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Wuhan Coverup and Trade. An Update.

David R. Kotok
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“Chinese officials are hoping the US will agree to some flexibility on pledges in their phase-one trade deal, people familiar with the situation said, as Beijing tries to contain a health crisis that threatens to slow domestic growth with repercussions around the world.



The agreement sealed on Jan. 15 is supposed to take effect in mid-February. It has a clause that states the US and China will consult ‘in the event that a natural disaster or other unforeseeable event’ delays either from complying with the agreement. It’s unclear whether China has formally requested such a consultation yet, but the people familiar with the matter said the plan is to ask for it at some point.” (Bloomberg, Feb. 3, 2020, <https://www.bloomberg.com/news/articles/2020-02-03/china-seeks-u-s-flexibility-on-trade-targets-as-virus-spreads>)

Here is the link to the actual document that memorialized the China-US trade deal. You will find the clause on the 79th page in Article 7.6 (2):

https://ustr.gov/sites/default/files/files/agreements/phase%20one%20agreement/Economic_And_Trade_Agreement_Between_The_United_States_And_C
Hat Tip to John Newton, chief economist at the American Farm Bureau Federation, in Washington DC.

In our opinion, the China side will have to ask for relief from its obligations under the trade agreement. They cannot meet them under the circumstances of the coronavirus spread. Thus the entirety of Chapter 7 (“Bilateral Evaluation and Dispute Resolution”) comes into play. Here is another key clause, in Article 7.3, “Requests for Information”:

“A Party may request at any meeting, or prior to a meeting, information from the other Party regarding a matter relating to the implementation of this Agreement. The other Party shall provide a written response containing the requested information. In the event that a Party is not able to provide the requested information, the response shall contain a specific explanation of why the information cannot be provided within the time limit and the specific date when the information will be provided. Nothing in this provision shall obligate a Party to provide confidential information to the other Party.”

Now, let’s think about the questions we asked in our previous commentary on the Wuhan cover-up (<http://www.cumber.com/cumberland-advisors-market-commentary-a-wuhan-coverup-and-the-trade-deal/>). What did Beijing know, and when did they know it? Did the Chinese negotiators ask for and obtain Article 7.6 (2) when they already knew they might have to invoke it? Did the US agree with the language in the dispute-resolution section without knowing about the degree of coronavirus spread and risk? Was the US a victim of Chinese deception? We have private, informal confirmation (source is confidential) that the US Trade Rep’s office is “angry” over the news that has been reported since the January 13th signing of the trade agreement.

There is growing evidence that the governments of Wuhan City and Hubei Province knew they had a serious medical outbreak on their hands well before the trade agreement was signed. There is also growing evidence of the cover-up. What will be the US response to a China request to delay purchases under the agreement? What are the political implications for the US election, especially in the farm states?

According to Bloomberg, it’s still unclear whether China has officially asked to trigger the process detailed in the Article 7.6 (2), but people familiar with the situation have said that the Chinese plan to ask for it at some point. (Bloomberg, Feb. 3, 2020, <https://www.bloomberg.com/news/articles/2020-02-03/china-seeks-u-s-flexibility-on-trade-targets-as-virus-spreads>)

Will the US pursue any remedies, given that the trade deal may have been signed without the China side’s having made a full disclosure of a known risk? Here is a link to a credible source that identifies how the coronavirus was already spreading in November, before the first official cases were publicly confirmed on December 1: “What Scientists Say About The Coronavirus,”

Medium: The Startup, Jan. 30, 2020, <https://medium.com/swlh/what-scientists-say-about-the-coronavirus-2176bbc5b83f>. For readers who wish to take a deeper dive, the *Lancet* paper documenting the early spread of the virus and the first 41 cases can be found here: [https://www.thelancet.com/journals/lancet/article/PIIS0140-6736\(20\)30183-5/fulltext](https://www.thelancet.com/journals/lancet/article/PIIS0140-6736(20)30183-5/fulltext). The article also describes evidence that human transmission of the virus occurred independently of those who had been exposed in the Wuhan seafood market.

Dear readers, we now have over 27,648 confirmed cases. The number climbs daily. We now have 564 dead. The number grows daily. We have an unknown trajectory and a rising global pandemic risk. And we have a Chinese government that has been caught in deception. Lots more will be revealed. We are now tracking many curated information sources from around the world.

Dear clients and their consultants, we took advantage of the coronavirus sell-off to redeploy into the US stock market. Our quantitative strategies (all three) are fully invested. Our sector-switching quantitative regime switched from defensive to offensive. We have enjoyed the stock market rally so far. Of course, we could shift our position at any time.

Anyone interested in the quantitative strategies may email me for their history, conceptual framework, and performance through December 31.

David R. Kotok

Chairman and Chief Investment Officer

[Email](#) | [Bio](#)

Cumberland Advisors is pleased to announce that registration is now open for our annual conference, "Understanding Global Markets & Finance". This is our Fourth Annual Financial Literacy Day of advanced concepts and discussions held at the University of South Florida Sarasota-Manatee (USFSM). We plan a deep dive into the Bond Market where we'll examine the categories of debt and the influences on those categories including budget deficits plus larger issues like central bank QE and its impacts on interest rates for this debt. We're also featuring a discussion about Real Time Payments (RTP) to include Bitcoin, Libra, Venmo and other versions of electronic money.

If you're interested in learning more about financial markets and the economy (and escaping the snow for our friends in northern climes), please join us on Friday, February 14, 2020 in Sarasota, Florida. Information and registration here:

<https://www.interdependence.org/events/browse/fourth-annual-financial-literacy-day/>

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One Sarasota Tower
2 N. Tamiami Tr., Ste. 303
Sarasota, FL 34236

800.257.7013

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