



## **MCAG MACRO: SIBERIAN DOLLAR**

**September 30, 2010**

A cold wind blew in China's direction from the US House of Representatives last night. The House voted yesterday on a bill put forth by the Ways and Means Committee which dubbed China a "currency manipulator." The name-calling is not new but the guts to say it out loud is. The watered down version, called the Ryan Murphy bill, that passed the House vote is legislation that would allow the US to impose tariffs on imports based on estimates of currency undervaluation. Its intention is to punish China for not allowing its currency to rise in accordance with natural market forces, although the language is broad enough to apply to other Asian countries.

So, in the currency markets we have a brewing an international war, as pointed out by Brazilian PM, Guido Mantega. It's a race to devalue, which not everyone can win at once because currencies, unlike any other asset, are valued solely based on each other, making it impossible for them all to fall. They affect other asset prices for sure but as a market they stand alone.

The problems caused for the US export and manufacturing businesses by China's currency manipulation are not new but they are exacerbated by movements to do the same by Taiwan, Brazil, South Korea, and most importantly, Japan, who recently dumped Yen to buy \$20B. The chatter surrounding the Murphy bill today is all about how we went about this in the wrong way and this will cause trade tensions and ultimately hurt ourselves by making Chinese goods more expensive. The other side of the coin, however, is that we kind of don't really have a choice. If other central banks are now coming to the table to fight we have to take aim at the perp who does the most harm.

The bill must still pass through the Senate, which is not likely to happen before mid-terms and the market is not pricing in trade tensions but if it does pass and the penalties come to fruition, there is the possibility we can at least expect some form of retaliation by China. This usually entails some kind of threat to change the balance sheet levels of dollar-denominated assets.

The US, Japan, and GB are likely to orchestrate more direct currency intervention or we will see the value of our currencies depressed as a result of further quantitative easing. If other central banks take either of these tactics it increases the likelihood of the latter happening in the US at the next meeting.

The brewing concern about currency manipulation is likely to be the main topic at the IMF/World Bank Fall meeting next weekend. The G7/G20 finance ministers and central bankers will have an opportunity to meet there. This comes after the Bank of Japan meets on Monday and Tuesday, the Bank of England meets on Wednesday and Thursday, and the ECB makes post-meeting comments on Thursday as well. The G-20 Summit is in Korea November 11-12. We'll see if they come to some sort of compromise.

We have a big week for data coming up. Non-Farm Payrolls, for which we got the last batch of September data this morning (Initial unemployment claims dropped 16K to 453K, a larger than expected drop), are the most watched but leading up to Friday's number we have other employment-related data, ISM Non-Manufacturing Index, Factory Orders, and Wholesale Inventories, post-employment. Sorry no charts today. Stay tuned.

### **WSJ: Blaming China Won't Help the Economy**

By ANATOLE KALETSKY

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[http://www.nytimes.com/2010/09/27/opinion/27kaletsky.html?\\_r=1&scp=1&sq=blaming%20china&st=cse](http://www.nytimes.com/2010/09/27/opinion/27kaletsky.html?_r=1&scp=1&sq=blaming%20china&st=cse)

### **FT: Currency wars**

By James Mackintosh

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<http://www.ft.com/cms/s/0/7610475e-cb45-11df-95c0-00144feab49a.html>

### **FT: Intervention: The genie has escaped from the bottle**

By Peter Garnham

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<http://www.ft.com/cms/s/0/50ea3302-c9c6-11df-b3d6-00144feab49a.html>

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