



Key News

- [China's Ministry of Commerce said](#) international pressure for appreciation in the yuan was "not fair." (Bloomberg)
- [European consumer prices declined for a fifth month in October](#) as rising unemployment discouraged household spending. (Bloomberg)

Quotable

"The continuous depreciation in the dollar, and the U.S. government's indication that, in order to resume growth and maintain public confidence, it basically won't raise interest rates for the coming 12 to 18 months, has led to massive dollar arbitrage speculation."

Liu Mingkang, China's top bank regulator

FX Trading – Triple-think currency payoff?

Describing Russia, Winston Churchill said, "Russia is a riddle wrapped inside a mystery inside an enigma." I wonder how he would describe modern China; I think it would be fun to hear that quip.

But on second thought, I don't think we need Churchill for the task, as yet another fine Englishman—George Orwell—summed it up nicely with his definition of Doublethink:

"The power of holding two contradictory beliefs in one's mind simultaneously, and accepting both of them....To tell deliberate lies while genuinely believing in them, to forget any fact that has become inconvenient, and then, when it becomes necessary again, to draw it back from oblivion for just so long as it is needed, to deny the existence of objective reality and all the while to take account of the reality which one denies — all this is indispensably necessary. Even in using the word doublethink it is necessary to exercise doublethink. For by using the word one admits that one is tampering with reality; by a fresh act of doublethink one erases this knowledge; and so on indefinitely, with the lie always one leap ahead of the truth."

[Editor's Note: A technique utilized by all governments, but seemingly perfected by China.]

Doublethink, I think, perfectly defines Chinese official government policy when it comes to the currency question.

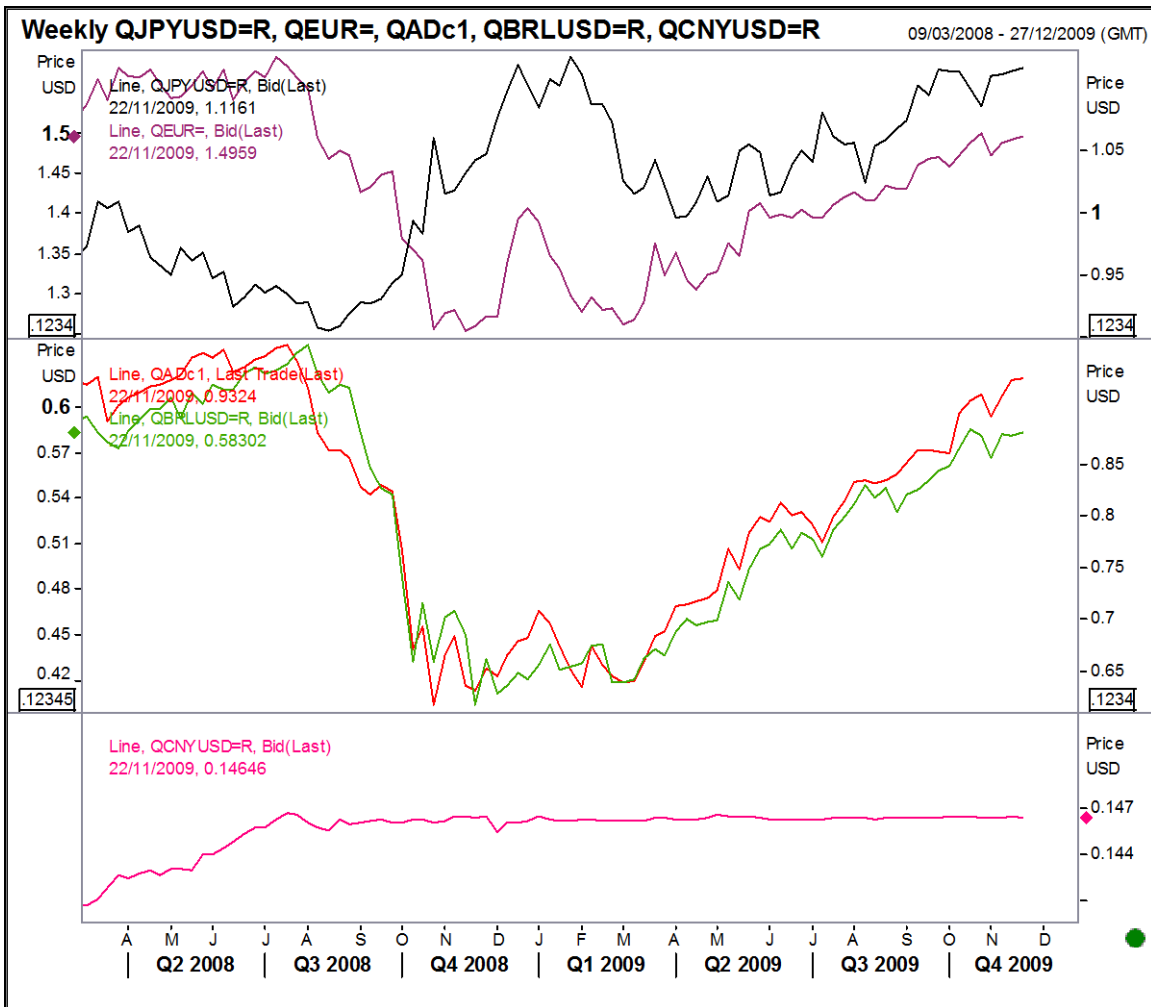
Thought #1: China criticizes the US for trashing the dollar and creating bubbles (rightly so) because of its massive stimulus, stimulus intended to create a modicum of US

consumer demand so China has someplace to export all those goods (to reconstitute that symbiotic relationship that created imbalances in the first place). Privately China is banking on the US bubble-making succeeding so the country's massive over-capacity can be mopped up, instead of going belly up.

Thought #2: China says it's unfair for others to complain about China's fixed currency, which is part and parcel to massive bubbles of its own creation (a pegged currency, by definition creates massive liquidity when running a trade surplus; liquidity that can't escape because of capital controls; thus bubble-ology squared). China actually wants us to believe its fixed currency, in a floating world, actually creates "stability." Hmmmm...

Some price comparisons are below for you to determine if China's currency might need to be adjusted, especially given they are growing at close to 10% annualized...a bit higher than the Western world, I would say.

Top Pane: Euro-US\$ (purple), Yen-US\$ (black); Middle Pane: Aussie-US\$ (Red), Brazil-US\$ (Green); Bottom Pane: Chinese Yuan-US\$ (hot pink)...



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Beside the fact the US is implicitly using the dollar as the global whipping boy to boost asset market liquidity (desperately seeking the “wealth effect”, keep in mind the dollar’s level is still determined by the market forces known as supply and demand. We wonder how “fair” the trade competitors with China think it is that China pegs, creating massive liquidity and extreme undervaluation, which acts as a capital magnet when growing at 10% and significant price advantage?

This debate on whether China should revalue has gone beyond farcical. It’s deep into Orwellian territory to even discuss this with the Chinese. But said discussions take place nonetheless, and the Chinese always seem to win thanks to the awesome power of Doublethink. They know Western politicians prefer Pollyanna instead; at least publicly.

China will revalue sooner or later, unless it wants to see a major trade war. It is a war China will lose; though there will be many other country economic casualties along the way. Let’s hope that can be Thought #3 swirling in their heads ...

Yes indeed—Triple Think.

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Thanks again for being a loyal reader,

David Newman
Black Swan Capital

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