

Class 5: China in the World

Financial Markets, Spring 2021, SAIF

Jun Pan

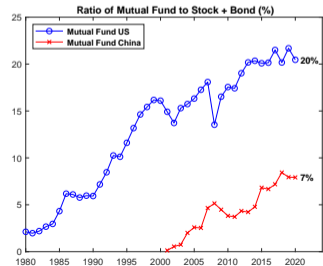
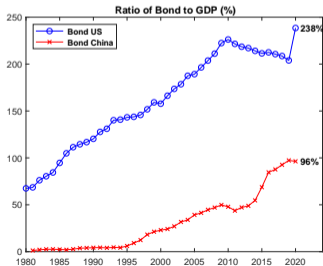
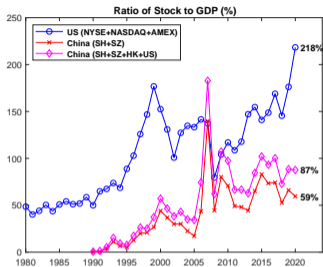
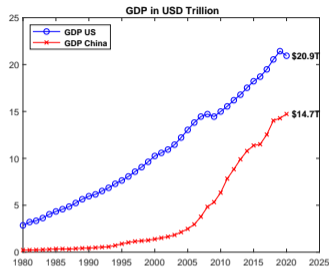
**Shanghai Advanced Institute of Finance (SAIF)
Shanghai Jiao Tong University**

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Outline

- China's Economy.
- China's Currency.
- China's Financial Markets.

China's GDP, Capital Markets, and Asset Management

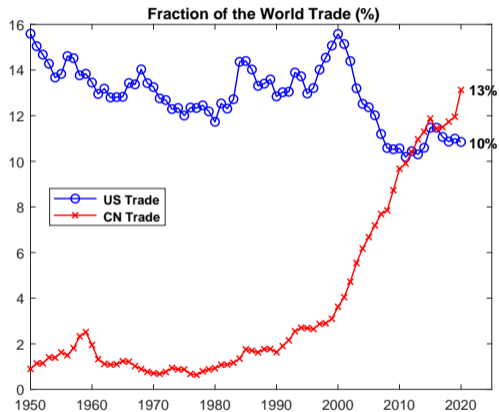
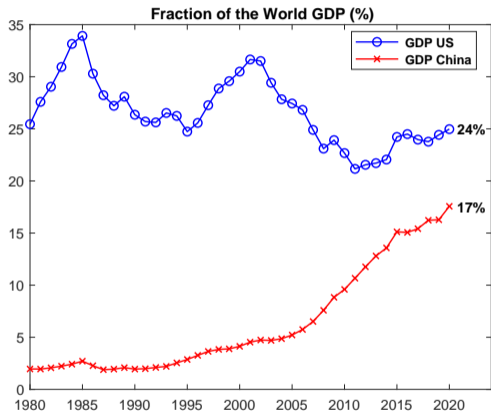


End-2019	US	CN
GDP	\$21.4T	\$14.3T
Equity	\$38T	\$13T
Bond	\$44T	\$14T
Mutual Fund	\$18T	\$2T*

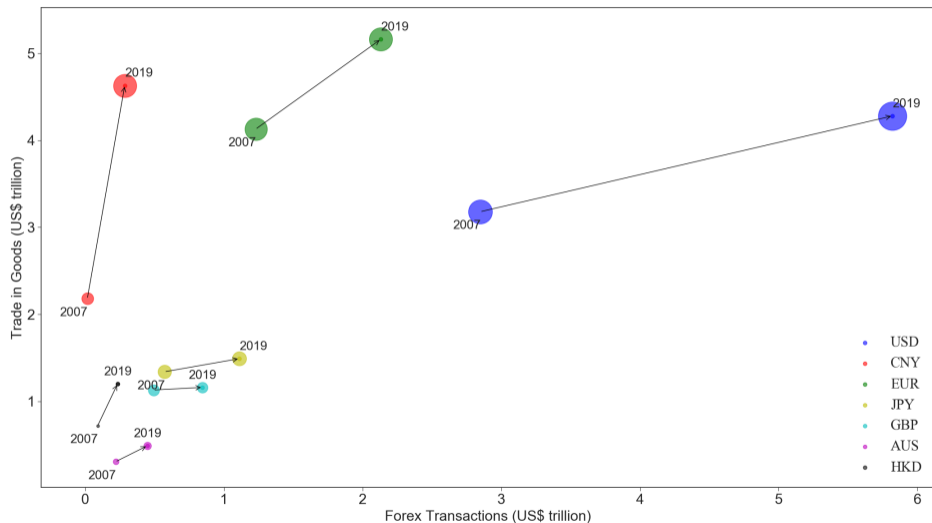
End-2020	US	CN
GDP	\$20.9T	\$14.7T
Equity	\$46T	\$13T
Bond	\$50T	\$14T
Mutual Fund	\$20T	\$2T*

* Includes money market funds

China's Economy to the World



Trade in Goods vs FX Transactions



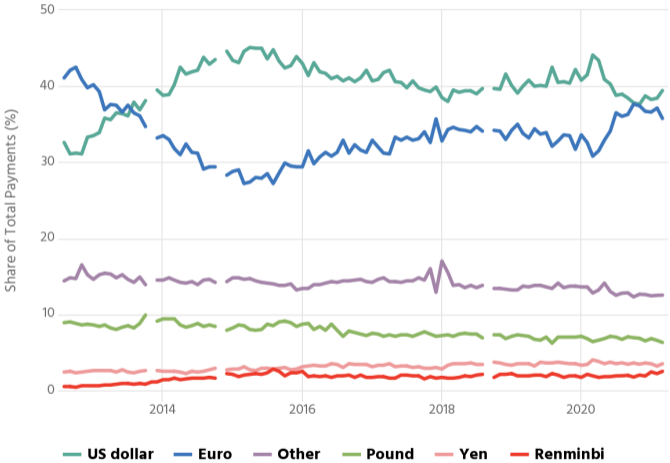
Currency Internationalization Comparison (2019)

Currency	Share of Forex Trading (%)	Share of Official Forex Reserves (%)	Share of Global Payments (%)
US dollar	88.3	61.7	40.1
Euro	32.3	20.3	34.2
Yen	16.8	5.4	3.3
Pound	12.8	4.6	7.1
Renminbi	4.3	1.9	2.2

Source: BIS; IMF; SWIFT

Note: Forex trading based on April 2019. Forex reserves based on Q1 2019. Global Payments based on January 2019.

International Payments by Currency

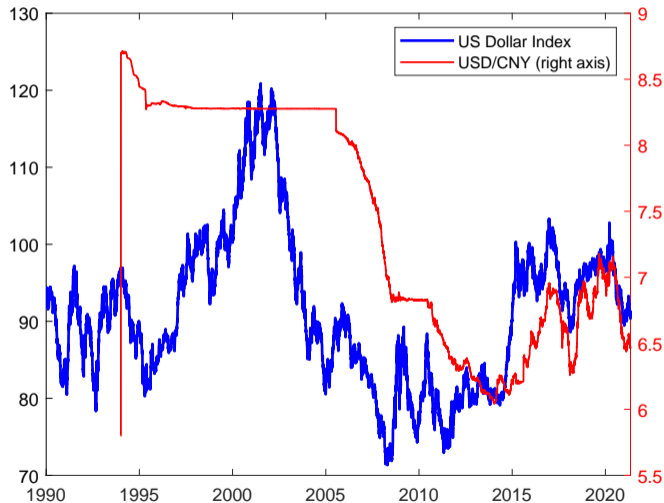


CSIS China Power Project | Source: SWIFT

USD's Exorbitant Privilege

- USD dominance:
 - ▶ The world sees USD as a safe store of value. Safety premium for dollar assets.
 - ▶ The best intermediary for transactions between less internationalized currencies.
 - ▶ USD: an official reserve currency, a funding currency, an invoicing currency for trade, and a vehicle currency in the foreign exchange market.
- Economic and geopolitical power garnered from the dollar dominance:
 - ▶ The US federal government:
 - ★ Unilateral sanctions on foreign countries.
 - ★ Expansionary fiscal policy.
 - ▶ The US federal reserve: unconventional and US-centric monetary policy with big ramifications to the rest of the world.
 - ▶ US corporations: lower borrowing costs and reduced exchange rate risk.
 - ▶ US inflation: more insulated from exchange rate shocks than other countries.

China's Currency Pricing



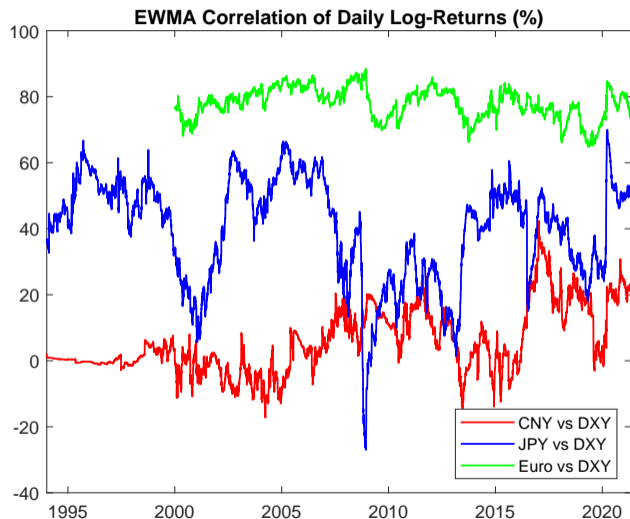
For decades

- Fixed/Tightly managed by PBoC.
- Minor role in global markets.

Since 2015:

- Allowed to trade more freely.
- Becoming a prime indicator of USD's strength, as Yen did in the 1990s.

The Dollar Index, DXY



- **DXY:** US Dollar Index.
- **Weights:**
 - ▶ EUR 57.6%
 - ▶ JPY 13.6%
 - ▶ GBP 11.9%
 - ▶ CAD 9.1%
 - ▶ SEK 4.2%
 - ▶ CHF 3.6%

China's Capital Markets to the World

