

# VAKIFBANK GLOBAL ECONOMY WEEKLY

Is there rebalancing in China?



T. Vakıflar Bankası T.A.O



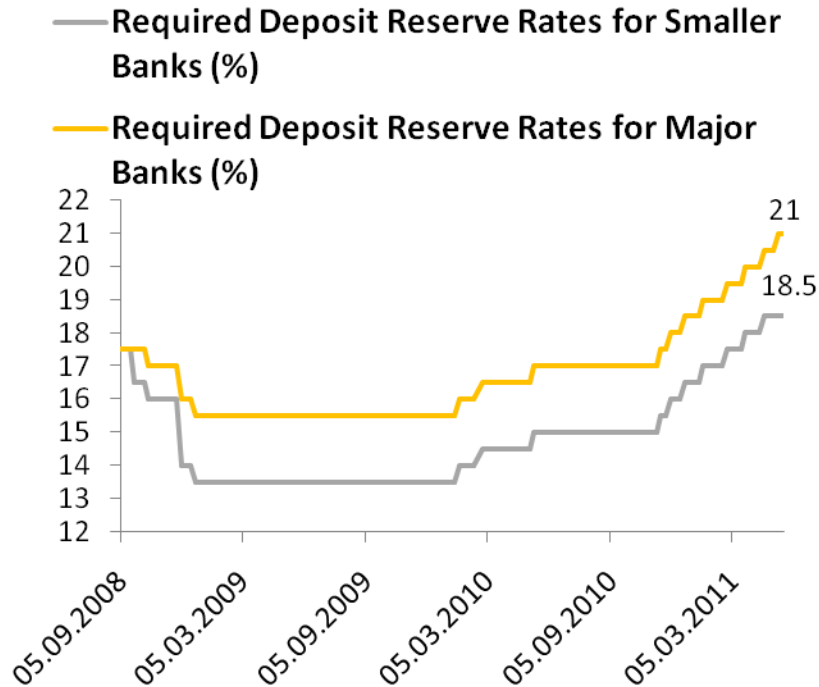
### Total Wage of Employed People in China (yoy, %)



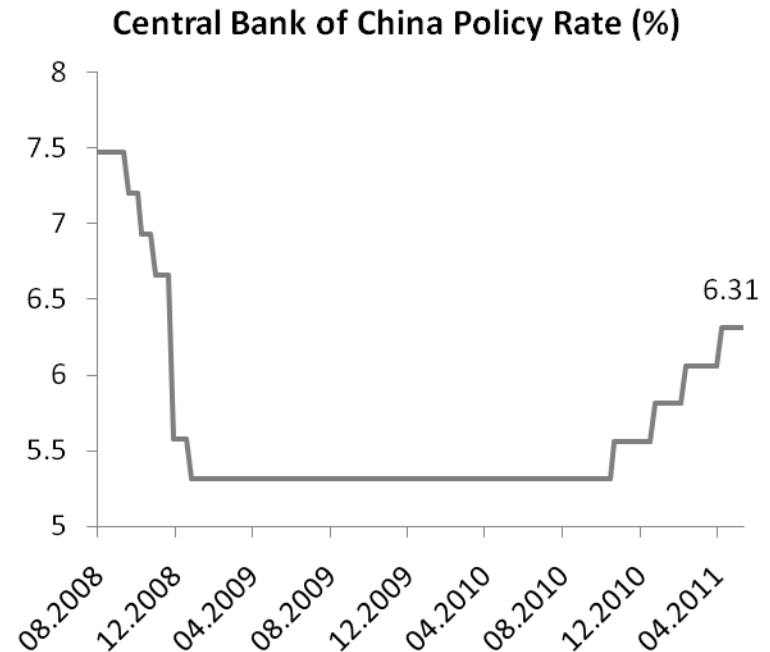
Source: Bloomberg

- Wages have increased in recent years and rose by 19% yearly in March.
- With the country getting richer, Chinese workers become reluctant to accept low wages.
- Moreover, China's population is getting older and this has a clear affect on wages.
- Against the increase in the population above the age of 65 since 1990, population under the age of 15 have decreased so far.
- Currently, people under the age of 15 is 18% of the total population. This ratio is far below the 1990 level of 28.5%.
- Decreasing young workers increased the wages because the age group which voluntarily works with low wages is the between 10-19 ages.

# Central Bank of China has tightened monetary policy because of high inflation and capital inflows...

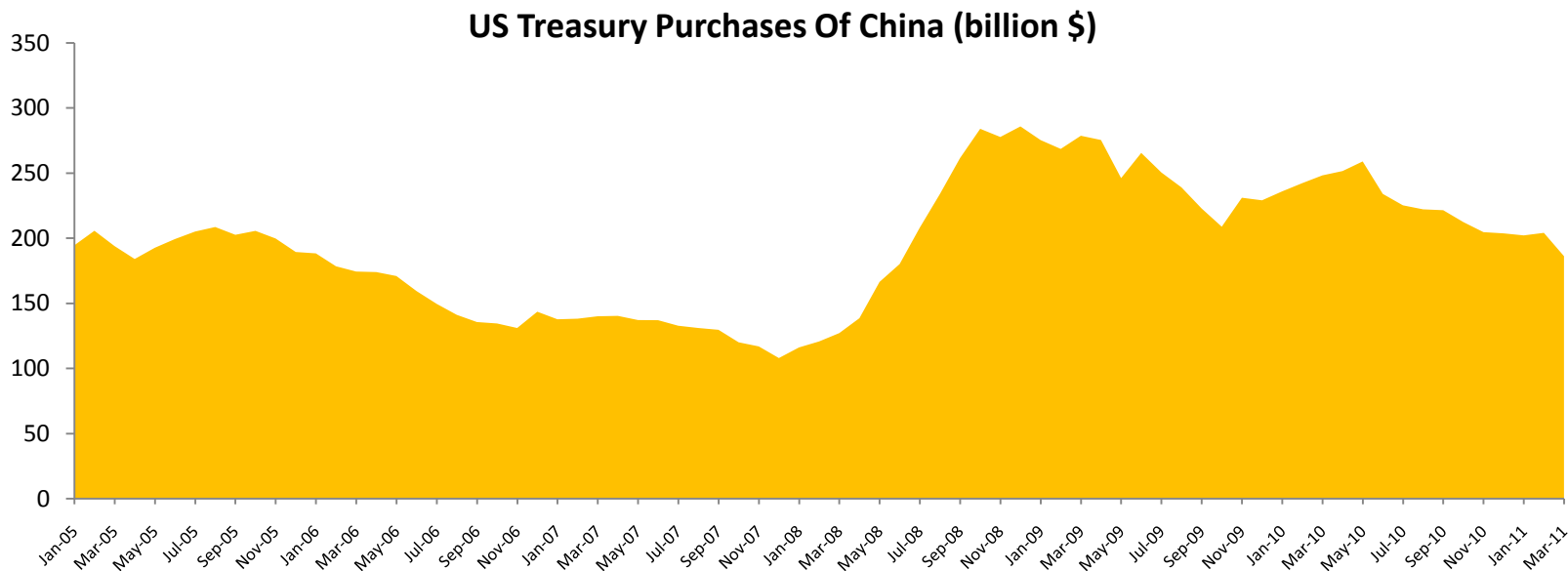


Source: Reuters






Source: Reuters

- When Central Bank of China has increased policy rate 100 bps since October 2010 together with the significant increase in the required reserve ratios.
- Central Bank raised the required reserve ratios four times since the beginning of 2011. Required reserve ratio for major banks increased to 21% with the 50 bps hike at the beginning of May 2011.

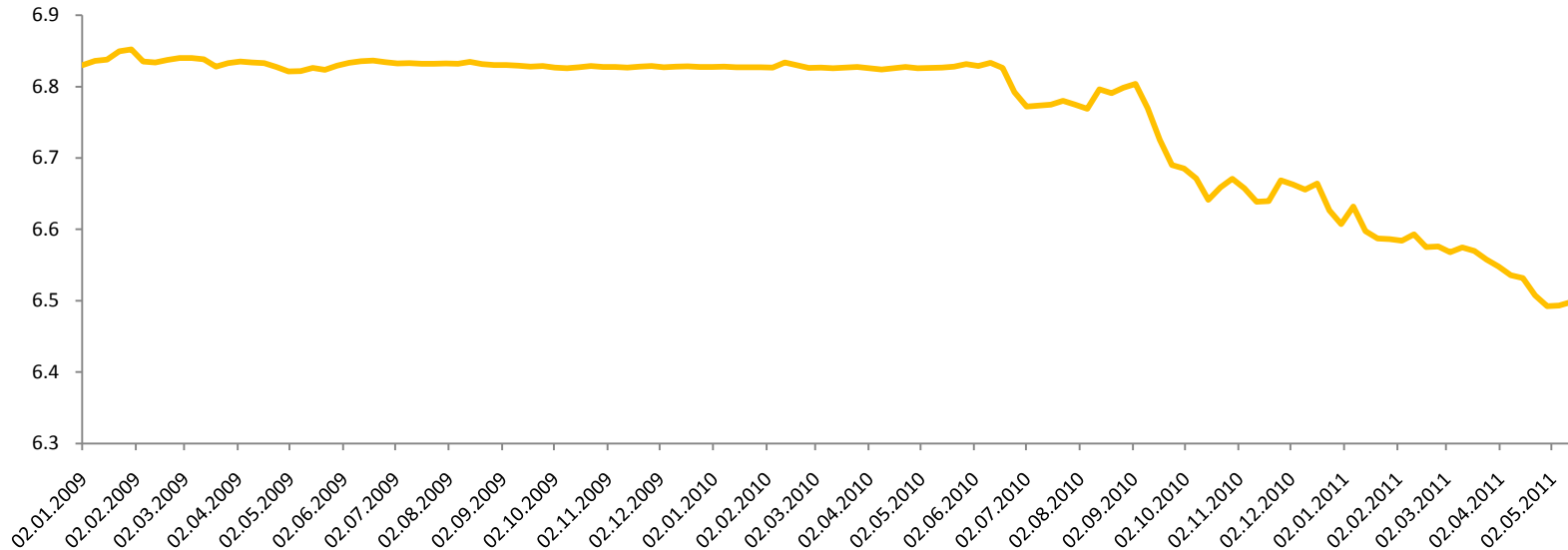


Source: US Treasury

-  US TIC data show that China's holdings of US Treasuries continued to fall on a yearly basis in March 2011.
-  Against the significant fall in the amount of US Treasuries in China's reserve portfolio, UK holdings rose by about \$30 billion.
-  According to TIC data China may appear to have reduced its holdings of US Treasuries in recent months, but latest releases suggest that China has been routing its reserve operations through London markets.

# RMB has appreciated roughly %4.5 against USD...

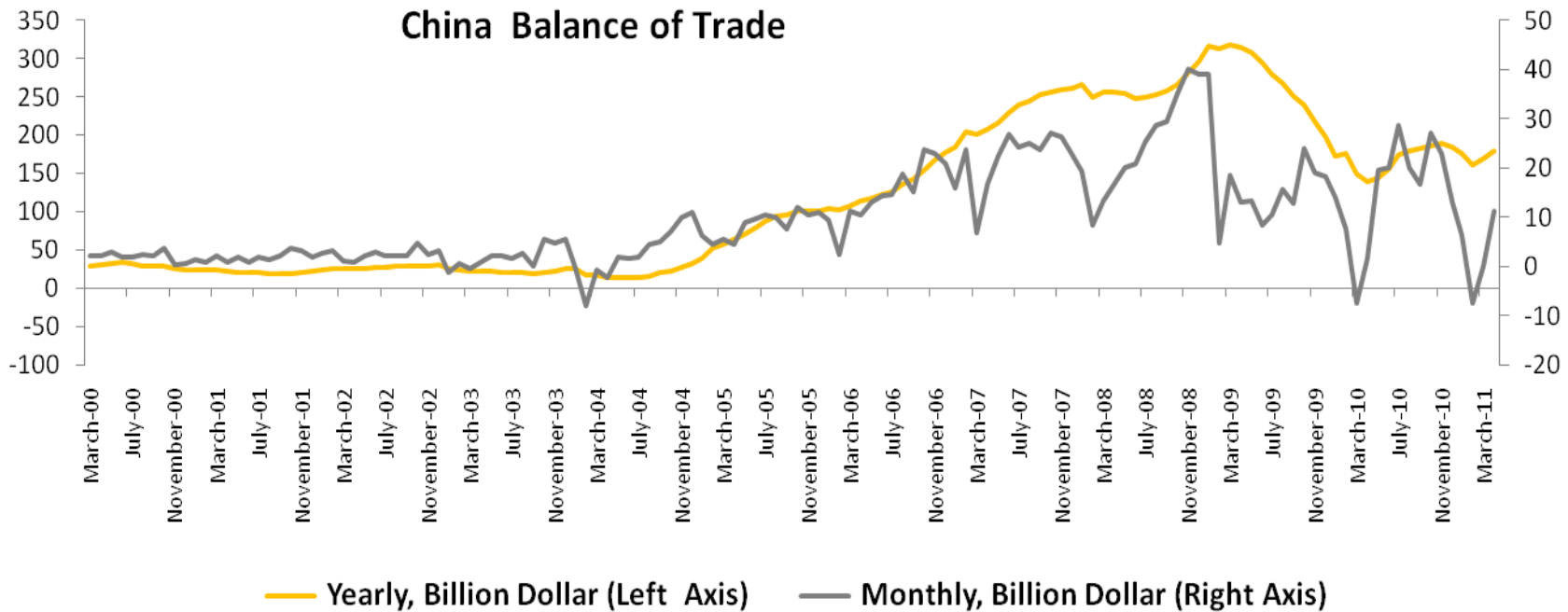
USD/Yuan



Source: Bloomberg

- Chinese Renminbi (RMB) has appreciated roughly %4.5 against USD since June 2010.
- Last week USD/RMB broke the 6.5 support level which was the record low level since the big devaluation in 1993.
- Depending on the growth and productivity differentiations real appreciation in RMB is more than its nominal value.
- Even though the RMB was undervalued by 25% before floating, recent 4.5% appreciation does not imply the end of the correction yet.

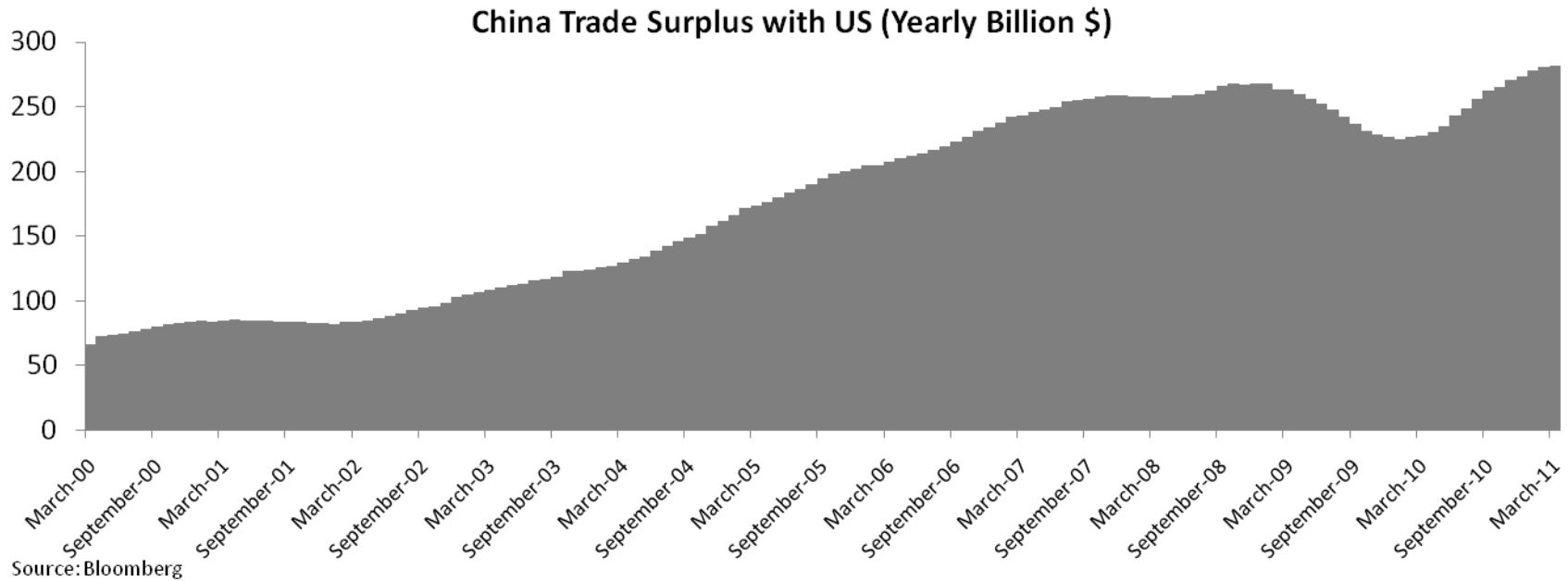
# China reported a trade deficit in Q1 2011...



Source: Bloomberg

- According to trade data released by Chinese customs, a trade deficit equivalent to \$0.71 billion appeared in the first quarter of 2011. That's the first quarterly trade deficit since 2004.
- In April 2011 trade deficit turned to a \$11.4 billion surplus which was well above consensus.
- China has already been running trade deficits with ASEAN countries, Japan, the Republic of Korea, as well as African and South American countries.

# China's trade surplus with US returns to pre-crisis levels...



- China's trade surplus with US has been normalizing since Q2 2010 and have recently reached its pre-crisis levels. Trend has become significant with the latest US foreign trade statistics.
- China's ongoing ability to produce low-cost goods that US markets demand, raises its trade surplus with US.
- Generally accepted view about China's competitive pricing is a result of two factors:
  - A lower standard of living, which allows lower wages for workers.
  - An exchange rate that is partially set to be always priced lower than the dollar.

Serkan Özcan

Chief Economist

+ 90 312 455 7087

[serkan.ozcan@vakifbank.com.tr](mailto:serkan.ozcan@vakifbank.com.tr)

Cem Erođlu

Senior Economist

+ 90 312 455 8480

[cem.eroglu@vakifbank.com.tr](mailto:cem.eroglu@vakifbank.com.tr)

Ümit Ünsal

Economist

+ 90 312 455 8418

[umit.unsal@vakifbank.com.tr](mailto:umit.unsal@vakifbank.com.tr)

Fatma Özlem Kanbur

Researcher

+ 90 312 455 8482

[fatmaozlem.kanbur@vakifbank.com.tr](mailto:fatmaozlem.kanbur@vakifbank.com.tr)

İbrahim Taha Durmaz

Researcher

+ 90 312 455 8493

[ibrahimtaha.durmaz@vakifbank.com.tr](mailto:ibrahimtaha.durmaz@vakifbank.com.tr)

T. Vakıflar Bankası T.A.O

Ataturk Bulvari No: 207

Kavaklıdere 06683 Ankara, Turkey

[www.vakifbank.com.tr](http://www.vakifbank.com.tr)

Vakıfbank Economic Research

[ekonomik.arastirmalar@vakifbank.com.tr](mailto:ekonomik.arastirmalar@vakifbank.com.tr)

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