<u>CHINA: BEHIND THE GREAT WALL</u>

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"Seek truth from facts." Mao Zedong and Deng Xiaoping

<u>CONCLUSION</u>

China's era of miraculous economic growth has marched into history. Yet China's real GDP output in the past few years, and even 2015, has been robust in comparison to that of most other nations. The majority of international financial wizards faithfully proclaim that Chinese GDP likely will remain strong, at over six percent for the next several years.

China's GDP strength over the past three or four years nevertheless derived significantly from its widespread national willingness to boost debt (leverage) levels substantially. This significant debt expansion coincides with the current unwillingness or inability of the nation's political and economic leadership to do much to subdue the debt issue. China's continued debt building (perhaps assisted by other factors) perhaps will achieve its praiseworthy growth levels, at least for a while.

And trend shifts during first quarter 2016 in various stock (both advanced and emerging), interest rate, currency, and commodity marketplaces (particularly dramatic rallies in the S+P 500 and the petroleum complex) inspire optimism regarding global growth prospects. Despite potential for small rate increases by the widely-admired Federal Reserve, monetary policy in America and elsewhere likely will remain highly accommodative, thereby assisting expansion in developed nations and China.

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However, review the patterns in China's stock, central government 10 year note, and currency marketplaces. Those domains, when interpreted together and alongside a broad array of other key global financial marketplaces, not just the S+P 500 and oil, on balance nowadays suggest Chinese growth over the next few years probably will be less than most gurus expect. In today's interconnected economic world, slower than anticipated Chinese economic expansion probably will be reflected by more sluggish growth elsewhere than generally forecast.

Politics and economics entangle in both advanced and emerging/developing nations. China's political elite (notably its Communist party chiefs) seeks to ensure its own power and overall national political, economic, and social stability. Insufficient GDP growth and related widespread popular fears regarding income levels and economic inequality probably endangers these goals.

What do the political rhetoric and actions over the past few years (including recently) by China's leaders reflect? Quite significantly, they portray increasing concern about their nation's current and prospective economic situation, particularly its growth level and outlook.

To deflect and dilute growing popular concern about a weakening economic situation (slowdown; feebler growth than desired), and to maintain their political power and influence, China's political leaders have acted vigorously on both the external and internal fronts. In the foreign sphere, they increasingly quarrel with other nations; on the internal landscape, efforts to control political and other social activities and dialogue have increased. These policies from China's authorities tend to confirm the trends of slowing Chinese (and global) growth.

CHINA'S ECONOMY: GROWTH, RHETORIC, AND DEBT

"You need more than luck in Shanghai" declares Mrs. Bannister in the film "The Lady from Shanghai" (Orson Welles, director)

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According to the International Monetary Fund, China's real GDP blossomed an average of 9.9 percent per year from 1998-2007 (a majestic 14.2pc in 2007). Even during the dreadful global economic disaster and its immediate aftermath, from 2008-2011, the economy expanded 9.7pc each year. However, real GDP growth subsided to 7.7pc in both 2012 and 2013, to 7.3pc in 2014, and 6.9pc in 2015. The IMF predicts output will expand 6.5pc in 2016, 6.2pc in 2017, and 6.0pc in 2021. See the April 2016 "World Economic Outlook" (Chapter 1, Table 1.1; Statistical Appendix, Table A4).

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In China (as elsewhere), economic indicators relevant to GDP explanations and predictions do not all point in the same direction. However, for China, electricity production is widely-watched as a sign of GDP trends. High electricity output tends to indicate strong GDP. Calendar 2015 electricity production fell .2 percent year-on-year. Cumulative 2016 production to date (through April 2016) is up merely .9 percent over the prior year period (National Bureau of Statistics).

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Over the past several months, numerous guardians have offered some soothing wordplay regarding the slowdown in China's growth rate. They do not want widespread fears to erupt that Chinese growth will fall significantly from their forecast levels. The IMF's language is representative. The IMF's willingness to predict ongoing six percent or more Chinese GDP expansion for the next several years is integral to its propaganda.

For example, the IMF's 2015 Article IV Consultation with China (8/14/15) declares "China is transitioning to a new normal, with slower yet safer and more sustainable growth." The Consultation speaks of China's progress in "reining in vulnerabilities" and its commitment to "a comprehensive reform program". More recently, the IMF's "Press Briefing on the Release of the April 2016 Global Financial Stability Report" ("GFSR", 4/13/16) comments: "China continues to navigate a complex transition to slower and more balanced pace of growth and a more market-based financial system." See also the "Press Conference on the Release of the April 2016 Fiscal Monitor" (4/13/16). It states: "China is undergoing a very important transformation. The growth model is moving from investment to consumption, from exports to domestic demand, and from manufacturing to services. This is one of the most impressive economic transitions in economic history.

Compare these IMF orations with rhetoric from China's central bank Governor, Zhou Xiaochuan ("Press Conference", 3/10/16). The Governor speaks of "facilitating the shift under the new normal to a new growth pattern, which is healthier, more sustainable, and better structured."

Remember in this context China's third political plenum, which occurred in November 2013. This meeting advocated reforms, as evidenced by its issuing of a 60 point document titled "Decision on Major Issues Concerning Comprehensive and Far-Reaching Reforms". Reform goals included enabling marketplace forces to play a decisive role (not merely a basic) one in the allocation of resources. The plenum aimed to make it easier for financial institutions to go bankrupt.

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In any case, what's happening on China's debt stage? Debt seems to be growing everywhere. History of course need not repeat itself, either in whole or in part. Yet China's significant and worsening debt situation (even if there is not a consensus regarding how much the nation owes), especially as debt problems exist elsewhere around the globe, should inspire comparisons with the global economic crisis of 2007-09.

The August 2015 Article IV Consultation confesses regarding China: "Insufficient progress in containing vulnerabilities and advancing structural reforms continues to pose the biggest risk to the outlook. If realized, it could result over the medium term in a disorderly correction and/or a protracted period of slower growth." Box 3 notes: "Credit in China has risen rapidly and is high by many metrics. The corporate sector, in particular, has increased debt-to-GDP ratios since the global financial crisis and a period of deleveraging is warranted."

The April 2016 GFSR "Press Briefing" notes "corporate health is declining due to slow growth and low profitability." Corporate bank loans potentially at risk in China amount to almost 1.3 trillion dollars [at the end of 2015], with potential bank losses reaching about seven percent of GDP. The fine print buried in the actual GFSR report fleshes out important details (See Chapter 1, Annex 1 and its figures). "The base case assumes a loss of sixty percent [yes, 60pc] on loans potentially at risk, leading to an estimated loss of $756 billion…." This is not small change. And these dollar totals of bank exposures to the corporate sector do not include loans from so-called policy banks, bank loans to local government financing vehicles, and bank exposure to their shadow credit products. Potential losses from policy banks are $150 billion, loans to local government financing vehicles $144bb, and the shadow credit sector $98bb.

The Bank for International Settlements ("Credit to the non-financial sector"; 6/6/16 release) shows China's total credit to the nonfinancial sector as a percent of nominal GDP has ballooned in recent years. At end 2010 it was 187.4 percent of GDP. By end 2014, it was 234.5pc, with the most recent statistic (4Q15) at 254.8pc. China's household debt as a percent of GDP grew from 18.1pc at end 4Q08 to 39.5pc in 4Q15.

According to the Financial Times (5/23/16, p6), "Beijing steps up battle against banks' bad debt" (via a debt-for-equity plan).

What about the Chinese government debt playground? General government debt includes not only central government debt, but also local government obligations. The IMF's April 2016 "Fiscal Monitor" unveils a rising trend for China's general government gross debt (Table A15; the BIS's 6/6/16 report adjusts these statistics slightly). China's general government debt averaged about 35.0pc of nominal GDP from 2007-12. However, it stretched to 43.9pc in 2015 and 46.8pc in 2016. The IMF forecasts it will reach 53.8pc of nominal GDP in 2021. China's 46.8pc in 2016 obviously falls way beneath that of Japan (249.3pc), America (107.5pc), and Greece (no 2016 figure available, but 178.4pc in 2015), but it still reflects an upward trend. In 2011, China's general government balance had a tiny deficit, -.1pc of nominal GDP. However, its budget deficit grew to -2.7pc in 2015, with 2016's expected to be -3.1pc and 2017's at -2.7pc (Table A9).

In its report over a year ago, McKinsey Global Institute noted that China's debt (government, household, nonfinancial corporate, and financial institutions combined) in 2Q14 reached 282 percent of GDP (158pc in 2007), "higher than debt levels in some advanced economies ("Debt and (Not Much) Deleveraging", chapter 4; February 2015). That 2Q14 debt-to-GDP total equaled $28.2 trillion, up from 2007's $7.4 trillion.

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Another signal warns of challenges to China's ability to sustain growth trends over six percent. Look at the continued lax monetary policy by leading central banks such as the Federal Reserve Board, European Central Bank, Bank of England, and Bank of Japan in the growth and inflation context. Central bankers loyally adhere to their interpretations of their mandates and fervently claim they will do whatever it takes to achieve their targets. But despite highly accommodative actions such as yield repression and money printing as well as related dovish forward guidance talk, these guardian angels in recent times have been unable to generate "sufficient" inflation or consistent adequate economic growth. And China's economic policies generally have not been restrictive either.

So will China's government (and other areas of the economy) have to borrow more and more and go greater in debt in order to sustain "appropriate" GDP growth? Probably.

CHINESE MARKETPLACES IN THE GLOBAL CONTEXT

"The Master said, 'He who gives no thought to difficulties in the future is sure to be beset by worries much closer at hand.'" Confucius, "The Analects" (Book XV, 12)

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Assorted essays have revealed and analyzed the links between various leading stock, interest rate, currency, and commodity marketplaces around the globe. Recent ones include "Base Metals and Other Marketplace Travels" (5/16/16); "Looking Backward, Gazing Forward: US Corporate Profits and Financial Trends" (5/3/16); "Fantastic Voyages: the US Dollar and Commodity Currencies" (4/3/16); "Great Expectations: the Federal Reserve, Inflation, and Politics" (3/20/16); "Hellish Falls, Divine Rallies: Commodities in Context" (3/6/16); "As the World Burns: Marketplaces and Central Banks" (2/8/16).

Particularly since mid-2015, trends for benchmarks such as the S+P 500 (and many other advanced and emerging stock marketplaces), United States Treasury 10 year government note, the broad real trade-weighted US dollar, and commodities 'in general" (especially the petroleum complex and base metals) have interrelated rather closely. In spring 2015, bear moves in the S+P 500 (5/20/15 high at 2135) and other key advanced nation stock marketplaces commenced. The equity downturn in America and other OECD countries thus accompanied the ongoing existing bear moves in emerging stock marketplaces and commodities "in general", which had emerged in 2011 and gained momentum in 2014 (and 2015).

In the aftermath of the global financial disaster, the US Treasury 10 year note yield initially peaked 4/5/10 at 4.01 percent. Yet it made a second important summit on 2/9/11 at 3.77pc, close in time to the 2011 highs in emerging marketplace stocks and commodities. Note the subsequent important UST high at 3.05pc on 1/2/14 and 7/3/14's 2.69pc interim top.

The major bull advance in the US broad real trade-weighted dollar ("TWD") began in July 2011. It accelerated in 2014 and 2015; note its explosive leap from September 2014's 86.5 elevation. The TWD's three month August-October 2015 span averaged 97.2, thus inching over March 2009's 96.8 worldwide economic disaster peak. November 2015's 98.2 decisively soared over March 2009's resistance. Thus the dollar's sustained substantial rally helped to inspire weakness in emerging marketplace stocks and commodities, and eventually encouraged the slump in the S+P 500 and in the equities of other advanced nations.

Beginning in first quarter 2016, these assorted trends halted and (to varying extents) changed course. However, the similar timing move (related change in direction) in these diverse marketplaces underlines they generally continue to “trade together”.

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The following tables summarize these historical relationships. Data for the broad real trade-weighted US dollar (“TWD”) is from the Federal Reserve Board (H.10; monthly average; March 1973=100). The “MXEF” represents emerging stock marketplace in general (Morgan Stanley’s MSCI Emerging Stock Markets Index). The “GSCI” depicts commodities in general (broad S&P Goldman Sachs Commodity Index, which is heavily petroleum-weighted). The S+P 500 is in the second table (where the UST 10 year note appears again with further detail) alongside key Chinese marketplaces.

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	Broad GSCI	**Emerging Market Stocks MXEF**	**US Treasury 10 Year Note (pc)**	**US Dollar (“TWD”)**
Peak 2011	762 (4/11 and 5/2/11)	1212 (4/27/11)	3.77 (2/9/11)	**Major low 80.5 July 2011**
2014 High	673 (6/23/14)	1104 (9/4/14)	3.05 (1/2/14); 2.69 (7/3/14)	86.5 Sept 2014 above the 86.1 June 2012 interim top
Recent Low	268 (1/20/16)	687 (1/21/16)	1.53 (2/11/16)	**TWD recent high** 101.2 (Jan 2016)
Percent Fall From 2011 Peak	**64.8**	**43.3**	**224 basis points**	**TWD rally 25.7pc since July 2011 bottom**
Percent Fall From 2014 High	**60.2**	**37.8**	**152 basis pts**	**TWD rally 17.1pc since September 2014**
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Percent Rise From 1Q16 Low (high level; date achieved).	**42.9** (383; 6/7/16)	**24.6** (856; 4/21/16)	**47bp** (2.00pc; 3/16/16)	**TWD decline 4.8pc since January 2016**

The broad real TWD fell to 96.3 in April 2016 (edging under March 2009’s 96.8 major high) and rose to 97.2 in May 2016. The nominal broad TWD, unlike the broad real TWD, has daily data. Its 5/15/15 interim low at 112.8 shortly preceded the 5/20/15 S+P 500 summit at 2135 (and the June 2015 Japanese and Chinese stock marketplace plateaus). The nominal TWD’s 1/20/16 top at 126.2 coincided with other first quarter 2016 marketplace turns. It declined about 6.3 percent to its 5/2/16 low at 118.2.

The 2/11/16 UST low borders its major bottom on 7/25/12 at 1.38pc.

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The ferocious rally in the S+P 500 since early 2016 (lows 1812 on 1/20/16 and 1810 on 2/11/16) and the broad GSCI (especially in its petroleum component) suggest a return to adequate global expansion. The S+P 500 has approached and threatens to break through its May 2015 ceiling. The broad GSCI has mounted an impressive rally. NYMEX crude oil (nearest futures continuation) rose over 90 percent from its 1Q16 bottom ($26.19 on 1/20/16 and $26.05 on 2/11/16) to surpass $50 per barrel. The GSCI has retraced its slump from 10/9/15's 386 interim top.

However, the GSCI remains distant from 2014's summit (and 11/26/14's 519 collapse point) as well as the important following interim high at 459 of 5/6/15 (which occurred near in time to the S+P 500's May 2015 one). In addition, petroleum's strength has not been matched by that in base metals. The London Metal Exchange Index (LMEX) includes six primary non-ferrous metals such as aluminum, copper, and lead. After collapsing 54.2 percent from its February 2011 pinnacle (38.2pc from its July 2014 one), it made a low at 2049 on 1/12/16. However, its 17.8pc rally since then (4/29/16's 2414 remains the high water mark since 1Q16's depth) is modest.

Iron ore (delivered to China), though not part of the LMEX, is an important segment of the base metal complex. Its timing patterns are roughly consistent with those of the LMEX since 2011. Iron ore peaked on 2/17/11 at 191.7, shortly after the 2/4/11 LMEX major high at 4478. It plummeted to 38.3 (12/11/15)/ 39.5 (1/13/16; alongside the 1/12/16 LMEX bottom at 2049), a crushing eighty percent retreat from February 2011. Iron ore thereafter jumped to 70.5 on 4/21/16, but thereafter slumped to around 48.2 on 6/2/16.

Also, emerging stock marketplaces still reflect fairly weak overall global GDP growth. The MXEF sits far beneath its 2014 (and 2011) peaks. The MXEF so far has not exceeded the 4/21/16 high that followed its 1Q16 low. US Treasury 10 year note yields climbed only modestly since their 1Q16 trough, and remain under 3/16/16's 2.00pc. The broad real TWD, despite its depreciation from its 1Q16 top, remains rather strong.

However, as marketplace history is not destiny, a weaker dollar is not inevitably bullish for the S+P 500 or all commodities. Looking forward, further and sustained TWD depreciation (use a ten percent or more fall from 1Q16's high as a rough guideline) arguably will be a bearish sign for stocks and commodities in general.

Yet many place faith than continued highly accommodative central bank programs by the Federal Reserve, European Central Bank, Bank of Japan, and others will generate adequate real GDP growth in advanced and emerging marketplaces. This may help emerging stock marketplaces and commodities in general to rally much more than they have since their 1Q16 depths. Perhaps even UST and other benchmark government yields will ascend as sufficient inflation returns (and deflation fears depart) and central banks permit policy rates (such as Federal Funds) to climb!

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These stock, interest rate, currency (TWD), and commodity marketplaces, when "interpreted together", offer a cloudy view ("mixed signals") regarding their "overall" (currently) intertwined trends as well as the outlook for global growth.

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Given China's crucial role in the international economy, let's take a great leap forward in this context and see if its situation clarifies the current and future global horizon. A focus on China's stock, interest rate, and currency marketplaces as well as on its political scene may indicate its own and therefore probable worldwide growth trends. Underscoring several important levels in these Chinese marketplaces will help to offer guidance for potential trend patterns in many other stock, interest rate, currency, and commodity marketplaces around the globe.

Trends in China's stock, 10 year government note, and currency playgrounds, particularly since around mid-2015, generally have "fit in" with those in other key marketplaces.

China's Shanghai Composite stock index established a major peak on 6/12/15 alongside the S+P 500's crucial 5/20/15 top (and the related summit in Japan's Nikkei stock marketplace, 6/24/15 at 20953). The Shanghai Composite's first quarter 2016 low, 1/27/16 at 2638 likewise occurred near in time to the S+P 500's bottoms on 1/20/16 and 2/11/16 around 1810 (and the Nikkei low on 2/12/16 at 14866). China's Shanghai Composite made a second low adjacent to its January 2016 one, 2/29/16's 2639. The MXEF made a second low on 2/12/16 at 708 alongside the S+P 500's 2/11/16 floor.

In recent years, many key turns in the Chinese government 10 year note have occurred close in time to similar ones in the UST 10 year note. The November 2013 yield high in China's government note occurred in between the September 2013 and January 2014 UST peaks. Note the similar timing of the UST and Chinese note interim yield tops in mid-2014 and mid-2015. The June 2015 yield summits occurred near in time to the Shanghai Composite peak and not long after the S+P 500's one.

Although the majority of currency coaches (and leading politicians) concentrate on the Chinese renminbi cross rate against the United States dollar, China's broad real effective exchange rate also is a crucial indicator ("EER"; Bank for International Settlements, 2010=100, data back to January 1994, monthly average; CPI based).

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	S+P 500	**China Stocks: Shanghai Composite**	**US 10 Year Govt Note**	**China: 10 Year Govt Note**	**China FX Effective Exchange Rate**
Major High	2135 (5/20/15)	5178 (6/12/15)	3.01pc (9/6/13) 3.05 (1/2/14) 2.69 (7/3/14) 2.50 (6/11/15)	4.70pc (11/21/13) 4.32 (7/18/14) 3.65 (6/17/15)	**Major advance** decisive climb EER over 100.0 began June 2011; further rise from 113.5 low May2014
1Q16 Low	1812 (1/20/16) 1810 (2/11/16)	2638 (1/27/16)	1.53 (2/11/16)	2.77pc (1/14/16)	**Major high** 130.8 (July+ Nov 2015) 130.7 (Feb 2016)
Percent Fall	**15.2pc**	**49.1**	**152bp**	**193bp**	**Over 30.0pc climb from June 2011**
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Percent Rise From 1Q16 Low	**17.1** (2119; 6/7/16)	**17.4** (3097; 4/13/16)			

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Trends in the Chinese stock marketplace do not always parallel the China GDP growth story. However, the major bear collapse in the Shanghai Composite Index since its marvelous June 2015 pinnacle suggests that clairvoyants should be skeptical regarding prospects for renewed remarkable Chinese GDP growth.

The Shanghai Composite's inability thus far to rally substantially from its first quarter 2016 bottom or exceed its mid-April 2016 height instead warns that Chinese GDP growth may remain relatively mediocre by Chinese standards. Like the Shanghai Composite and the MXEF, the Nikkei remains beneath its spring 2016 high (4/25/16 at 17614). In addition, the Shanghai Composite walk up to 3097 on 4/13/16 did not surpass 11/11/10's 3187 or stay long over 4/18/11's final high at 3067 (compare that date with the MXEF's 4/27/11 peak). Chinese equities remain significantly under 8/4/09's summit at 3478 and very distant from the major high of 10/16/07 around 6124 (recall the S+P 500's 10/11/07 pinnacle at 1576). Half the October 2007 apex is 3062, about the 4/13/16 level.

The Chinese 10 year central government note yield (local government debt is not included in this yield data) currently hovers around three percent. So like that of the 10 year US government note, its yield has climbed little from its 1Q16 depth. This tends to confirm economic sluggishness. The secular decline in Chinese government note yields since the 2013 and 2014 highs may in part reflect a mix of yield repression, flights to quality (or relative safety), hunts for yield, and (perhaps in some sectors) slowing inflation. However, China's yield slump arguably hints at slowing expansion (a fall in the desired growth trend). However, if China ever suffered a debt crisis, its government yields might jump (recall Greece, for example).

The November 2013 peak in China's 10 year central government note stood very close to the pinnacles of the glorious Goldilocks Era. Recall the 4.53 percent of 7/11/07, 4.59pc on 11/13/07, and 4.61pc on 7/9/08; compare the timing of US Treasury 10 year government note yield summits of 5.32pc on 6/13/07, 4.72pc on 10/15/07, 4.27pc on 6/13/08. The first quarter 2016 trough in China's 10 year broke under its important 7/12/12 low at 3.24pc (compare the timing of the UST's 7/25/12 major bottom at 1.38pc). China's 10 year note low in 1Q16 stands near 1/9/09's 2.70pc major floor, built around the end of the worldwide economic disaster (compare the timing of the UST 10 year's key low around then, 2.04pc on 12/18/08).

What story does the currency dimension tell? Start by recalling the long run saga of China's real effective exchange rate ("EER").

In addition to the China EER low at 74.3 in April 1995 (66.3 in February 1994), recall the bottom at 81.9 in December 2004. The China EER advanced strongly to a key high of 107.5 in February 2009 (shortly before the S+P 500's March 2009 major low).

Although the renminbi EER slipped to a trough of 95.6 in November 2009, it nevertheless resumed its climb. It decisively ascended over 100.0 beginning in June 2011 (it had briefly pushed above 100 in the preceding months). Note that the US broad real trade-weighted dollar major trough of July 2011 occurred close in time to the China EER ascent starting in June 2011. China's EER thereafter charged to an initial (and record up to that date) high at 120.5 in January 2014. Although China's EER dipped to 113.5 in May 2014, it rallied sharply to its second half 2015/1Q16 highs (compare the TWD's bull charge since early fall 2014).

So over the span of its long-running growth story period, and especially after June 2011, China's real EER generally appreciated significantly. However, its very sharp rise following June 2011 up to its lofty tops of July 2015/February 2016 probably encouraged the slowing real Chinese GDP growth rate during 2012 and thereafter (the so-called amazing GDP growth rate ended in calendar 2011).

In any case, the EER's initial slide that began in mid-year 2015 occurred close in time to China's deliberate devaluation in mid-August 2015, not long after peaks in the Shanghai Composite and the S+P 500), and alongside a drop in China's 10 year government note yields. Thus the EER's depreciation underlines the country's slowing expansion.

China's EER fell to 126.1 in April 2016 (the most recent BIS statistic). This slump since its July (and November) 2015/February 2016 tops, although only 3.6 percent, arguably itself (and particularly if that decline accelerates) warns of an even greater slowdown in China's real GDP trend. From this perspective, over the long run (since December 2004 and April 1995, and perhaps earlier), the major overall China EER appreciation fits in with eventual very strong Chinese GDP growth (not just the miracle span of 1998-2011, but also calendar 2012-15's). Thus a subsequent reversal in the China EER trend may signal weaker future real GDP growth than many expect.

Maybe China's rising debt levels in part reflect an effort to overcome the GDP consequences of its elevated EER.

The Chinese EER remained quite high (close to the July 2015 top) through February 2016. So as the US is a very important trading partner for China (17.8pc of its broad EER index), and as the renminbi/US dollar cross rate is a widely-watched and important indicator, let's now concentrate on that cross relationship.

The renminbi rallied for several years against the US dollar. After around 9/2/10's 6.818, the renminbi began to ascend. Following 7/25/12's interim low at 6.396, the renminbi peaked on 1/14/14 at 6.039. What happened after the mid-August 2015 devaluation? On 8/11/15, the cross was around 6.210. Its 8/12/15 low against the dollar was 6.449 (well under the 7/25/12 low). With 12/11/15's 6.456, it eroded under that August 2015 level. The renminbi tumbled to 6.596 on 1/8/16. Though it rallied to 6.453 on 3/31/16 (compare the 8/21/15 level), its subsequent decline (6/1/16 low at 6.594) has attacked the January 2016 support.

Thus China's depreciation against the US dollar from mid-August 2015 around 6.210 to its 2016 lows has been about 6.2 percent (9.2pc relative to the January 2014 peak). The renminbi's sustained weakness against the dollar since August 2015 (and arguably since January 2014, even though the China EER measure peaked much later than January 2014) emphasizes both China's slowing real GDP growth trend and the escalating concern of China's political and economic leadership regarding that growth pattern. China apparently is willing to engage in competitive devaluation (currency wars) to sustain growth at desirable levels.

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China also seems inclined to maintain rather than shut down a fair amount of apparently excess industrial capacity (as in coal and steel) and to sell related output at cut-rate (or at least very competitive) prices overseas. See the Financial Times, 6/3/16, p4; NYTimes, 6/6/16, ppB1-2. This also hints at its fears regarding current and prospective growth.

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Given the appreciation of China's EER (and in the cross rate against the dollar) during the nation's economic miracle growth years, further depreciation in China's EER (and in the renminbi relative to the US dollar) probably would reflect weakening Chinese (and thus global) real GDP prospects. A ten percent decline from the renminbi's January 2014 major top against the dollar is about 6.643. A five percent slump in China's EER from its 2015/2016 pinnacle equals 124.3, a ten pc one 117.7.

The travels of other financial marketplaces of course are relevant in this context. Signs of weakening Chinese (and overall international) expansion probably would include a fall in the Chinese 10 year government note yield under its January 2016 level (or a spike in that yield toward its November 2013 high amidst crisis talk). Another GDP slowdown indicator would be a challenge by the Shanghai Composite of its January 2016 low (accompanied by a drop in the MXEF and declines in the S+P 500). Watch to see if the broad GSCI and petroleum begin to decline. Given China's substantial demand for base metals, suppose noteworthy renewed weakness in the LMEX (1/12/16 depth at 2049) and iron ore appears.

CHINESE POLITICS

"Our million hearts beat as one,
Brave the enemy's fire, March on!" "March of the Volunteers", China's national anthem

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What does China's political situation suggest about its economic prospects, and thus world growth? External and internal signs point to worries regarding economic growth (and political and social stability). If China's economy is growing adequately, why has the country's leadership been engaging in foreign quarrels and attempting to exert greater political control over its domestic situation?

Keep in mind the current significant political divisions and related fierce debates in America and much of Europe. To some extent, the various political splits and battles in the US and Europe reflect mediocre (or weak) overall economic growth, flat or declining incomes for the majority of citizens, as well as growing income inequality and increasing fears regarding future opportunities. Many Chinese likewise are concerned about their income levels (and opportunities) as well as economic inequality.

Why does China engage in these external political fights? China probably is not only concerned about land and related mineral rights. Hostility to the opposing nations and related political power relationship issues are probably not the only explanation.

China's headline-grabbing overseas disputes distract attention from internal economic (and political) problems. Note China's recent territorial quarrels with Japan over some tiny islands (the Daioyu) controlled by Japan. China has similar feuds with Vietnam and the Philippines (South China Sea; for example, see the Financial Times, 6/6/16, p6). Note a brief flare-up with India over the disputed India-China border.

If China's economy was booming in recent months, and likely to remain strong going forward, why have the country's political leaders engaged in such noisy campaigns against official corruption? Moreover, note the centralization of power around President Xi. In addition, in recent years, there has been tighter Communist Party control over the media. Journalists must serve the Party; see the NYTimes, 2/23/16 (ppA1, 8) and 2/26/16 (ppA1, B5).

Don’t overlook China’s effort to promote its values relative to Western ideals. If all was well with China in its political (and economic) arenas, why heatedly attack alternative viewpoints? A Communist Party leadership paper (Document No. 9) criticized Western ideas of constitutional democracy and promotion of universal values of human rights and media independence (NYTimes 8/20/13, pp A1, 3).

Also on China’s home front, “China approves two-child policy to help economy”, ending its four decade long one-child rule (NYTimes, 10/30/15, ppA1, 6).

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