Bill Gary's
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Expecting the Unexpected !

CIS released an editorial in the August 1 issue entitled *Can China's Economic Miracle be Revived?* The article discussed how China was responsible for the "commodity supercycle" by becoming the world's largest importer of metals, cement, crude oil and other commodities. However, China's economic growth is slowing and they no longer need to expand imports as rapidly as before. But, exporting nations geared up in recent years to produce more and more commodities to meet expectations for continued China expansion that is no longer projected. *The result is a building world surplus of oil, iron ore, steel and grains that exceed global demand needs.*

It's not just China that is experiencing slower economic expansion. Nations that depend heavily on China's economy are hurting even more. The International Monetary Fund (IMF) reported that industrial production *contracted* from last year by 4.9% in Singapore, 1.9% in Taiwan and 1.6% in South Korea. Also, Brazil's economy is in recession and Mexico and Argentina are reporting very weak growth. As a result of slowing or contracting economies, currency values in these nations have fallen rapidly against the US dollar and China's yuan. In fact, some nations have promoted lower currency values to improve export competitiveness to Europe and the US. Japan, in desperation to remain competitive with China, has devalued their currency 61% against the yuan and 39% against the dollar. *Some believe the world is now in the early stages of currency wars.*

Early this week, China reported an alarming 8% decline in exports for the month of July compared to a year ago. Although China has made strides in moving from an export to a domestic oriented economy, it still depends heavily on exports. As a result, it surprised the world this week and began to devalue the yuan. The yuan fell by the greatest margin in 21 years. Although China's leaders explained they were only allowing market forces to play a greater role in setting value for the yuan, *many believe the devaluation is aimed solely at making their exports more competitive in world markets*.

China's surprising devaluation this week can be expected to lead to competitive devaluations by other nations in months to come. Because world trade is transacted in dollars, this will increase prices for imports in nations devaluing their currency and slow their economies. On the other hand, for nations maintaining stable currency values, exports will suffer and prices will tend to deflate. As the world attempts to solve these problems, markets can be expected to experience unusual and volatile price trends. Old rules may no longer apply from both fundamental and technical viewpoints. *Expecting the unexpected may become the rule rather than the exception.*

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