Re: Democrats destroying America ...

Source: http://unix.derkeiler.com/Newsgroups/comp.os.vms/2007−04/msg01522.html

- *From*: cook@xxxxxxxxxxxxxxxx (George Cook)
- *Date*: 24 Apr 07 19:53:36 EDT

In article <yd7DPfqLfg5a@wvnvms>, cook@xxxxxxxxxxxxxxxx (George Cook) writes:

> In article <53999$462e36fa$cef8887a$19055@xxxxxxxxxxxx>, JF Mezei <jfmezei.spamnot@xxxxxxxxxxxxx> writes:
>
>> George Cook wrote:
>>
>>> Because the renminbi is (currently 'is' to a more limited
>>> extent since
>>> 2005) traded based on the USD, one question which I would
>>> like to know
>>> the answer to is (given the size of both China's GDP (3/4 the
>>> size of
>>> the US GDP) and foreign trade) whether renminbi trading
>>> distorts the
>>> exchange rate of the USD against all other currencies.
>>
>> Yes it does. China's huge balance of payments surplus counters the USA's huge balance of payments deficit.
>>
>> When Wallmart buys from China, it doesn't really matter because the exchange rate is fixed.
>>
>> When Europe buys from China, it matters because Europe helps the USD by converting Euros to Yuans. Propping up the Yuan ends up propping up the USD. When two currencies are pegged to each other, they become freely interchangeable by traders.
>>
>> So when China exports it is as if the USA were exporting.
>>
>> From a world currency point of view, China and the USA are one economy.
>>
>> From a statistical point of view, the USA imports a hell of a lot from China and shows a huge deficit with it.
>>
>> If China were to unpeg its currency from USD, then both would then trade

> > on their own based on supply/demand. China's huge exports to the world would no longer help prop up the USD. And more importantly, when Wallmart buys from China, it would put downward pressure on USD against the Yuan.
> >
> > Those $1 stores in the USA would quickly have to adapt to perhaps $2 stores because the cost of chinese goods would rise significantly.
> >
> > A lower USD would however greatly help USA exports to China and the rest of the world. Already, Boeing has a significant advantage over Airbus because of the low USD and high EURO. Airbus has to lower its costs in order to match the prices set by Boeing otherwise airlines would find the Boeing products priced in USD far cheaper.
> >
> > HOWEVER, because commodities such as oil and gold are currently valued against the USD, either those prices will rise significantly as the USD drops, or they will decide to switch to a more stable currency such as the Euro.
>
> I'm not going to comment one way or the other given that (unlike Bill) I fully understand that predicting anything based on exchange rates is a lot like weather forecasting. There are simply too many variables with too many unknowables. You have mentioned only a small number of those variables.

In order to avoid being attacked, let me be clear what I meant. I meant I was not willing to even predict whether the overall impact on the US would be positive or negative over the following years. Just too much uncertainty. Too many unknowables.

> > And this is why the USA won't easily accept a full instant unpegging of the Yuan because in the end, it needs the help from china to maintain a stable USD.
>
> I would agree that the US doesn't want a sudden complete unpegging because that would likely cause worldwide economy disruptions. The resulting economic distortions could take years to settle down. Definitely not something anyone should want.

Here I don't believe it is unreasonable to predict that a major change impacting every economy on the planet will cause significant variations in and between a significant number of those economies which could continue for more than a year. Once again, however, I am not willing to predict what the overall impact (whether positive or negative) would be on the US. And yes, there are a few people (e.g. speculators) who might want to see it happen and who it would benefit.

George Cook
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