

'This newsletter is translated from the Japanese edition distributed on December 22nd
Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC.

Global Risk Watch Newsletter

Premonition of 'Inflation', etc.

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3. Highlight of Indicator for this Month

Will the Market Goes Back Where it was at the Beginning of This Year? (Toshikazu Kumagai, Senior Staff, Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC)

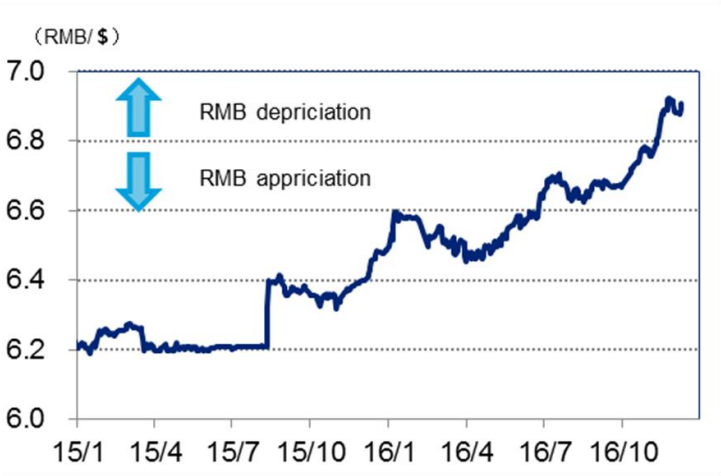
The Yuan (RMB) against the dollar fell to the lowest level since 2008, and attention has surged again regarding capital outflows in China. It seems that the RMB exchange rate, which continues to fall, at an accelerated pace of the recent decline (Chart 1).

With regard to such movement, weak RMB can expect positive effects on exports, so it can be considered as desirable effect for China as long as it is performed in an orderly transition. Furthermore, in the immediate future, there is a possibility that the next US administration will adopt policies that do not allow RMB to depreciate, such as the designating China as a currency manipulator, which is another viewpoint with the intention to advance the RMB depreciation before the start of the new administration in US.

However, looking at the recent indicators, we can assume that the weakness should continue despite active intervention. As China's holdings of US Treasuries declined sharply, foreign currency reserve balances have been decreasing (Chart 2). This is consistent with the view of selling high-liquidity US Treasury bonds and conducting currency intervention. In addition, the Chinese government has ordered domestic banks to strengthen their capital outflow regulations. Examples include issuing a notice to lower the amount of money required for approval by foreign remittance, and also displayed Chinese government's vigilant stance towards capital outflow.

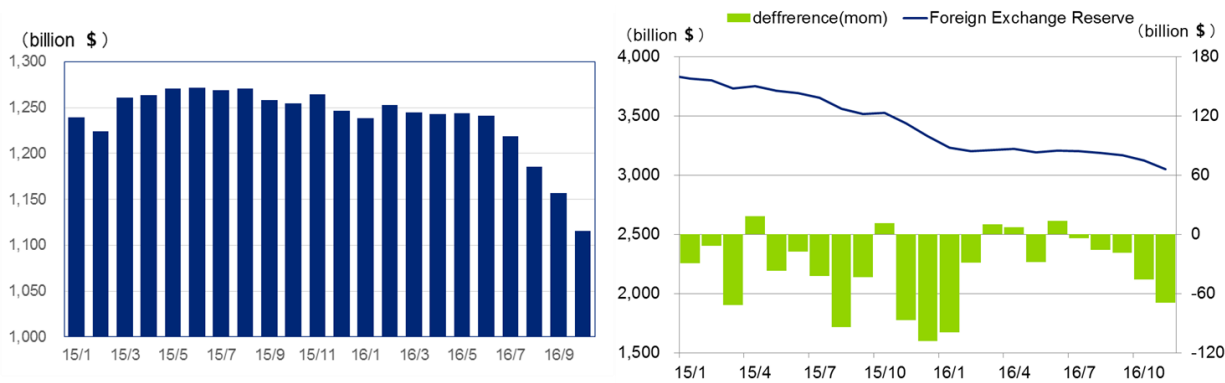
The turmoil in the emerging markets triggered by the concern of the capital flight from China at the beginning of 2016 is still a fresh memory in mind, but as the concern of capital outflows from emerging economies in the 'Trump market' is not resolved, the crisis similar to the beginning of the year will occur again. Henceforward, the mixture of market speculation and Chinese government's capital control measures are to be observed carefully.

Chart1 : RMB / USD Exchange Market



Source: Bloomberg

Chart2: China's US Treasury Bonds & Foreign Exchange Reserves Holding



Source: US Treasury, Bloomberg

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