

Friday, 14 January 2011

# Flash Notes

## China: Preview Of Hu's State Visit To US

China's President Hu Jintao will be conducting a state visit next week (18 to 21 Jan) to the US and meet with US Pres Obama, at the latter's invitation. This is reciprocal to Obama's state visit to China in Nov 2009. This visit is significant given the large number of outstanding major issues and often strained relations between the two, just as Sino-US relations enter its 40th year. Relations between the two were normalized when the then-US State Secretary Kissinger made a secret detour to China via Pakistan in early July 1971.

China's President Hu Jintao's visit to the US is scheduled to take place from Tue 18 Jan to Fri 21 Jan. A leaders' summit and state dinner is slated for 19 Jan. A joint statement is likely to be issued, as was the case after the Hu-Obama summit in China in Nov 2009. Given the high level of the meetings, a number of issues will be on the agenda. According to wire reports - and not surprisingly - these would include currency, international trade, regional security especially Korean peninsula and territorial disputes, rare earth exports, among others.

With respect to the issue of currency and trade imbalances, these remain a key thorn on the US side. US lawmakers continue to pressure China on the RMB and trade practices. For example, Sen. Charles Schumer said last week that he expected his legislation, designed to pressure China to increase the value of its currency, to pass with bipartisan support in the newly-elected Congress. The main sore point is that US trade deficit with China in 2010 has hit US\$226.7bn as of Oct, on par with the full year shortfall in 2009, and approaching the record US\$268bn deficit in 2008. However, it is unlikely China would respond with any concrete manner given the complexity of trade relations and the simple fact that imbalances cannot be solved quickly even with substantial changes in currency value.

We expect overall China's policy stance on currency is likely to remain unchanged, with low probability of a one-off revaluation or significant deviation from the 3-5% annual appreciation pace for the RMB against USD in the near term. In the run-up to next week's event, the USD/RMB is likely to see some downside pressure, which is a normal occurrence just ahead of important events. For now, we are keeping USD/RMB forecast of 6.35 for end-2011, or a 3.6% drop from 6.59 at end-2010. Note that the RMB has strengthened in recent sessions, ending at 6.6066/USD on Wed, from the new year's low of 6.6369 on Mon (10 Jan).

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