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China's Global Impact

The August correction in the Chinese stock market led to a lot of "how terrible" news coverage and speculation as to whether or not this signalled the end of the China growth story and how it would impact the US and global economies.

Calmer voices were more resolute in the midst of the chaos, proclaiming that the Chinese stock market correction was a local event and would not contaminate the rest of the global economy. Case in point, trade from the US to China only accounts for about 15% of US GDP1 and a slowdown in this trade would hardly be felt within the rest of the US economy.

So what impact does a slowing Chinese economy have for investors and how will this be reflected in client portfolios? The impact for clients will vary for each individual.

Recent events most likely mean the end of China's economic model of export-led and investment-driven growth. As economist Richard Duncan notes, China's economy is suffering because the US can no longer afford to import more Chinese goods every year. And with no one left to export more to each year, China finds itself with extraordinary excess capacity across every industry. Product prices are falling, companies are unprofitable and bank loans in China are going bad; moreover, China is also buying much less raw materials from the rest of the world. As a result, commodity prices have collapsed. In October, China's imports fell 20%2 from same month in the previous year. Thus, China is no longer a driver of global growth.

China would like to devalue the Yuan against the US Dollar in an effort to boost China's exports and economic growth. However, China already has a trade surplus with the US last year of $340 billion3, which means that further exports to the US would see the Yuan appreciate against the Dollar. This would hurt future Chinese exports and lead to further economic slowdown.

Finally, China does not want the US Dollar to strengthen any further relative to the Euro and the Japanese Yen. According to Duncan, the Yuan is tied closely to the US Dollar, so when the USD strengthens against the Euro and the Yen so does the Chinese Yuan. A stronger Yuan hurts exports to Europe and Japan. China does not want the Federal Reserve to increase interest rates, because higher US interest rates would cause the USD and the Yuan to appreciate together and further hurt Chinese economic growth.

Call us at **(289) 235-9223** [1] to review your investment strategy in light of these recent developments.

Tom

[1] US Census Statistics, [2,3] Richard Duncan, Economist

Do you have questions about your financial strategies?

Contact our office today ! **[2]**

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