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WELDON'S MONEY MONITOR

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TOP-DOWN

MACRO-CHINA: No Ticket, No Shirt ...

UNDER THE MACRO-SCOPE

Investors are what ... shocked ???

Indeed, investors are ACTING as if they are IN shock ... amid a 'stronger than expected' GDP report.

Investors that read Weldon's Money Monitor were NOT AT ALL ... shocked.

Not since our focus in Monday's Money Monitor, as it relates to the ONE TRILLION-YUAN increase in credit created in China during the 1Q, over the 425 billion yuan in new credit posted during the 4Q of last year.

Not since yesterday's Metal Monitor focus on the rumor mill surrounding this GDP report, implying it would BE ... 'stronger-than-expected' ... and ... would be so strong as to spark the People's Bank of China into action.

It ALL depends on how extreme the PBOC is willing to be.

Likely, they are NOT going to be 'extreme' enough, since hikes in Reserve Requirements AND interest rate hikes have NOT worked ... at all.

Indeed, as we spotlighted in Monday's Monitor, the Chinese "interbank rate" has FALLEN in the last month, has done so to the tune of nearly (-) 50 basis points, and in so doing has fallen back BELOW two-percent !!!

If anything, a rise in Deposit Rates has been an influence towards credit GROWTH, with growth in Deposits SOARING, and mandating that bankers facilitate the expansion in credit.

For sure, the RECORD \$135 billion three-month rise in FX Reserves posted during the 1Q ... is testament to the EXPLOSION in liquidity.

Throw in the fact that FDI is surging again, and we could suggest that a BOOM in liquidity the likes of which has NEVER BEEN SEEN before in China is currently unfolding and evolving.

No wonder then ... Gold is flirting with \$700.

No wonder then ... global equities are screaming higher.

No wonder then ... the USD is under broadening pressure.

Subsequently, FEAR of intensified monetary tightening in China ...

... is misplaced.

The GDP data ... is NOT important.

The GDP data is already ... 'stale'.

Indeed, we might suggest that a GDP-equivalent' application using the 1Q credit data, which will take time to result in actual GDP input ... via greater output exported goods, and greater domestic consumption ...

... could 'imply' a GDP growth rate closer to ... gasp ... 15%.

Another interest rate hike by the PBOC is NOT going to matter much.

Another hike in Reserve Requirements is NOT going to matter much.

It would take a tectonic shift in monetary policy, a change in the policy of 'Dollar Sterilization' would be required to CAUSE the delicate balance to be blown out of the water to the extent that markets fear.

The "risk" is NOT a rate hike by the PBOC.

The REAL "risk" comes with any change in China's 'USD Sterilization' policy.

China sterilizes nearly ALL of the US Dollar inflow, thus 'putting' out a tidal wave of yuan into the domestic banking system, SOLELY to keep the value of the Yuan from appreciating more rapidly than it has since it was 'refloated'.

In fact, we are willing to go SO FAR OUT on the proverbial 'limb' as to suggest that at the end of the day, when all the fluff is sliced away by our macro-data-scalpel ... with the US Dollar Index flirting with mega-macro-monthly underlying support at the 80.00 level ...

... that China, the world's single largest holder of US currency, at more than \$1.2 trillion just in official reserves, is violently defending the USD, and in essence, is responsible for holding it above 80.

We might extend that to include the world's third largest holder of USD reserves, Russia, where the explosive expansion continues, in the monetary base, the official reserves, exports, wages, and investment ... right through with data on the offer this morning.

In short, two of the three largest holders of US currency, are FRANTICALLY buying more, attempting to SLOW the appreciation of their own currencies, and thus implicitly supporting the USD at its macro-low of 80.00 (via USDX).

IF China were to change policy, really change it ... the USD would slice below 80 in a violent way, but then might also violently reserve higher, amid a shift AWAY from monetary reflation, and towards credit-and-debt disinflation.

Concurrently, Chinese credit creation dynamics would be squelched, as the PBOC would no longer be flooding the domestic banking system excessive yuan supply.

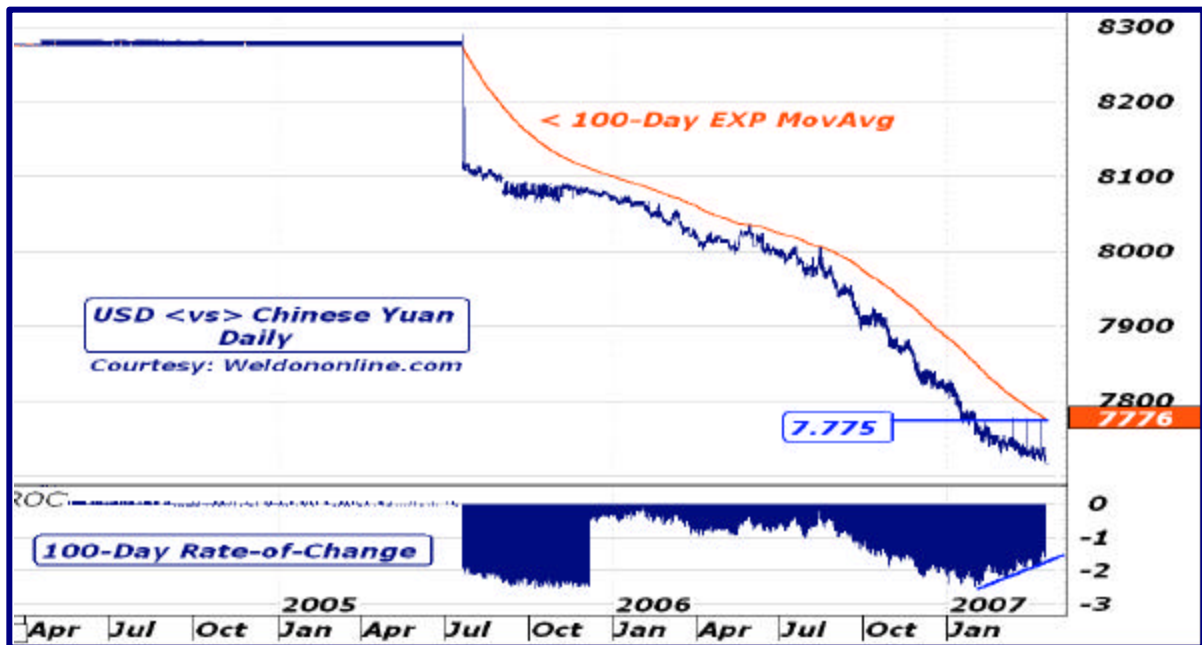
Unfortunately, such a scene would also be BULLISH for the Yen, as the most widely utilized mega-low-rate 'funding currency'.

Thus, the risk of a shift in Chinese Sterilization policy extends directly into market-specific risk relating to the infamous yen-carry trade.

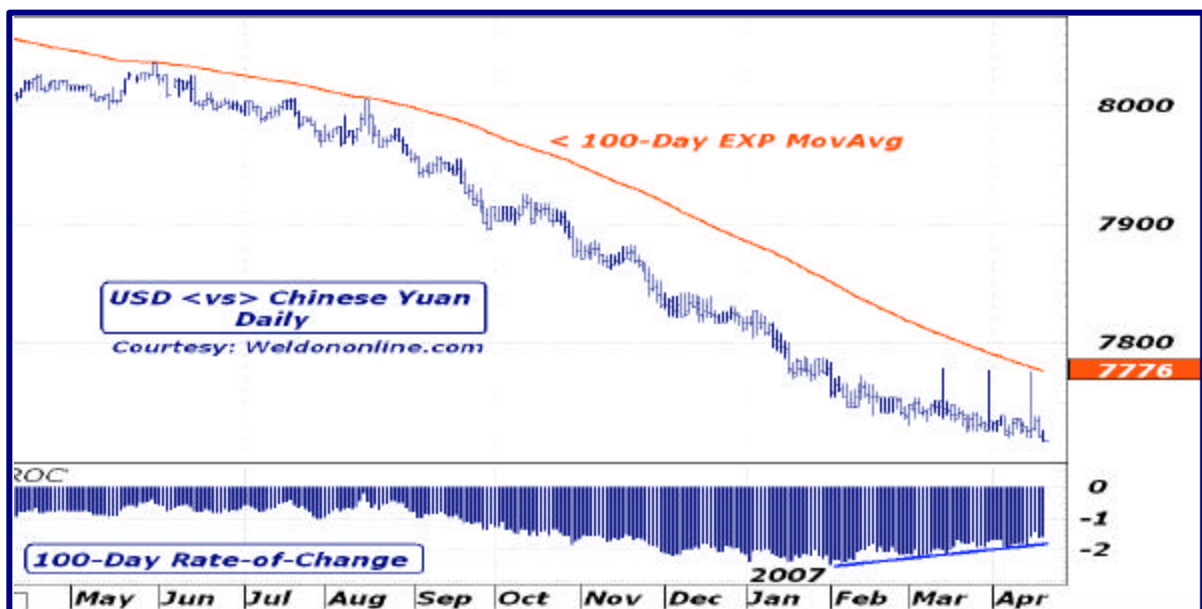
It is NO coincidence that the HISTORIC expansion in Chinese credit posted during the 1Q occurs in line with a significant SLOWDOWN in the pace of upside appreciation in the Chinese currency.

This is clearly evident in the chart below, in which we plot the USD-CNY. In fact, while the USD is indeed plunging to NEW MOVE LOWS TODAY ... it is NO LONGER depreciating as rapidly as it did in the first month of the 1Q (January). This is represented by the 'bearish divergence' evident in the med-term Rate-of-Change indicator.

VOILA ... this is BECAUSE of the People's Bank of China policy, one that is thus 'facilitating' the enormous growth of domestic credit.



We take a closer look at the chart above ... via the perspective provided below, in the shortened-time frame chart of the USD versus the Yuan. Again, we see NEW LOWS in the level of the USD, but NOT a new low in the pace of depreciation, as defined by the ROC, which is HALF what it was in January.



As we stated earlier, and on MANY occasions, particularly of late ... China is FAR from being "alone", as we expand our perspective to include two other Central Banks which have been "violently" accumulating USD reserves, both of whom are in the top ten of global USD 'holders'.

First, note the overlay chart on display below plotting the USD-Yuan against the USD-Malaysian Ringgit, which was also "pegged" at a 'fixed-rate' to the greenback until mid-2005.

Indeed, the abandonment of the Ringgit's 'peg' followed almost IMMEDIATELY after the Yuan was 'de-pegged', and the MYR has followed the CNY higher ever since. Yes, the Ringgit is ALSO making a NEW MOVE HIGH TODAY (US Dollar new move low), right in line with the Yuan.



And ... both the Ringgit and Yuan ... appear to be 'following' the Russian Rouble to the upside, as the USD has broken down against the Russian unit on the back of an upside EXPLOSION in reserves that comes parallel with a BOOM in domestic banking liquidity and credit creation.



We might then suggest that to turn the macro-tide AWAY from a continued upside reflation in global equities and ETFs, precious metals, industrial metals, emerging markets, commodity indexes, a lengthening list of global currencies ...

... along with the upside reflation in global credit (creation), in Russia, China, the EU, UK, Australia, Africa, etc, etc ... and the US ...

... something MORE significant, monetarily, than just another interest rate hike in China ... will need to happen first.

Until we see the weekly US credit figures reveal a multi-week contraction as it applies to borrowing in the Real Estate, Home Equity, and Consumer sectors ...

... or ... a rally in the Chinese Yuan and Russian Rouble ...

... or ... downside penetration of 115 in the USD versus the Japanese Yen.

... the DOMINANT macro-theme REMAINS one of excess liquidity.

Subsequently, today's Chinese GDP data is NOT NEARLY enough to become a dominant (disinflation) and bearish influence on the reflatd assets mentioned above.

Thus, at the end of the day, despite the FEAR driven move down in Gold, Copper, and global equities and ETFs ...

... we remain bullish on Gold and Copper (along with other commodities that China imports) ...

... we remain bullish on a variety of global currencies, including the Eastern European units, the Rouble, the British Pound ... ('over-weighted' in FOREX markets, as a 'proxy' for being bullish on global equity ETFs too) ...

... and we remain bearish on the EU fixed-income markets, particularly on a relative basis versus the US, via the spreads and swaps.

Shocking Chinese GDP data ???

Hardly, NOT for regular readers of the Money Monitor.

Enough to spark a significant and meaningful change in global monetary and FX policy, particularly in China ????

Indeed, NOT likely.

Our long-standing 'macro-trading-theme' as defined by the phrase 'incestuous co-dependency' (laid out in great detail within our book, "*Gold Trading Boot Camp*") ...

... not only remains intact, but is MORE intense right now than EVER before.

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