Chinese Inflation and Economic Growth Soar

By **Chuck Butler**|Dec 13, 2010, 12:37 PM|Author's Website

Well, the pause for the cause by US Treasury yields, lasted but one North American trading session on Friday… The 10-year yield has jumped higher once again this morning, all the way to 3.35%!!! WOW! Once again, I wonder aloud if the Treasury Bubble that I've cried wolf about for three years, is coming to fruition, or… Is this just another head fake, that will be corrected once the FOMC begins to really pull the trigger on their quantitative easing…

Speaking of quantitative easing (QE)… The Big Boss, Frank Trotter, sent me a note on Friday that plays well with this line of discussion on QE…

The latest round of quantitative easing (QE2) has left Cato Vice President for Academic Affairs James A. Dorn (who also edits *Cato Journal*) perplexed, as he wrote this week in *Investor's Business Daily*, "The attempt to reduce unemployment by artificially lowering longer-term interest rates on government debt, increasing the appetite for risk and moving inflation expectations closer to the Fed's target of 2% is being driven by the Fed's 'dual mandate'… Monetary stimulus doesn't create jobs or economic growth, but does increase government power and reduce individual freedom."

OK… I guess we know where the Vice President for Academic Affairs at the Cato Institute stands with regards to QE, eh? I wish I had said that, because I would go around the country telling people!

So… The currencies pretty much traded in a tight range on Friday, with the euro (EUR) hanging on to the 1.32 handle, but barely… The same goes for this morning… The precious metals of gold and silver got whacked again on Friday, after recovering on Thursday. Friday morning I told you that gold was nearing $1,400 an once again, but then the rug was pulled from under the shiny metal… But, there's a good sign this morning, with gold up $4, and silver up 50-cents.

Well… I'm going to gloat a bit this morning… No worries, I'll stop patting myself on the back before the bursitis kicks in! What am I blowing the horn about you ask? Well… Seems that China's economy not only did not collapse like many pundits and economists were telling you six months ago… Instead, China's economy is still kicking tail and taking names! Friday, we saw both inflation and economic growth in two reports that must have those same pundits and economists trying to find cover to hide under right now…

Here's the skinny… Chinese inflation (CPI) rose 5.1% in November, with food prices rising the most (sound familiar to here in the US? It should!). On the economic growth chart, both retail sales and industrial production beat estimates… Retail sales grew 18.7% in November, while industrial production soared 13.3%… Now… Where are all those guys? I told you, dear reader… These guys didn't know what was going on in China, and this proves it… I also told you that China was merely trying to slow down or moderate their economy, not shut it down, and again, these data prints prove that point too!

So… Here's what to expect next in China… Interest rates are going to have to be raised, and not a moment too soon! And… Reserve requirements will be raised again too! And once again, we'll hear the calls for a collapse of the Chinese economy… And… Those calls will hit the pressure points of commodities/risk assets/and the currencies that enjoy their trading relationship with China (read Australia)… But I wouldn't let this get in the way of your thoughts to own these currencies or commodities, because as the past shows us… They get beaten down when the so-called experts spout off about China's economy slowing down… And then recover and rally, as those naysayer thoughts fade…

In fact, it's already beginning, as I saw a blurb go over the screens this morning about the Aussie dollar (AUD) weakening as, "China signals tightening to curb inflation"…

The trade deficit for October here in the US narrowed to $38.7 billion, from a $44.6 billion in September… Let me also remind you that during October, the dollar was getting sold like funnel cakes at a State Fair, and it wasn't until the middle of November that Ireland's problems were brought to light by the media, and the dollar recovered… I know, I'll have some gear-head tell me that it takes months for a weak dollar to show up in a trade report… I don't buy it…not any longer!

So… You have to be careful what you wish for… If you want to see this trade deficit continue to narrow, the dollar has to remain under pressure… The deficit that should have offset the narrowing of the trade deficit, was the Monthly Budget Deficit, which posted a much larger than expected monthly figure of $150.4 billion for the month of November… What? Did we hold some parties or something? I mean the experts forecast the budget deficit to be $138 billion, but it was $150 billion?

Annualize that monthly total… You get an annual budget deficit of $1.8 trillion! OK… I know, it can't possibly end up that high! Could it? Well… Nothing would surprise me these days… Nothing!

Tomorrow, the FOMC will meet… And I would think that this meeting will be one of the least watched and have the least amount of pressure on Big Ben Bernanke in quite some time… Big Ben basically already told us that the Bernank could end up buying more than $600 billion in their quantitative easing… So, what else could the Bernank tell us tomorrow?

We'll also see retail sales for November, tomorrow… and I would have to say that not only is the Butler

Household Index (BHI) flashing strong signals for a strong number, but… Remember, gasoline sales are a part of retail sales… And what have I been telling you for over a month now? That oil prices were rising… And if oil prices are rising, gas prices are rising, and if gas prices are rising, retail sales are rising!

OK… Enough with the data for tomorrow… The data cupboard is empty today…

I see where the negotiations for a plan to deal with Eurozone debt, are quite chilly too! I was telling the boys and girls on the desk, on Friday, that I think that the Eurozone should go to a "Eurozone Bond" issued by the whole lot… It would decrease the interest rate that the periphery countries would have to pay, and raise the interest rate that Germany, Holland, Austria, and France would have to pay, but wouldn't that be better than having to come to the rescue of these periphery countries? And isn't the goal to keep the Eurozone intact, so that the 50% of Germany's exports that now cross Eurozone borders without delay, added costs, and problems, continue? I think so!

But… Germany is against the "Eurozone bond" idea… Hmm… I think they are not seeing this problem in the proper light… Anyway… The EU summit will conclude on Thursday this week, and we'll have to wait till then to see what direction the Eurozone Finance Ministers are going to take…

Personally, I think they are going to come out with a debt-crisis facility… But it won't be as large as the IMF would like it to be… And that's going to lead to the IMF offering to help… (The EU should run from the IMF as fast as they can… I'm reminded of President Reagan's famous line about the scariest words that can be heard are, "I'm from the Government, and I'm here to help"… Just plug in the IMF for the word Government…)

German Finance Minister Wolfgang Schaeuble issued a warning on Sunday to financial markets that it would be a mistake to bet against the euro. Addressing speculation that debt crises in Europe could bring down the currency, Schaeuble said European Union member states were committed to defending the euro.

"Whoever bets his money against the euro will not succeed," Schaeuble told the German Sunday newspaper *Bild am Sonntag* this weekend.

Hmmm… It's about time someone from the Eurozone stood up for the euro! I would really have liked for Schaeuble to mention intervention… Now, that would be pulling a page right out of Robert Rubin's strong dollar policy book… But… He didn't… But… Hopefully, he'll lather, rinse, and repeat these words over and over again, to get the markets to take notice, and call off the dogs on the euro.

The FOMC isn't the only central bank meeting this week… We have the central banks in Sweden, Norway and Switzerland meeting this week… Norway's Norges Bank, and the Swiss National Bank are not expected to raise rates… Sweden's Riksbank is on the rate hike fence and needs a nudge… I think the Riksbank will hike rates this week by 25 BPS (1/4%). I've said this for some time now, and the time is finally here… So come on Riksbank, don't fail me now! HA!

I believe that the Norges Bank is on hold for another rate hike until the second quarter of 2011… Hopefully the Norges Bank proves me wrong and hikes rates in the first quarter!

For today… I'm expecting a bit of a recovery for the currencies and precious metals, due to the empty data cupboard here in the US and the fact that China did NOT react to their dynamic duo reports of inflation and economic growth with a knee-jerk rate hike… Yes, a rate hike's coming, but it wasn't a knee-jerk one, that would have thrown cold water all over the risk markets this morning… Now, the markets get to get ready for the rate hike…

Then there was this… Ahhh… I see on the TV this morning that a recent poll showed that a large percentage of those surveyed were against Wall-Street Bonuses… Hmmm… All I'll say about that is, they wouldn't be against them if they were the recipients of the bonuses! Yes, we all do that…

To recap… The currencies traded in a tight range on Friday, with gold and silver getting sold throughout the day. China printed some very strong economic reports with soaring inflation, and retail sales along with industrial production also soaring. So much for those that called for a collapsing Chinese economy a year ago, eh? The FOMC meets this week…no drama, though… The Norges Bank, Swiss National Bank, and Riksbank all meet this week, with only the Riksbank having a rate hike possibility. And Treasury yields are on the rise again… Is this the popping of the Treasury bubble?

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