" launched by Russia on Ukraine.

"France will continue to support Ukraine for as long as it takes and as intensely as needed," it said.

Shoigu, according to the ministry statement, repeated Moscow's contention that Russia believed there was a Ukrainian link to the mass shooting last month at a concert hall outside Moscow.

Paris has accused Russia of habitually spreading false information and this week said it would propose EU sanctions on Russians involved in spreading disinformation.

ISIS-K claimed responsibility for the attack, Ukraine denies any link and Western nations have dismissed any such connection to Kyiv.

With the Summer Olympics in Paris in July, France is on its highest security alert. The French statement said Paris was ready to increase cooperation to fight the terrorist threat.

The 'menacing' call with Russia that's turning into a diplomatic headache for France

France accuses Russia of manipulating the readout of the call.

APRIL 4, 2024 2:40 PM CET

BY CLEA CAULCUTT AND LAURA KAYALI

PARIS — France and Russia are at loggerheads over the substance of a rare high-level call between France's Armed Forces Minister Sébastien Lecornu and Russia's Defense Minister Sergei Shoigu.

And the clashing readouts of Wednesday's hour-long conversation are swiftly becoming a diplomatic pain in the neck for Paris.

While Paris says the call was exclusively dedicated to the shared fight against terrorism, the Kremlin claims the ministers also discussed possible talks on the war in Ukraine. Moscow also used the opportunity to make not-so-veiled threats against France.

After the call, Russia hinted at a far-fetched alleged involvement of French secret services in last month's terror attack in Moscow, which has been claimed by the Islamic State group. Moscow is trying to pin the attack on Ukraine, with no proof (at least, not yet).

"The Kyiv regime doesn't do anything without a nod from its Western backers. We hope that, in this case, the French secret services aren't behind it," said Shoigu in a defense ministry statement on Wednesday.

On Thursday, French President Emmanuel Macron slammed what he called the "baroque and menacing comments" from the Russians. A French official contacted by POLITICO on Thursday denied the entire readout from Moscow.

An earlier statement from France's armed forces ministry said that during the phone call Lecornu had called on Russia to end its "manipulation" of the terror attack in Moscow, adding that "France had no information linking the attack to Ukraine."

The ping-pong between Paris and Moscow underscores the sour relations between the two countries as Macron has shifted from hunting for a diplomatic solution to the war to calling for Ukraine's victory over Russia and warning that Western troops could be dispatched to Ukraine.

France is also facing increased Russian disinformation attacks, hitting at Macron's wife Brigitte Macron and accusing France and Poland of planning to dismember Ukraine.

Former French President François Hollande recommended that the French government should seek "no contact with Russia." (So why did it??)

"Do you see how Russia manipulates these discussions and hints that France might have supported the attacks in Moscow?" he said on France Inter radio.

Russia also claimed that Lecornu and Shoigu discussed potential talks on Ukraine, a statement that was swiftly denied by another French official.

"The objective of the call was exclusively to discuss terrorism, and the narrative that France is open to talks on Ukraine is false," said the official, who was granted anonymity to discuss a sensitive issue.

According to the French readout, Lecornu offered to increase exchanges between France and Russia in the fight against terrorism at a time when France faces increased terror threats ahead of the Paris Olympic Games and as Israel's war in Gaza continues.

On Wednesday, former French defense minister and current envoy to Lebanon, Jean-Yves Le Drian, denounced what he called Russia's "impervious and intolerable" use of the call, on Sud Radio.

"It's extreme manipulation. We face total manipulation and sadly the instrumentalization of terrorism for propaganda purposes," he said.

The call between the French and Russian defense ministers was the first exchange between the two men since October 2022, and was initiated by Lecornu at Macron's request.

(My take on this is simple. Why would Lecornu want to talk to the Russian Defence Minister if it was only to review anti-terrorism defences which is not in the defence portfolio of Lecornu and probably more the concern of the interior minister, Gerald Darmamin. Clearly, there is more to it than meets the eye on what the French wanted to discuss with Russia's Shoigu. If Lecornu is correct, he got embarrassed by Russian spin. But this is unlikely. Perhaps they did talk about the Ukraine project, which according to the Politico article I covered Thursday where senior Ukrainian military officials assessed that the Ukrainian front is about to collapse. That revelation, by Ukrainian officers who would represent the horses' mouth on the matter, would have been something which is of great concern to France since Lecornu's boss, Macron wants to put French soldiers into Ukraine. Lecornu would have to execute that.

(I can easily imagine that the French defence minister would like to hear how Russia thought about the ongoing conflict in Ukraine. After he was rebuffed by Shoigu, he has to find a face-saving way to not lose face, since Russia put its readout first. The French had to react, and the reaction is to say the Russians lied.

(So where is the spin?? My guess is that it lies more with the French side.)

By

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