

# 资本市场与国际金融学习摘要

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授课教师: 张涌泉

以下是学习摘要作业:

## USD & CNY Exchange Rate Forecast

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## **Introduction**

This article discusses the trend of exchange rate between CNY and USD. We have chosen politics and events, foreign trade, foreign industry, foreign finance and international politics and events for the main factors which influence the exchange of the exchange rate. By analyzing these factors and combining the analyze of the history rate between the two currencies, we can judge the trend of the exchange rate. And finally by comparing some further data, give out a forecast of the exchange rate between CNY and USD.

## **Influence Factor**

There are a lot of factors that will influence the exchange rate. Especially like great nations like the US and China.

## **Politics and Events**

America Department of Labor (DOL) released a data on the 4<sup>th</sup> of April shows that the US non-farm employment increased to 192000 people, and is expected to increase to 200000 people. The former value has increased by 175000 people; the US unemployment rate has recorded 6.7%, and is expected to be 6.6%, the former value will be 6.7%. The US labor department also shows that the nonfarm payroll has increased 197000.

According to the news on the 4<sup>th</sup> of April, the newest USA employment

data displays that the number of new jobs in non-agricultural industry could not reach the market expected. The result leads that the foreign exchange market trader delays the time which improved short-term internet rate. The USD& CNY exchange rate then will fell sharply. The dollar index of day will trade down 0.05%

The report ofDOL pointed out that, during March 192000 new employment populations, slightly lowered 200000 economists expected average over the same period. Because of the unemployment rate increased 50000 labor force population statistics, and keep no change in 6.7%, and before the market to determine the reading will drop to 6.6%. The report also says thatthe employment populationswill increase in February and January, the employment populations are going to make an adjustment to an additional 37000 employment growth.

### **Foreign Trade**

The report says that China's expansion in the field of investment, mainly concentrated in food, energy and three of the real estate industry. On thecapital of China'sfood industry, theUS investment is quite small, but during last year,Chinese company Shuanghui purchased Smith Field the biggest pork producer in the US by \$7.1billion, this was accounted half of the total investment in China. In the US unconventional oil and gas resources, last year China enterprises completed \$3.2billion of

investment projects. In addition, Chinese commercial real estate investment in San Francisco, Los Angeles, New York USA, Detroit and other places of \$1.8 billion last year.

## Foreign Industry



A number of well-known institutions generally thought that, the Fed will steadily tightening of monetary policy, as early as in the small market expectations, even if the decision design according to the US economy completely roused without additional stimuli, so the investors should not panic too much.

## Foreign Finance

Federal Reserve Chairman Ben Yellen said in 20<sup>th</sup> march, the Fed is might to start raising interest rates in the 6 months after the exit QE, the

speech has aroused great repercussions in the market. According to the current Federal Reserve cut QE pace, the Fed is expected to end this fall to buy bonds, the market will take the time to increase the interest rate to first half of year 2015. And all the expected interest rate is at the end of 2015 or early 2016.

American Energy Information Administration (EIA) released a data on the 2<sup>nd</sup> of April, showing that in March 26th, the US crude oil inventories will fall from 2380000 barrels to 380090000 barrels, which will be an increase of 1100000 barrels.

### **International Politics and International Events**

The US government is releasing its approach to foreign student. More and more students are swarming into American. Following to the releasing immigration policy of USA, wealthy people and their money from the whole world are going to rush into the United States. In 2013, the bilateral trade volume between China and United States has reached a record of \$521 billion. At the end of 2013, the two-way investment amounted to more than \$100 billion. Bilateral cooperation of mutual benefit for the people of our two countries has brought tangible benefits, the economic development of the two countries and the world economic recovery and also be injected power. The 24th session of the Sino US Joint Commission on commerce and trade has just successfully held in

Beijing, focused on economic and trade issues, the two sides reached many consensus attention, in some long unresolved issues, have also made positive progress, take practical action to implement the two heads of state on the construction of new power relations reached a consensus, promote bilateral trade and investment cooperation to a higher level.

According to Xinhua news agency, Washington, 8<sup>th</sup> of January, the consulting company who uses long-term to study Chinese's investment in the United States report that last year the investment by Chinese in Unite State had expansion, and increased enterprises.

The consulting company predict that this year is expected to Chinese investment in the United States will continue to maintain strong growth momentum, China US economic and trade cooperation is facing new opportunities for development.

## Historical Rate Analysis

图 1 2012 年以来人民币兑美元汇率日中间价和收盘价走势



The picture above shows the trends of the exchange rate of USD and CNY. (2012.01-2014.12).

The People's bank of China decided to expand the foreign market band between USD and CNY, after the NPC and CPPCC (两会) the innovation of exchange rate became the first reform in the finance field. To increase the flexibility of the exchange rate of CNY, on one hand, is the conducive to curb the inflow of hot money and increased monetary policy flexibility; on the other hand, increase the domestic enterprises in foreign trade exchange rate risk. With the further relaxation of the fluctuations of the RMB exchange rate, expected full year 2014 the RMB exchange rate has low before the high trend, two-way fluctuation will increase by the end

of the year, the CNY against the USD exchange rate will stay at the point around 6.10, and gradually close to equilibrium level. Of course, the short term to guide the CNY expected reasonably, try to avoid the trend of depreciation, the impact on macroeconomic and financial stay stability.

On March 15<sup>th</sup> 2014, the people's Bank of Chinese announcement: since March 17, 2014, the inter-bank spot foreign exchange market trading price of the US dollar against the RMB floating rate increased from 1% to 2%, the designated foreign exchange banks provide the highest and the lowest dollar spot selling rate for cash purchase price shall not exceed the difference between the exchange rate on the day of the amplitude from 2% to 3% for the customer.

With the new Fed chairman in February 3, 2014, Yellen was sworn in as the Fed's chairman, she was the first female leader to be as the president . Since the federal establishment in 1913 one hundred years, the Federal has a number of economic and financial crisis, achieved a historic achievements in the practice of monetary policy steady growth and curb inflation the dual mission. Yellen took over the Fed will also meet the major shift in monetary policy. On one hand, Yellen for a long time in the Fed's post, the current monetary policy has branded her mark, policy continuity and predictability; on the other hand, Yellen will have to explore the withdrawal of QE, also has the new policy of uncertainty, which determines the framework of Yellen's fed development of decision on the basis of inheritance. No doubt the Fed's Yellen



era will be a withdrawal of QE era, will be a policy seeking balance in hard and changing times. In the Fed's quantitative easing policy tide from the occasion, emerging economies are weak will have to explore a new path of structural adjustment.

First, Yellen observed the unemployment rate, but not viewed in isolation the index. Yellen believe that the unemployment rate is not sufficient to fully reflect the health status of the labor market, so we should pay close attention to the investigation report flow of vacancies and labour (JOLTS). At present, American out of a job for six months or more proportion of the total population of unemployment remains extraordinarily high, unable to find full-time work and numbers of part-time employment is high. In the January of 2014, new non-farming employment population of 11.3 thousand people, significantly lower than market expectations of 180 thousand people, in addition, until now, there are 400 universal employment population continued for more than 6 months did not find a job.

Yellen and other economists, according to the "Okun's law" , with the related phenomenon of confused, in the past three years, moderate growth recovery of American GDP, the actual decline in the unemployment rate is higher than the GDP growth and it will continuous to produce a drop, for example, in January 2014 , American unemployment rate has dropped to 6.6% from 10% during the crisis. In view of the current household survey and the employment report reflects the complexity of employment situation, Yellen will be more

cautious in the future QE exit operation.

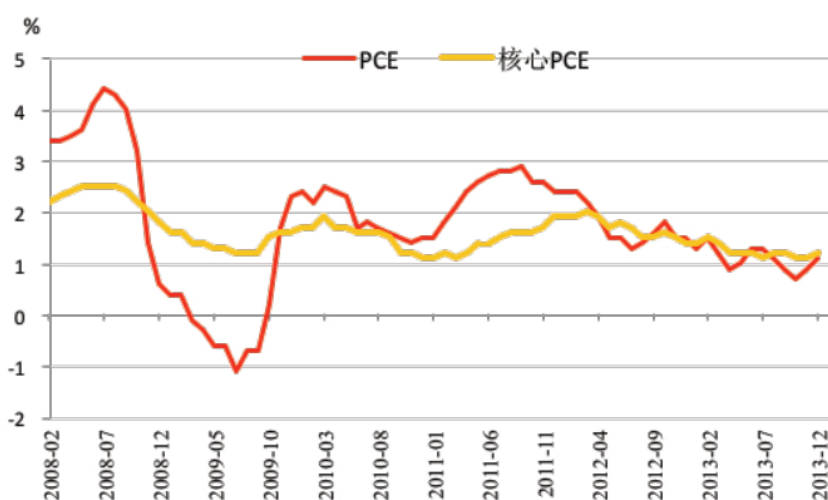
Second, labor force participation is unsolved due to decline in the rate of forward guidance policy rates, or modified. Distortion unemployment index means that the interest rate policy should be other indicators also reference the employment market. From the labor force participation rate is a key index of view, in 2014 January the labor participation rate fell to 62.5%, the lowest since 1978, reflecting the unwanted employment current labor market is still on the increase.

From the structure of the population, part of the labour force retirement problem is because of the difficulty in employment or pension adequacy and stopped looking for work; some young people due to education problem would cause employment in delay; golden age for employment labor force participation rate also continued to fall, causing male and female labor force participation rate were decline in pairs.

According to the monetary policy "optimal control theory", the labor force participation rate will continue to decline in the background, the 6.5% interest rate threshold trigger cannot achieve the inflation rate and unemployment rate, the target value deviation reduction. Therefore, as an advocate for the monetary policy of "optimal control theory", Yellen claim attention for the labor force participation rate. She will make the choice of time in the future interest rate more carefully, therefore, the existing would guidelines in 6.5% prospective interest rate threshold or face modification.

Third, management of the risk of inflation, rather than eliminate inflation. In the 20 century, Yellen persuaded Greenspan, the Fed should not eliminate inflation, but inflation risk management. The Fed thinks, because of the personal consumption expenditure price index considering alternative consumption in tracking the price, so it is more accurate to reflect consumer prices than the consumer price index trend. From the past to the present, the reference the fed in the implementation of the "Taylor rule" is the price index. In January, 2014, American personal consumption expenditure price index and the core personal consumption expenditure price index rose, signs of inflation stabilises picks up the display to a certain extent, but from the historical point of view is still low, and long-term inflation expectations remain stable 2% nearly a percentage point in space.

图 3：美国 PCE 和核心 PCE 走势

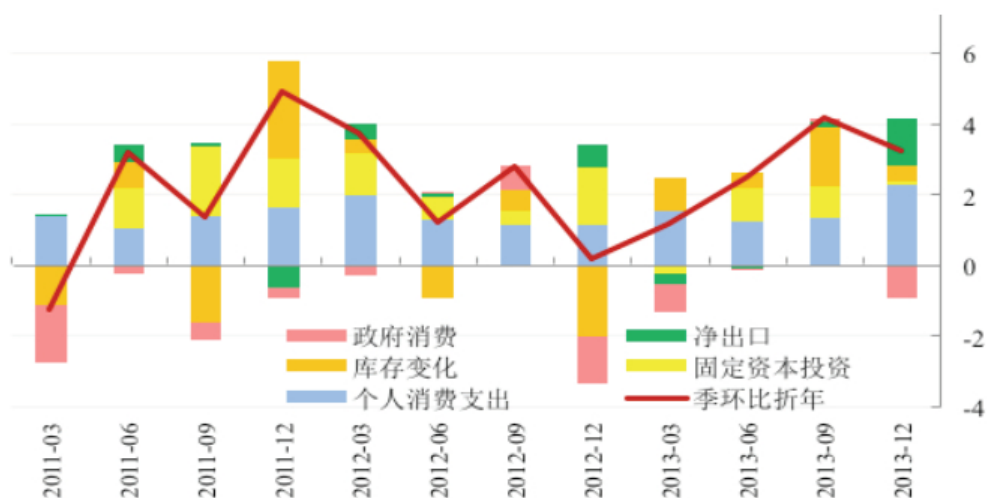


资料来源：CEIC

USA PCE and Core PCE Trend(2008.02-2013.12)

Fourth, to support the real economy recovery is a reliable way to return to conventional monetary policy. Yellen believes that at the present time, to support the real economy recovery is a reliable way to return to the conventional monetary policy. From the current situation US solid economic recovery, in 2013 four quarter economic growth, personal consumption expenditure is an important pull factors, the contribution to GDP growth by 2.3 percentage points, a record high since 2011. In 2014, two in January consumer confidence index are super market expectations, show that the residents of consumption desire strong. At the same time, the non-resident private fixed investment, especially investment in equipment is substantially stronger. This constitute gives a strong support to the future of the recovery America economic. From the recovery situation, by the end of 2016 America economy will return to full employment, this created conditions for Yellen's interest rate policy adjustment.

图 4：美国 GDP 分项对实际 GDP 的贡献



资料来源：CEIC

The diagram shows the structure of USA GDP from March 2011 to December 2013.

Quantitative easing policy comes to an end. In the global economic foundation, for nearly five years, after the outbreak of the financial crisis, the Fed began in January, 2014, to reduce the scale of asset purchases to \$75 billion. On January 29, 2014, the Federal Reserve announced that since February onwards will be the scale of asset purchases to cut another \$10 billion to \$65 billion. At each meeting to cut \$10 billion asset purchase rhythm calculation, the Fed will be displayed in November this year, meeting the official end of incremental asset purchase program. Bernanke is the initiator of evil in quantitative easing, as when the first step towards ending the loose monetary policy. Now, as Bernanke's successor, Yellen took a piece of "hot potato".

Unconventional policy exit is a very challenging task, the Fed is no QE out of rhythm etc. Japan and the European Central Bank is still experience QE surging ahead, therefore, we need to consider the point of how to "wait and see the Federal Reserve ashore".

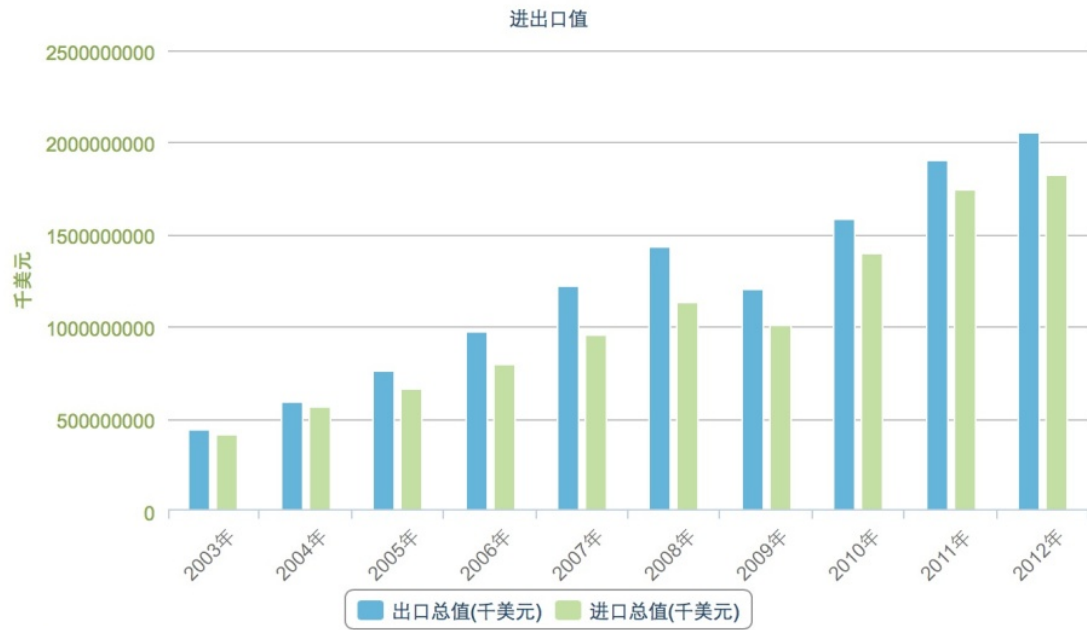
In 2014 American economic growth will be more robust, GDP growth rate will reach around 2.8%, is expected by the end of the Fed's asset purchase program will tend to end. We believe that the difficulty of QE exit, as well as the long-term impact on the market is not the biggest incremental changes, but the stock of disposal.

## **Exchange Rate Forecast**

At the last part of the article, we will compare the data's of trade, economic growth rate, unemployment rate, interest rate and fiscal policy between China and the US for further analysis and forecast the exchange rate between CNY and USD.

### **Trade:**

According to America statistic data, the total volume of US international trade in 2013 was 3.91 trillion USD which had a increasing of 0.8%. It included an imports volume about 2.33 trillion USD which was 0.2% less than last year and a exports volume about 1.58 trillion USD which was 2.1% more than last year. American import and export trade balance was 752.6 billion that fell about 4.7 %.



进出口值

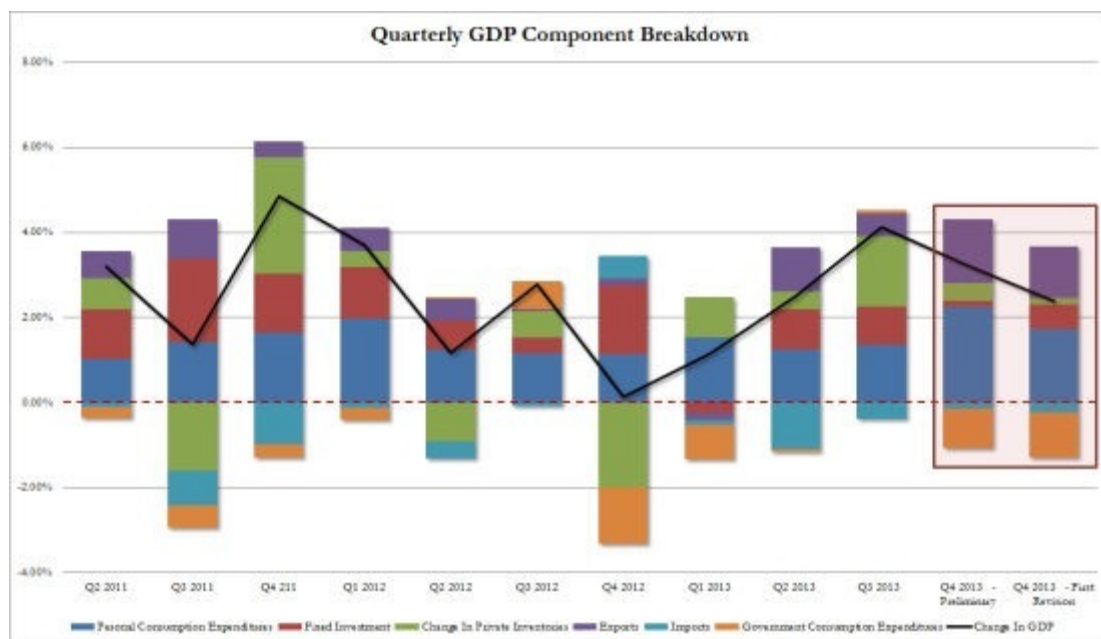
指标	2012年	2011年	2010年	2009年	2008年
进出口总值(千美元)	3,867,119,000.00	3,641,860,000.00	2,973,998,321.00	2,207,535,002.42	2,563,255,227.52
进出口总值_同比增长(%)					
出口总值(千美元)	2,048,714,419.00	1,898,381,464.04	1,577,754,315.00	1,201,611,806.00	1,430,693,066.08
出口总值_同比增长(%)	7.93	20.32	31.30	-16.01	17.48
进口总值(千美元)	1,818,405,003.00	1,743,483,592.50	1,396,244,006.00	1,005,923,196.00	1,132,567,000.00
进口总值_同比增长(%)					
进出口差额(千美元)	230,309,000.00	154,897,871.54	181,510,309.00	195,687,000.00	298,123,000.00

According to Chinese statistic data, the total volume of its international trade in 2013 was 4.16 trillion USD which had a increasing of 7.9%. It included a imports volume about 1.95 trillion USD which was 7.3% more than last year and a exports volume about 2.21 trillion USD which was 7.9% more than last year.

China is the second largest trading partner (the United States and it's largest trading partner Canada's trade in goods was \$ 638.58 billion, \$ 56.47 billion larger than the trade between China; Mexico's the third largest trading partner, the number is \$ 509,210,000,000 , \$ 72.89 billion lesser than the trade between China). China is America's third largest export market (the

United States and the largest export market for Canadian goods exports 300.35 billion U.S. dollars, more than \$ 178,330,000,000 than exports to China;the second largest export market for Mexican exports 226.15 billion U.S. dollars, compared with China exports more than \$ 104.14 billion). China is America's largest source of imports (America's second-largest source of imports from Canada imported \$ 338.23 billion, imports from China less than \$ 121.86 billion).

### Economic growth rate:



The Economic growth rate of US is: 1.8% in the year 2011, 2.8% in the year 2012, 1.9% in the year 2013, under 1% for the first season of 2014 (the reason for this number is because adverse trade balance).

The economic growth rate of China is: 9.2% in the year 2011, 7.8% in the year 2012, 7.7% in the year 2013.

According to the exchange rate between CNY and USD 6.0969 (2013.12.31),



the GDP of China is 9.33 trillion USD, which is 59.5% of the GDP of US in the year 2012 (15.68 trillion USD).

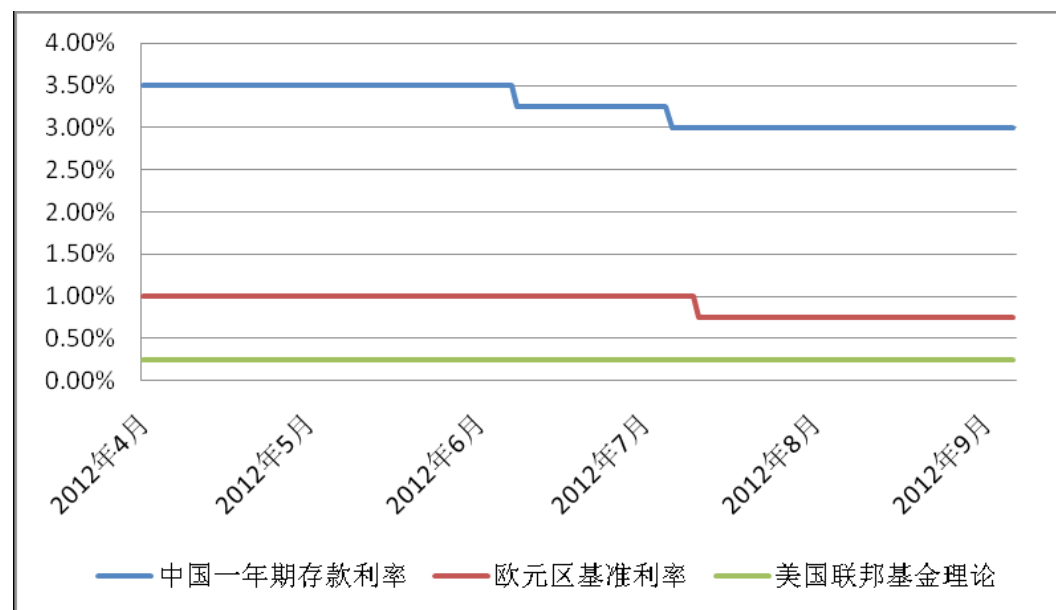
China's GDP was the 2<sup>nd</sup> in the world, which is 9038.66 billion USD in the year 2013, and the 1<sup>st</sup> in the world is the US which GDP is 16197.96 billion USD.

### Unemployment rate:

In January 2014, U.S. domestic jobs increased 113,000, less than a Reuters poll of analysts expected 185,000. The unemployment rate fell to 6.6 percent from 6.7 percent.

China's unemployment rate was 5% in the year 2013.

### Interest rate:



(The diagram shows above represent three lines. The green line refer to the American interest rate, red one is the European interest rate and the blue one is the Chinese interest rate)

From February 2008 to present, the interest rate of the Federal Reserve is in a ultra low interest rate between 0 to 0.25%. In contrast, although China

reduced its deposit several times in these years, but there is still maintained a 2.75% interest rate spread between CNY and USD. The spread levels still remain sufficient to mobilize the enthusiasm of investors and investment.

### **Fiscal Policy:**

China's Policy is increasing the deficit rate, the deficit rate of 2013 is 2.2%, and the number of 2014 will be between 2.2% to 3%. And slackening the fiscal policy to stimulate investment growth to stabilize the investment and avoid the slip down. China's fiscal policy thrust of steady economic growth rate in 2014 will increase government spending. 2013 China's deficit was 2.2% in 2014, the central government will continue the proactive fiscal policy, the deficit is expected to be slightly higher than in 2013 improved, but still remain within the 3 percent of the safety line. In the year 2014 active fiscal policy to increase support governmental expenditures reduction tax as a means to tax reform as a driving force, stimulate the economy growth.

The US has just ended the fiscal restraint, and starting to increase the promote of the economic growth. In the end of the year of 2013, the US government ended its tight fiscal policy, and stopped its QE (Quantitative Easing). And so far sustained recovery in the housing market, the unemployment rate has dropped to 6.6% from 7%. There are indications that the United States has begun to promote economic growth. Expects U.S. GDP growth in 2014 could reach 4%.

### **Summary:**

The trade between the top two economic giants is 583.11 billion USD, which is a huge number and the number is increasing every year. The GDP and economy growth is positive of the two countries, and the unemployment rate is under control, which means maybe there are some problems in these two countries, but the prospect is good. The interest rate spread between CNY and USD is 2.75%. And from the fiscal policy we could figure out that China is still maintained with a rapid of growth; although that the US has suffered from the subprime crisis, but in these years it has recovered, but the US still has the largest economy.

$$E = \frac{P}{P^*} = \frac{M/L(i, y)}{M^*/L(i^*, y^*)} = \frac{M}{M^*} \cdot \frac{L(i^*, y^*)}{L(i, y)} = \alpha(M - M^*) + \beta(i - i^*)$$

$$\frac{M'}{P} = L(i, y)$$

According to this exchange model we can come out with a conclusion that the float of the exchange rate is based on the interest rate spread and the change of nominal money supply of the two countries. The interest rate spread is already known. For the money supply from the data and analyze above we could know that China is still in a post-stage rapid growth and in the year 2013, China's money supply is the largest in the world. But US is still the No.1 in the world, although its growth isn't as fast as China.

At present, China's overall relatively stable upward trend in the market have more pricing power until a steady trend of CNY appreciation will not be reversed, it will not appear fluctuation interval significantly enlarged in 2014,

and according to the history analysis, the exchange rate would rise to a number between 6.0 to 6.1.