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Weaker Yuan Tests China's Ability to Prevent Capital Flight

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Comments of the Day

14 August 2019

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Video commentary for Auguat 13th 2019

Eoin Treacy's view

A link to today's video commentary is posted in the Subscriber's Area

Some of the points covered include: Tariffs averted so Wall Street rebounds, gold pauses, oil firm, Yen pauses in the region of the January peak, Continuous Commodity Index continues to trend lower, Renminbi slightly firmer, yield curve spread continue to flatten, high yield spreads beginning to trend higher

Holidays

Eoin Treacy's view

I will be travelling to Guangzhou and Taiwan between August 5th and 19th. I don't anticipate any issues with posting a limited Comment of the Day and Subscriber's video but I may be posting at odd times because of the timezone. If subscriber's would like to submit copy of general interest to the Collective we will be happy to publish it over the coming couple of weeks.

U.S. Delays 10% China Tariffs on Some Holiday-Shopping Favorites

This article by Jenny Leonard and Shawn Donnan for Bloomberg may be of interest to subscribers. Here is a section:

While some tariffs will take effect on Sept. 1 as planned, "certain products are being removed from the tariff list based on health, safety, national security and other factors," the USTR also said.

About $250 billion of Chinese goods have already been hit by 25% duties.

Chinese Vice Premier Liu He talked with USTR Robert Lighthizer and Treasury Secretary Steven Mnuchin by phone on Tuesday, according to a statement posted on the Ministry of Commerce website. Another conference call is planned again in two weeks.

The tariff announcement came shortly after Trump insisted again that his levies were not causing higher prices for American consumers and that China was bearing the cost of them. Economists and businesses have disputed that last point.

Eoin Treacy's view

The holiday season inventory build is in full swing. Since more than half of all retail sales occur in the last three months of the year it is good to know the Trump administration is sensitive to the needs of retailers. By delaying tariffs on common gifts ideas investors can breathe a sigh of relief and economists will worry less about inflation.

Email of the day On the ramifications of negative yields

See yield chart middle page 1. How low (negative) can govt credit yields (-1%) go till the financial system freezes over? Serious Q…………..this negative yield stuff wasn't taught in Economics 101.

There must be an absolute level of negative rates that destroys money velocity (V) as it means no one puts money in the bank anymore and lending gets restricted. At -10% I wouldn't lend to UBS. What happens at say -5%? Assuming a real rate of 3%, bank lending -after a margin of say 2%- would essentially be FREE (0%). But what does that do to banking system integrity (banks make money but less of it as their margins collapse; their deposit base shrinks as they struggle to increase/ attract deposits…………not only do depositors go on strike but existing depos are decreased annually by negative yields!)….and what about regulatory oversight?….would CBs and regulators afraid of imprudent lending caused by needy borrowers at 0% step in to restrict the very process that they are trying to encourage via making money so cheap? i.e. will they try to stop "BAD" lending. How will they judge/enforce?

And where does inflation fit into this calculus?...without any inflation the interest rate structure/ yield curve that might restore banking margins is hard to normalize/ become positive again.

Or should governments everywhere borrow vast sums at negative rates for 50 years to finance a massive infrastructure spend (highways, 5G, clean energy, railways etc.) i.e. "GOOD" lending? Wouldn't this raise rates and restore normality? Then what debt / GDP levels are prudent (see Italy)? I recall Argentina's 100-year bond issue in 2017 at 7.9%, 3x over-subscribed by famished yield scavengers.

Investment implications

Negative bond yields unattractive versus investment in high quality equities paying well covered dividends, though it is certainly not a good world for poor quality companies who don't

How is any of this bad for gold, whose carry cost is collapsing?

Just sharing some thoughts, largely written out of confusion

Eoin Treacy's view

I think we are all in a state of disbelief at the willingness of investors to pour trillions into bonds with a negative yield. I have long wondered at the absence of any discussion of bond market convexity over the last decade. After all, shouldn't we all have an interest in the sensitivity of bonds to changes in interest rates?

Weaker Yuan Tests China's Ability to Prevent Capital Flight

This article by Steven Russolillo for the Wall Street Journal may be of interest to subscribers. Here is a section:

Any further selloff could also create problems for Chinese property developers and other corporate borrowers who have borrowed heavily overseas, since their earnings are largely in yuan while their international borrowings are mostly in dollars.

Chinese companies had nearly $900 billion of dollar-denominated debt securities outstanding at the end of March, nearly three times the amount five years ago, according to data from the Bank for International Settlements.

Despite Beijing's strict capital controls, China could experience capital flight if the yuan weakens further, some observers say.

Louis Kuijs, head of Asia economics at Oxford Economics, said policy makers wouldn't be comfortable with a major weakening of the yuan, given concerns about triggering large outflows.

"People in China tend to take weakening of the currency as a harbinger of more such weakening to come," he said. "That is a reason for some to shift money abroad."

Eoin Treacy's view

Amid the platitudes about having confidence in its ability to deter capital flight, the fact US Dollar denominated debt has continued to trend higher since it was banned more than a year ago should give policy officials pause. China needs a weaker currency and we are unlikely to see it trade stronger than CNY7 any time soon. The bigger question is how long it will take to hit CNY8.

Eoin's personal portfolio: crypto long increased July 15th 2019

Eoin Treacy's view

One of the most commonly asked questions by subscribers is how to find details of my open traders. In an effort to make it easier I will simply repost the latest summary daily until there is a change. I'll change the title to the date of publication of new details so you will know when the information was provided.

2019: The 50th year of The Chart Seminar

Eoin Treacy's view

The London Philharmonic Orchestra is holding a concert in David's memory on October 5th October at the Royal Festival Hall. There is a reception between 5.30 and 6.45 in the Foyle Pavilion, Level 3, Green Side and subscribers are well to join David's family there for light refreshments. Following the reception, we will move to the Beecham Bar, Blue Side, Level 5 for a short talk by Tim Walker, Chairman of the LPO.

If you wish to attend the concert as well, which includes a performance of Elgar's Cello Concerto by the Young Musician of the Year, it begins at 7.30 and you may book tickets (£67) by telephone on 020 7840 4242 quoting the code Fuller Concert.

Since this is the 50th year of The Chart Seminar we will be conducting the event on October 3rd and 4th to coincide with the memorial on the Saturday.

In the meantime, if you have any questions, would like to attend, or have a suggestion for another venue please feel to reach out to Sarah at sarah@fullertreacymoney.com.

The full rate for The Chart Seminar is £1799 + VAT. (Please note US, Australian and Asian delegates, as non-EU residents are not liable for VAT). Annual subscribers are offered a discounted rate of £850. Anyone booking more than one place can also avail of the £850 rate for the second and subsequent delegates.

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