

Scenario 2: Dollar Deposed

Centre for Risk Studies

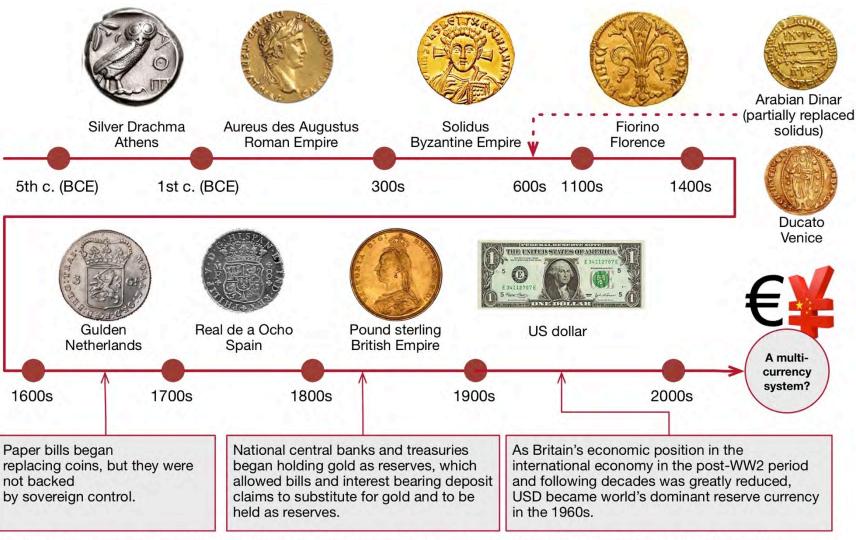


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Reserve currencies don't last forever!



Source: Reconstructed from World Bank, Global Development Horizon (2011); Schenk, C.R., The Decline of Sterling (2010)



Inclusion RMB to SDR (Nov 30th, 2015)

- The first emerging market currency to be added to the IMF's global currency basket.
- A symbolic recognition of China's importance to the world economy.
- A pat on the back from IMF encouraging China to continue opening up of capital accounts and financial reforms.

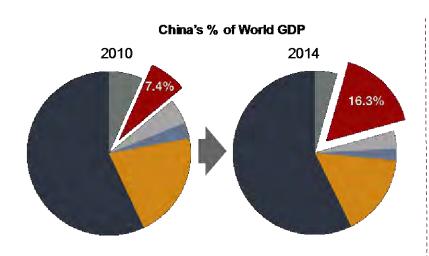


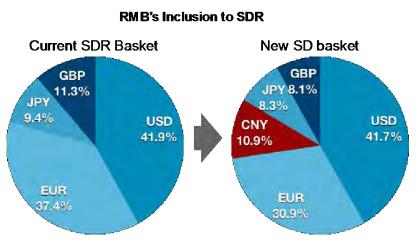
"Joining the SDR also means that the international community will have more expectations for China in many financial and economic aspects, so we also feel the burden on our shoulders is heavier."

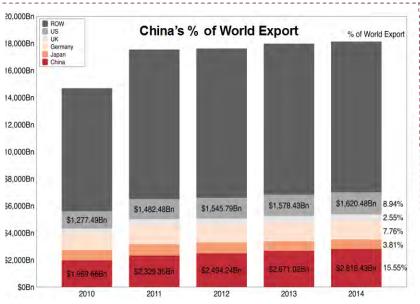
Yi Gang
Deputy Governor, PBoC
Bloomberg report on Dec. 3, 2015

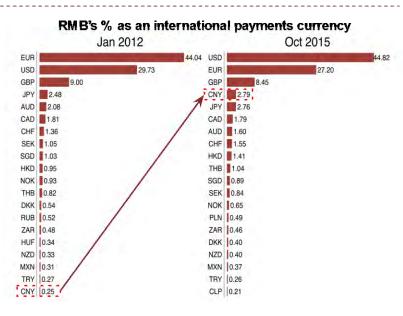


China's contribution to global economy





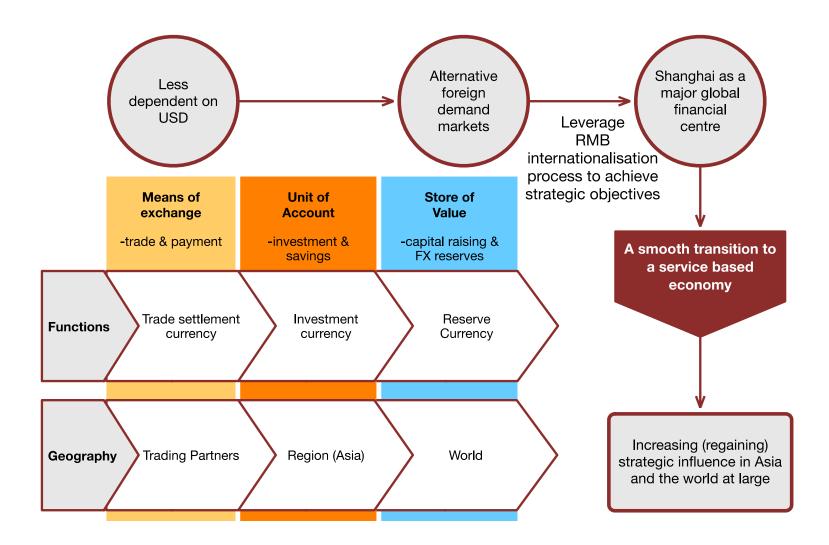




Source: IMF; IMF DOTS; SWIFT and CRS research

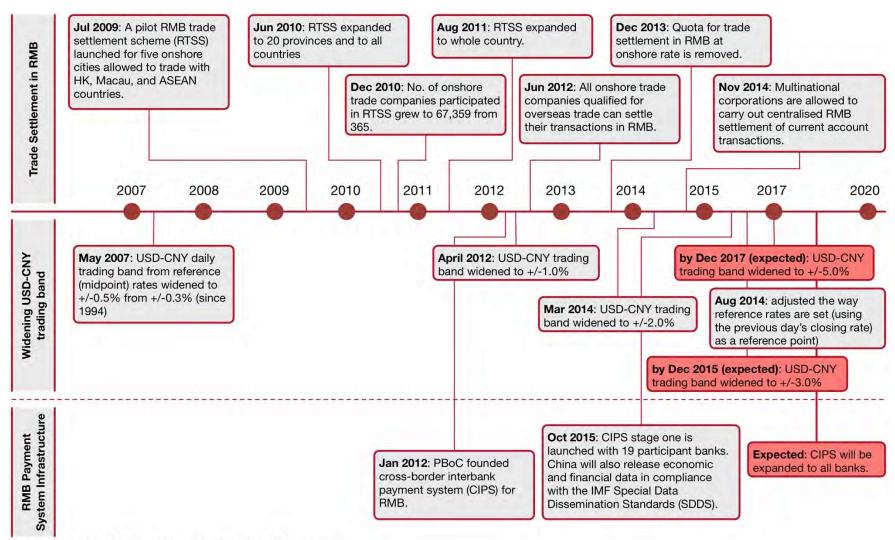


China's RMB internationalization strategy roadmap





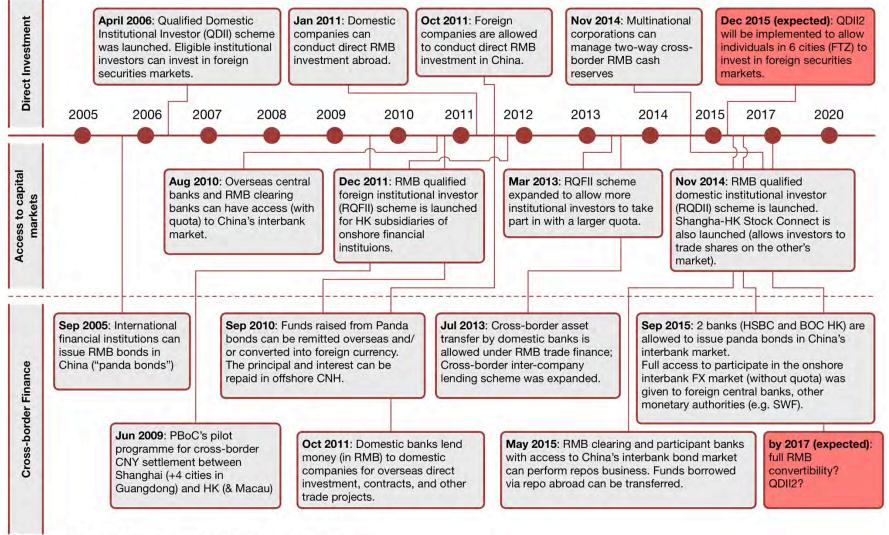
Implementation of RMB Internationalization (trade settlement)



Source: PBoC, SAFE, media reports, and CRS research



Implementation of RMB Internationalization (investment & finance)

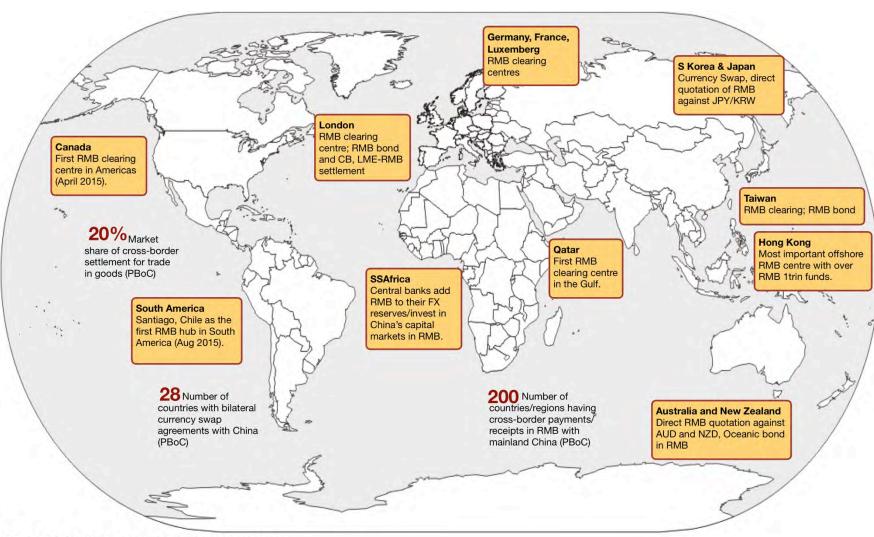


Source: PBoC, SAFE, media reports, and CRS research



Gradual, incremental and progressive changes

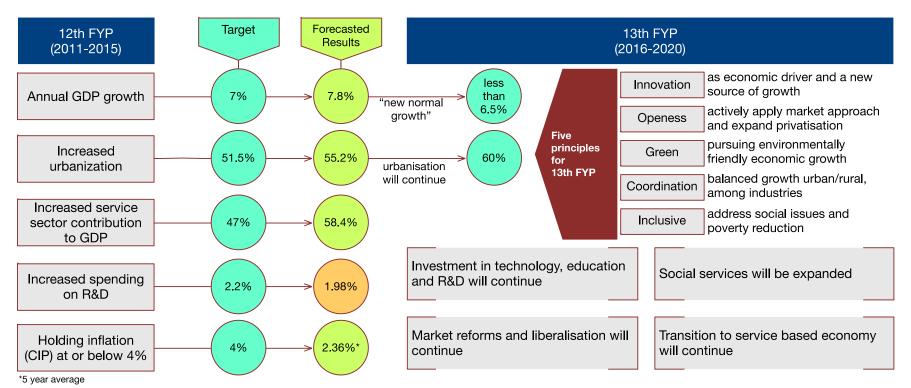
RMB's global expansion



Source: PBoC, BOC, media reports, and CRS research



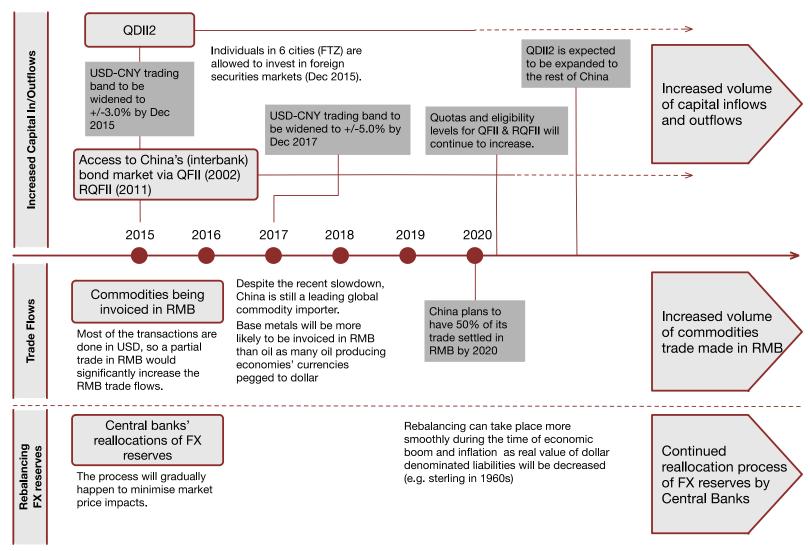
China's 12th & 13th 5 Year Plan (FYP)



Source: PBoC, BOC, BBVA, media reports, and CRS research



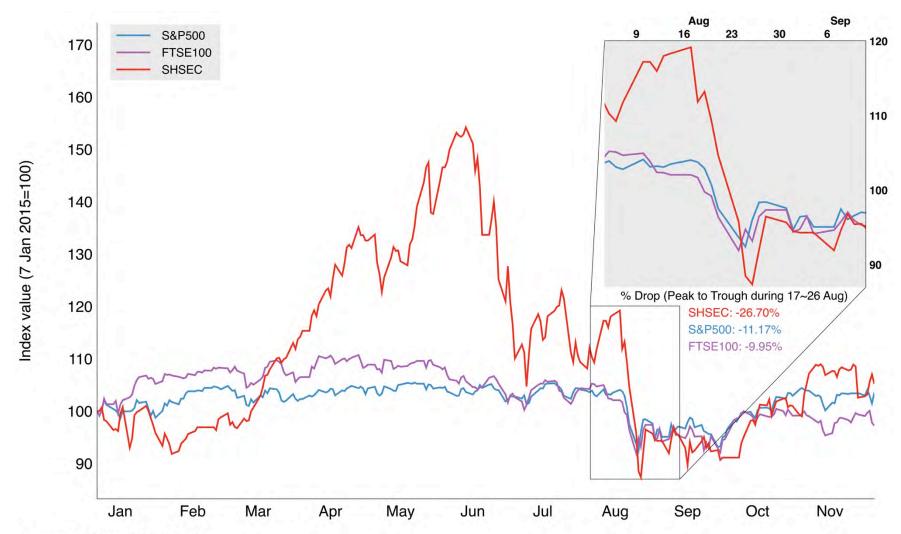
Key Events in the RMB internationalization process



Source: PBoC, BOC, BBVA, media reports, and CRS research



Events in China can have global implications



Source: Bloomberg, CRS research



Stress-test Scenario Summary

Phase 1 Increasing pressure to RMB

China's growth continues:

- Increased international trade
- FDI inflows increased
- Investor confidence in RMB trade build up



Massive development in technology sector and infrastructure in north and south:

- Funded by increasingly vibrant domestic bond market
- business continue to be booming



China becomes increasingly attractive to foreign investors

Phase 2

Trigger for dumping the dollar

China's domestic economy continue to accelerate:

 Meanwhile, rating agencies started rumbling about the poor economic performance of US



Some private rating agencies downgraded dollar due to weak fundamentals:

 Moody's downgraded US from AAA to AA



Then China begins selling off US bonds at a unprecedented level.

Phase 3

The rise and rise of RMB

US raised the interest rate, but the world loses faith in dollar:

- FDI activities in the USA was weaker than those in China
- USD weakened against most currencies (particularly Yuan)



China reduced its base rate as the value of RMB grows stronger in the global markets:

 Inward FDI in China grows strongly partly due to a capital flight from US



US falls in to a recession and the dollar exchange rate plummets relative to the RMB.



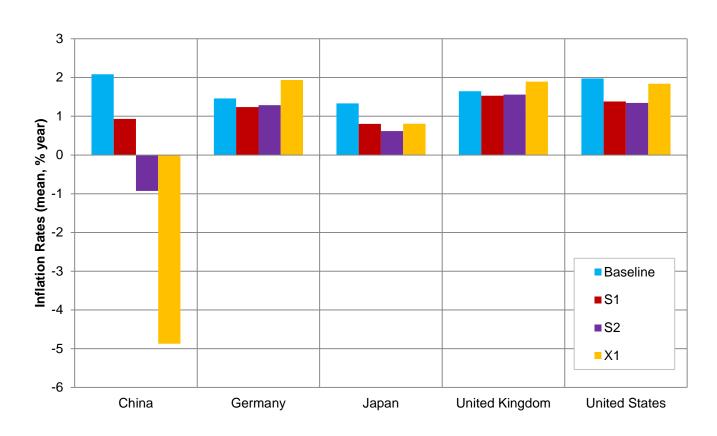
Input Variables to Scenario Global Economic Model

S/N	Input Variable	So	Max. Shock duration applied		
	Carrier and Committee 1	S1	S2	X1	
1	Bond Market Stress				
	United States	5%	8%	12%	4 Qtrs
2	Short-term Interest Rate				
	United States	4%	6%	8%	4 Qtrs
3	Currency Exchange Rate [^]				
	China	10%	25%	50%	5 yrs
	Other countries [#]	2%	5%	10%	5 yrs

♯Other currencies: The Eurozone, UK, Japan, Australia, Indonesia, South Africa, Argentina, Brazil, Malaysia, Thailand, Philippines, Singapore, S Korea, Taiwan, Hong Kong, Canada, Chile, Russia, and India



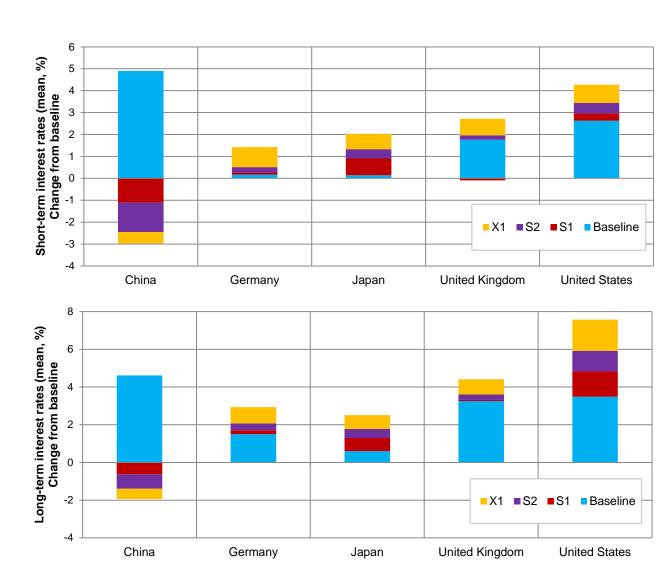
Average inflation rates (%) comparison





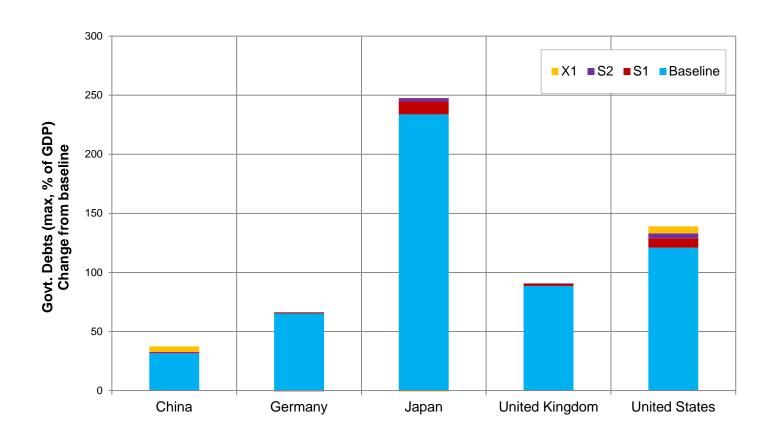
Average short-term interest rate increase

Average long-term interest rate increase





Maximum government debt increase





Location	Minimum Credit Rating						
Location	Baseline	S1	S2	X1			
China	AA	AA	AA	BBB			
Germany	AAA	AAA	AAA	AAA			
Japan	AA	BBB	BBB	BBB			
United Kingdom	AAA	AAA	AAA	AAA			
United States	AAA	AAA	AA	AA			



Global Macroeconomic Impacts (Dollar Deposed)

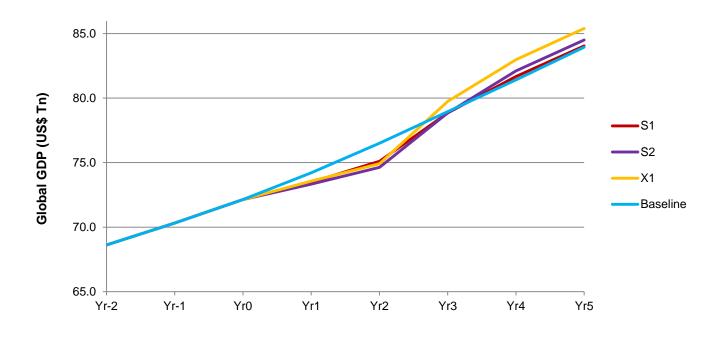
Global and Country-Specific Recession Severity

	Minim	um Annual GDI	Worst Recession	Recession		
Country/ Region	Baseline	S1	S2	X1	Duration	Variant(s)
China	5.3	3.5	0.5	-6.0	2 Qtrs	X1
Germany	1.0	0.9	0.8	0.3	N/A	
Japan	-1.2	-1.4	-1.4	-1.2	2 Qtrs	S2
United Kingdom	2.2	1.5	1.3	1.0	N/A	
United States	2.7	-2.5	-4.6	-5.7	4 Qtrs	S1, S2, X1
World	2.7	0.7	-0.3	-0.8	N/A	



Global Macroeconomic Impacts: GDP@Risk (Dollar Deposed)

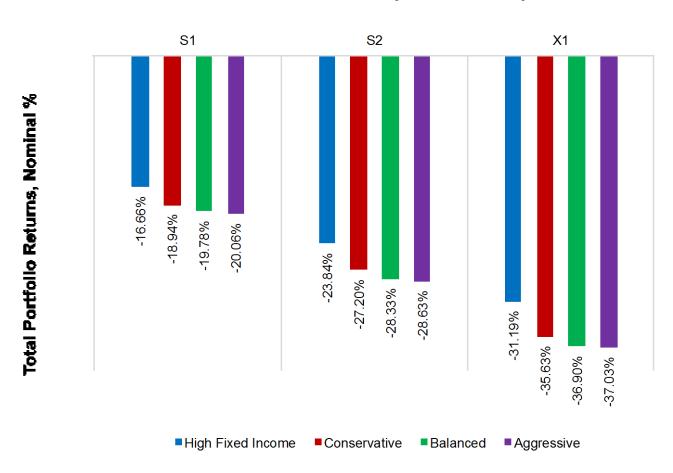
Lander Co.	5-Year GDP (US\$ Tn)	S1		S2		X1	
Location		GDP@Risk (US\$ Tn)	GDP@Risk (%)	GDP@Risk (US\$ Tn)	GDP@Risk (%)	GDP@Risk (US\$ Tn)	GDP@Risk (%)
China	48.4	-0.4	-0.8%	-0.9	-1.8%	-1.5	-3.1%
Germany	19.1	0.0	0.1%	0.0	-0.2%	-0.2	-1.1%
Japan	29.3	0.2	0.8%	0.2	0.6%	-0.2	-0.8%
UK	14.0	0.0	0.1%	0.0	0.0%	-0.1	-0.8%
US	88.9	1.5	1.7%	2.1	2.4%	2.3	2.6%
World	395.0	1.9	0.5%	1.6	0.4%	-1.6	-0.4%





Portfolio Performance Comparison

Dollar Deposed Scenario Max Downturn by Portfolio Structures (Nominal %)





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