Will China Sell U.S. Bonds?

U.S. Treasury yields have been rising recently on varied concerns. One such worry is that China will sell some of its $835 billion stash of U.S. Treasury securities to help bolster its weakening currency, the yuan (CNH). As we share below, China's yuan and ten-year Treasury note yields have correlated well since 2021. Like U.S. Treasuries reaching yield levels from 15 years ago, the yuan is also approaching its lowest levels versus the U.S. dollar since 2007. Driving the weakness is poor economic growth. Unlike the economic surge following the U.S. reopening of the economy, China's, which occurred much later, has done little to revitalize growth. On Monday, China unexpectedly cut rates to spur activity, but it weakened the yuan.

Such presents China's conundrum. They can further stimulate the economy with lower rates and fiscal spending but risk further weakening the yuan. Importantly, a weaker yuan promotes capital outflow from China, which further weakens its currency. Therefore China must balance economic goals with capital concerns. China would need to sell U.S. Treasury securities to strengthen the yuan and address capital concerns. However, doing so would impair export activity. Further, they run the risk that higher U.S. yields, the result of their selling, would entice more capital outflows from China. They have difficult choices ahead that will affect the global assets markets.

What To Watch Today

Earnings

Time	Symbol	Company Name	Market Cap	Fiscal Quarter Ending	Consensus EPS* Forecast	# Of Ests	Last Year's Report Date	Last Year's EPS*
	DE	Deere & Company	$124,295,876,255	Jul/2023	$8.12	12	8/19/2022	$6.16
	PANW	Palo Alto Networks, Inc.	$65,443,756,691	Jul/2023	$0.54	14	8/22/2022	$0.15
	EL	Estee Lauder Companies, Inc. (The)	$60,095,425,014	Jun/2023	($0.04)	13	8/18/2022	$0.42
	TLK	PT Telekomunikasi Indonesia, Tbk	$24,002,775,082	Jun/2023		N/A	7/29/2022	$0.51
	EBR.B	Centrais Electricas Brasileiras S.A.- Eletrobras	$19,316,030,786	Jun/2023		1	N/A	$0.06
	EBR	Centrais Electricas Brasileiras S.A.- Eletrobras	$17,202,981,045	Jun/2023		1	N/A	$0.06
	VIPS	Vipshop Holdings Limited	$10,265,115,868	Jun/2023	$0.40	2	8/19/2022	$0.29
	XPEV	XPeng Inc.	$7,653,126,132	Jun/2023	($0.29)	1	8/23/2022	($0.47)
	AVAL	Grupo Aval Acciones y Valores S.A.	$3,062,908,373	Jun/2023	$0.09	1	8/12/2022	$0.15
	RLX	RLX Technology Inc.	$2,560,388,629	Jun/2023		1	N/A	$0.05
	RNW	ReNew Energy Global plc	$2,429,047,604	Jun/2023	$0.09	1	8/18/2022	N/A
	ALVO	Alvotech	$2,354,461,850	Jun/2023	($0.14)	1	N/A	N/A
	BKE	Buckle, Inc. (The)	$1,874,447,681	Jul/2023		1	N/A	$1.01
	MSGE	Madison Square Garden Entertainment Corp.	$1,675,971,751	Jun/2023	($0.63)	1	N/A	N/A

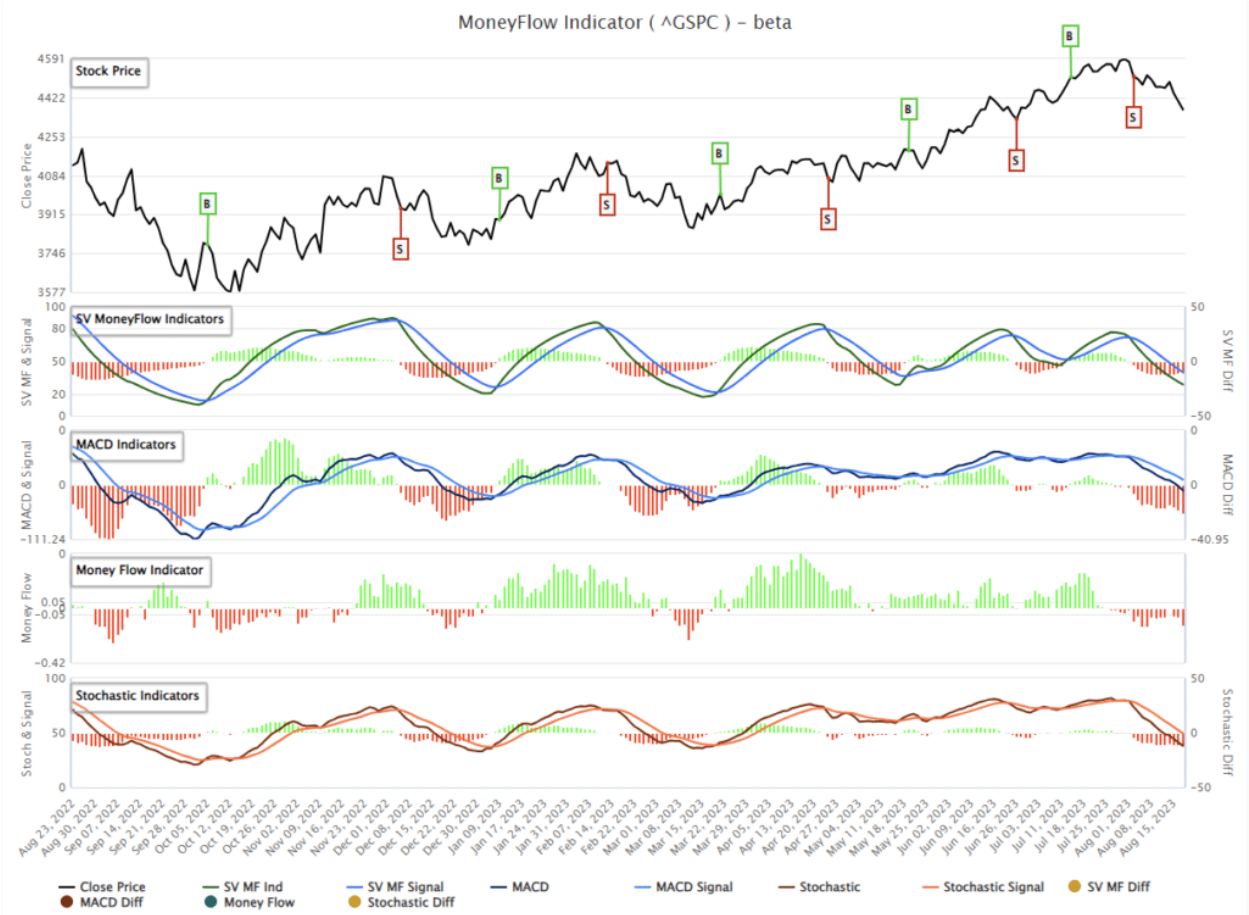
Economy

- *No notable economic releases*

Market Trading Update

The market selloff continued on Thursday, and while the market is oversold enough to bounce, the break of the 50-DMA has been decisive enough to suggest that the 100-DMA is the next logical support level. The MACD, as noted previously, is firmly entrenched in its *"sell signal"* but is reaching levels that are more normally bottoms during bullish cycle corrections. While I would expect a rally as soon as today, that rally will likely remain contained below the 50-DMA for now. It will be unsurprising for the market to work its way lower over the next month towards that lower level of support. Use rallies to rebalance risk as needed.

Furthermore, our MoneyFlow indicator is also reaching more oversold levels. If the MACD and the MoneyFlow indicator begin to turn positive, such will be the time to more aggressively add exposure for the next market trading cycle. As noted yesterday, the current correction remains very orderly and was needed to fuel a rally into year-end. How we close the trading week will be an important clue for next week.



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Was Tuesday's Retail Sales Flawed?

The answer is yes and no. We start with a Tweet from Steph Pomboy. She pointed out an inconsistency after Tuesday's much stronger-than-expected retail sales report. As we share, she notes that seasonal adjustments made to the data seem peculiar.

> *In round numbers, last July sales fell -$8b, which was reported as a -$6b decline after seasonal adjustment. That implies the seasonal assumption was for a -$2b decline. This year July sales fell -$3b before adj. Had last year's seasonal factor (of -$2b) been used, the headline would have been -$1b (as it was $1b weaker than a normal July). Instead, sales were reported UP +$5b. the seasonal factor is actually calculated as a %, not $...but you get the gist.*

Table 1. Estimated Monthly Sales for Retail and Food Services, by Kind of Business

(Total sales estimates are shown in millions of dollars and are based on data from the Advance Monthly Retail Trade Survey, Monthly Retail Trade Survey, and administrative records.)

NAICS[1] code	Kind of Business	Not Adjusted							Adjusted[2]				
		7 Month Total		2023			2022		2023			2022	
		2023	% Chg. 2022	Jul.[3] (a)	Jun. (p)	May (r)	Jul.	Jun.	Jul.[3] (a)	Jun. (p)	May (r)	Jul. (r)	Jun. (r)
	Retail & food services, total	**4,746,465**	**3.1**	**702,904**	**705,873**	**725,602**	**685,483**	**693,577**	**696,354**	**691,312**	**689,158**	**674,932**	**680,515**
	Total (excl. motor vehicle & parts)	3,814,033	3.1	566,505	565,426	582,544	557,906	561,127	562,809	557,383	556,182	550,859	554,293
	Total (excl. gasoline stations)	4,370,218	5.0	645,803	649,560	668,869	613,183	620,064	644,016	639,170	636,334	608,844	612,258
	Total (excl. motor vehicle & parts & gasoline stations)	3,437,786	5.4	509,404	509,113	525,811	485,606	487,614	510,471	505,241	503,358	484,771	486,036
	Retail	4,121,476	1.9	608,298	612,848	631,496	599,929	609,743	605,211	601,433	599,958	593,452	598,405
	GAFO[4]	(*)	(*)	(*)	127,141	130,154	126,879	126,292	(*)	128,369	128,244	127,693	128,741

Is Stephanie correct that this year's seasonal adjustment vastly differs from last year's? We do the math a little differently and agree and disagree with her.

Over the last five years, the Census Bureau applied a -1.96% seasonal adjustment to July's non-adjusted retail sales data. This year the adjustment was only -0.93%. Had the average seasonal adjustment been used, adjusted retail sales would have been 689,127, representing a 0.4% decline in retail sales and not the 1% gain. While such may seem strange, it's not. Seasonal adjustments shift based on when holidays fall within a month and other seasonal factors.

Over time, the adjusted and non-adjusted data tend to be identical as said adjustments even out. For example, for all of 2022, the seasonally adjusted number was only 0.1% above the non-seasonally adjusted data. Through July 2023, the seasonally adjusted data is running 1.6% greater than the actual data. While the July data adjustment may seem off per Steph's analysis, the total +1.6% adjustment thus far for 2023 is on par with the last ten years. Consequently, seasonal adjustments should weaken actual retail sales in the coming months. But, it does not appear the Census Bureau is deliberately making retail sales look better than they are.

DeDollarization- Argentina Reminds Us Why It's Not Likely

We have written a few times on de-dollarization and why we think the odds of the U.S. dollar losing its reserve currency anytime soon are zero. In April 2023, we wrote two articles on the topic- The Dollar's Death, Not So Fast, and Four Reasons The Dollar Is Here To Stay.

The summary of both articles: there is no alternative. In May, we provided an example in a Daily Commentary entitled Saudi Arabia Says Phooey to Dedollarization. To wit:

> *For a country that seems intent on getting rid of dollars, they are as attached to dollars as any country. Even more interesting, Saudi Arabia has the one export almost every country needs, oil. Of all countries, Saudi Arabia has the most leverage in dictating trade terms away from the dollar. Why are they talking loudly about de-dollarization but further tieing themselves to the dollar?s value? Simply, there is no viable large-scale alternative.*

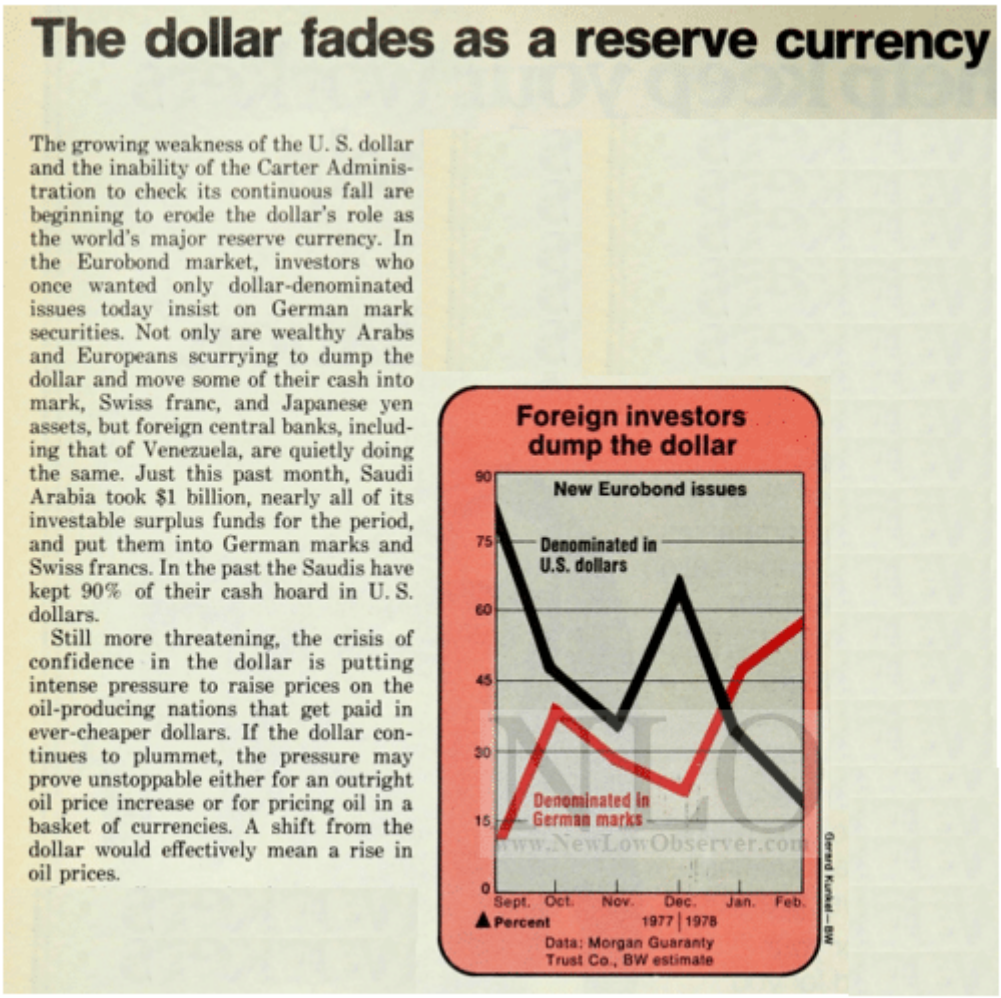
Argentina reminds us of what happens when a country tries to move away from the U.S. dollar. Argentina is struggling to pay its debts. Its currency is collapsing as a result. To potentially remedy the situation, they recently swapped their currency with China for the yuan. Per Reuters:

> *BUENOS AIRES, June 2 (Reuters) - Argentina has signed a deal to renew its currency swap line with China and double the amount it can access to near $10 billion, the South American country's central bank said in a statement on Friday, a boost to its dwindling*

foreign currency reserves.

As a result, Argentina now has a significant portion of its reserves in yuan. Unfortunately, the IMF and other debt holders will not accept yuan. Argentina can default on its dollar debts but will be largely shut out of dollar trade markets in the future and become heavily dependent on China. Odds, they are unwilling to deal with the economic ramifications and potential shortages of critical imports of ditching the dollar.

De-dollarization is not a new warning. To wit, consider the Business Week headline below from 1978.



The dollar fades as a reserve currency

The growing weakness of the U. S. dollar and the inability of the Carter Administration to check its continuous fall are beginning to erode the dollar's role as the world's major reserve currency. In the Eurobond market, investors who once wanted only dollar-denominated issues today insist on German mark securities. Not only are wealthy Arabs and Europeans scurrying to dump the dollar and move some of their cash into mark, Swiss franc, and Japanese yen assets, but foreign central banks, including that of Venezuela, are quietly doing the same. Just this past month, Saudi Arabia took $1 billion, nearly all of its investable surplus funds for the period, and put them into German marks and Swiss francs. In the past the Saudis have kept 90% of their cash hoard in U. S. dollars.

Still more threatening, the crisis of confidence in the dollar is putting intense pressure to raise prices on the oil-producing nations that get paid in ever-cheaper dollars. If the dollar continues to plummet, the pressure may prove unstoppable either for an outright oil price increase or for pricing oil in a basket of currencies. A shift from the dollar would effectively mean a rise in oil prices.

"The Dollar Fades as a Reserve Currency." *BusinessWeek*. March 20, 1978. p. 150.
@NewLowObserver

More on Argentina

Javier Milei, a staunch libertarian, is currently the front-running candidate to become Argentina's next president. One would think a libertarian would want to further separate Argentina from the dollar. Such is not the case. Per the New York Times:

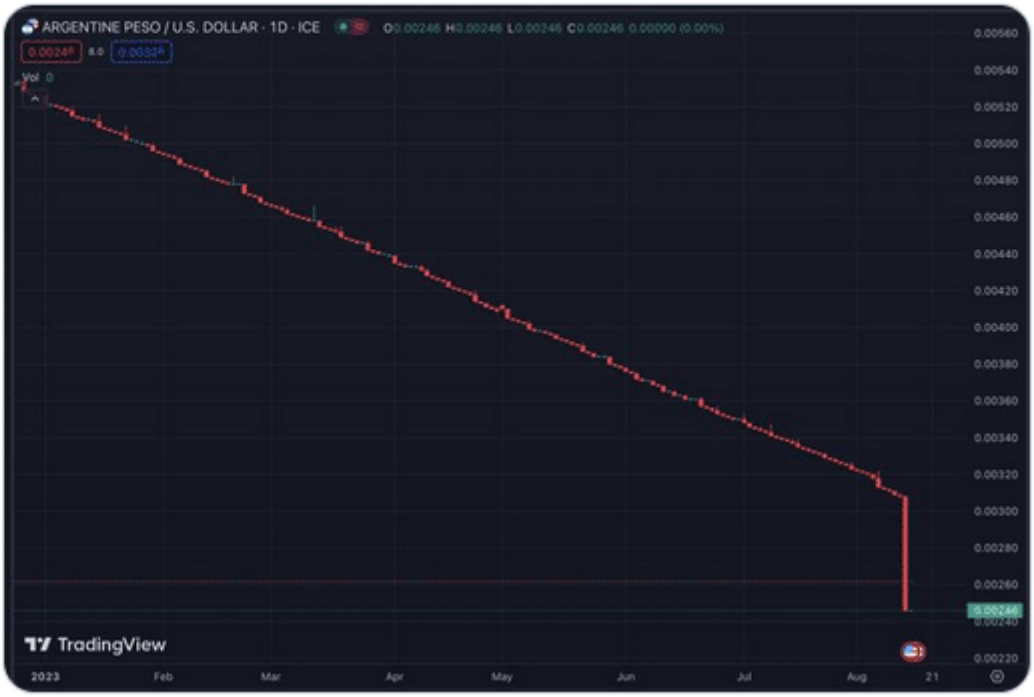
> *Javier Milei, who wants to abolish the central bank and* ***adopt the U.S. dollar as Argentina?s currency****, is now the front-runner in the fall general election.*

Milei touts a lot of non-traditional economic plans to resurrect Argentina's economy, but he aims to make the U.S. dollar Argentina's official currency. Milei understands there is no viable alternative!

Tweet of the Day

Keno Leon @_k3no · 15h

The **fx** chart for the Argentinian peso this year is something else: #fx #Argentina



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