

The US China Current Account, Capital Account and Trade Issue

I usually have something to say at the end of a busy week in the markets. This week I am speechless.

This week the US considered punitive action against China for its currency policy.

If you sell something to a shop and the shop owner tells you he will pay you in vouchers, you might accept this if you thought that they had the goods to make good the promise on the redemption of the vouchers. If the shop repeatedly paid for stuff with vouchers, while not having much stuff to back up those vouchers, you would call that either incompetence (if unintentional) or fraud (if intentional.) If the shop then told you that the vouchers they gave you were redeemable for only half of the goods they initially agreed to redeem the vouchers for, then considered branding you, the creditor, guilty of manipulating the value of said vouchers, you might be forgiven for thinking that you had been defrauded.

Lots of shops pay for stuff with vouchers, which these days aren't worth the paper they're printed on. Hold the vouchers, hand over the goods.

The US and China see the current account, capital account and foreign exchange issues between their two countries differently. The US sees a flow issue and argues for efficiency and an unwinding of the imbalances. The Chinese are just asking for their money back.