



**Ken Taubes**  
Chief Investment Officer  
of Pioneer Investment Management

*The modest currency move shows that China is doing its part to help rebalance the global economy (the U.S. had done most of the heavy lifting to date, but China's role has been increasing), and reducing political risk, since the U.S. will be less likely to reduce free trade with China.*

The views expressed in this memorandum regarding market and economic trends are those of Pioneer Investments, and are subject to change at any time. These views should not be relied upon as investment advice, as securities recommendations, or as an indication of trading intent on behalf of any Pioneer investment product. There is no guarantee that market forecasts discussed will be realized. There is no guarantee that these trends will continue. No forecast is a guarantee.

We believe China's move to revert to a "crawling peg" relative to the U.S. dollar will result in revaluation of 2% to 3% per year, similar to their goal prior to the 2008 financial crisis. The move is not radical, but China, true to form, took this step earlier than the market had anticipated. The timing of the announcement was also politically astute, coming prior to the G-20 meeting. The modest currency move shows that China is doing its part to help rebalance the global economy (the U.S. had done most of the heavy lifting to date, but China's role has been increasing), and reducing political risk, since the U.S. will be less likely to reduce free trade with China. China seeks a gradual revaluation, as indicated by their daily +/- .5% band for the Yuan pegged to a basket of currencies.

China's primary focus for exchange rates, however, is real exchange rates and improving the export/consumption balance of its economy. Its recent program to increase wages among workers will have a much bigger impact than the revaluation. Both moves will help improve consumption; rising wages will not be inflationary due to China's rising productivity; the rising Yuan will further help quell domestic inflation. Given inflationary pressures from higher food and commodities prices, China probably would have moved earlier except for the political considerations.

### **Impact on the U.S.**

At the margin, the revaluation will be good for U.S. GDP growth. Imports will decline, and U.S. goods have become more attractive to Chinese consumers.

The reversion to a crawling peg at the margin will reduce the U.S. current account deficit with China; help improve the competitiveness of U.S. exports relative to China, and increase consumer savings. In addition to changing the currency peg, China reduced V.A.T. (value added tax) rebates, which should help reduce their exports. As prices increase for U.S. imports, consumers might opt to save rather than spend, thereby increasing the savings rate. This effect will be small, but increase over time. Likewise, the effect on capital markets will be small as well. Those savings are available to invest in treasuries, potentially offsetting any tendency for treasury yields to rise, as Chinese demand for treasuries declines. Longer term, however, treasury yields will continue to be driven by the outlook for economic growth, monetary and fiscal policy and the creditworthiness of the U.S.

The revaluation is generally viewed as benefiting risky assets, because the move addresses imbalances in the global economy, allowing for more sustainable global growth. This change is evolutionary, not radical, in nature. China is less likely to be a target of Congress or other trade/protectionist policies, which are good for global growth, and better global growth with less political risk should be beneficial toward risk-related assets.

The views expressed in this report are those of the investment professional and are subject to change at any time. These views should not be relied upon as investment advice, as securities recommendations, or as an indication of trading intent on behalf of any Pioneer investment product. There is no guarantee that these trends will continue. There is no guarantee that market forecasts discussed will be realized.

This material is not intended to replace the advice of a qualified attorney, tax adviser, investment professional or insurance agent. Before making any financial commitment regarding any issue discussed here, consult with the appropriate professional advisor.

Pioneer Investments  
60 State Street, Boston, Massachusetts 02109  
©2010 Pioneer Investments · [pioneerinvestments.com](http://pioneerinvestments.com)  
24100-01-0710

