

**From:** Arthur McKee <art@mckeeinvestments.com>  
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**To:** update@mckeeinvestments.com

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PLANNING

## Oil

Royal Dutch Shell, Europe's biggest oil company, entered into a joint venture with PetroChina to drill for oil and natural gas within China's borders. Shell said they expect to invest about \$6 billion in the project over the next few years. Shell told the press in China that "The geology could be as attractive as the U.S." This is Shell's 2nd gas exploration deal that involved China mainland drilling. Just about a month ago, BP also signed on to a joint venture to drill wells offshore of the China mainland. China is telling the world that they are open for business, the oil business, at the same time we have a moratorium on drilling.

## China and the US impact

China has \$2.5 Trillion in foreign-exchange reserves per their official numbers released by their government and has ruffled feathers in Japan by buying \$27 billion of Japanese Government Bonds (abbreviated as JGB) during 2010 thus far. That is just a drop in the hat compared to the overall balance of Chinese reserves, but is significant nonetheless. It shows that China IS in fact diversifying its holdings of US debt and in turn, US dollars. In any previous year, China has not bought more than \$1 Billion in JGBs. The buying binge has ruffled some feathers in Japan, with the finance minister Yoshihiko Noda pointing the finger at China for helping cause the value of the yen (Japan's currency) to strengthen. The Japanese yen has recently hit a 15 year high versus the US dollar and the Japanese government is worried that the strong yen will hurt Japan's exports because Japanese goods will become expensive in the global market.

Citizens of the US certainly know how Japan feels, being that we have been the main supplier of government bonds to China for the past 15 years and that has helped make our currency and goods very expensive. Weak currency makes for a good export economy. It is interesting to me that Tim Geithner incessantly nags China for not letting the Chinese yuan appreciate fast enough. You know, in relative terms, that is the same thing as asking for the US dollar to go down in value. In the US, calling for a weak dollar is politically not very attractive because it causes inflation in the cheapest (imported) goods first and many have called it a tax on the poor. However, calling for a strong Chinese currency is the same stance as calling for a weak dollar (read tax on the poor). These guys (Bernanke & Geithner) are not stupid....they know that the US dollar is too strong for our own good.....they're just politicians and don't want to get the boss (Obama) any bad press. When the dollar weakens, the stuff at Wal-mart will go up in price and Obama doesn't want to be seen as the President who brought rising prices to the masses, much less the President who ASKED for it. But that is exactly what they are doing, just in a way that the lower-class won't understand. It is dirty politics at its worst.

## India

The Reserve Bank of India (RBI) raised interest rates in India today, the fifth time this year. The RBI cited the continued, robust economic growth of almost 9% per year as rationale for raising the benchmark rates. In the US, we would be lucky to get 4% on a 10 year government bond. In India, the going rate for a 10 year bond is over 8%. Indian exports expanded by 22% from last year.

Tata Motors, (the Indian car maker who bought Jaguar and Land Rover) reported a 29% increase in unit sales. Tata, along with Jags and Land Rovers, sells the worlds least expensive car, the Nano that comes in at under \$3,000 US dollars. Tata is having trouble building Nano's at a fast enough pace. The robust Indian economy has caused Ford to recently announce a concerted effort to expand their presence in India. Ford developed a uniquely Indian model called the "Figo" which was designed and built exclusively in India. The demand for that car has been so strong that Ford has starting to export the car, out of India, to South Africa. Go figure, an American company that designs and builds a car in India and profitably exports to South Africa.

## European Union

Just today, the EU approved a free trade agreement with South Korea that will eliminate tariffs and duties on bilateral trade (multilateral really if you consider that the EU has 27 member countries). The purpose is to promote economic growth between the countries and is certainly a step in the right direction for both the EU and South Korea. This would have been done sooner but Italian Prime Minister Silvio Berlusconi was worried that South Korea's small car makers, Hyundai and Kia, would flood the market with inexpensive small cars that would take market share from Fiat. Italy had an 8% tariff on S. Korean cars. That will now go away. Interestingly, South Korea is still awaiting the same free trade agreement with the US. The US and S. Korea started "free trade" talks in 2007 and President Obama has had the US-S. Korea free trade agreement on his desk since he won office, but has yet to present it to Congress.

## The US Stock Market and FedEx

FedEx just recently reported profits that more than doubled from last year. Their stock went down over 4% today. FedEx CEO Fred Smith said that they have even reinstated some airplanes that were stored in the desert to active duty. Mr. Smith reported that the international business was the driver of volume and profit growth. FedEx's domestic trucking unit (FedEx Ground) is still losing money as the US shipments are still subdued.

More important than the actual drop in price of FedEx stock, the real information here is that "the market" is priced right now for more robust growth than we may actually see. In simple terms, the US market is probably a bit too optimistic in the way it is pricing stocks. FedEx is normally seen as a leading indicator because of the nature of its business. FedEx usually gets busy before anyone reports their earnings, so watching FedEx's activity can provide some insight into what is going on in the economy.

## What's Next?

What I am seeing is robust economic growth in many parts of the world, but not in the US. As we get good information from around the world, the global markets rise. Then, the US data comes into play, everyone gets scared, and the entire world markets go down for a while. It is like the good economies of the world (primarily in Asia) are a motor boat trying to power ahead but the anchor (US economy) is dragging bottom and occasionally snags some rocks. The boat continues on its course, but the ride is sometimes rough and even scary. If we could only cut the

anchor line.....

Further, the rest of the world is putting their efforts into opening trade (referenced above in both China and the EU) while we are trying to figure out how to spend more money we don't have and passing legislation that restricts trade. It is just a bad recipe. I am thankful that we have access to global investments.

Best Regards,

Arthur McKee, CFP®  
McKee Investment Planning  
141 E. Central Avenue  
Suite 340-B  
Winter Haven, FL 33880  
(863) 401-3937 Phone  
(352) 408-4710 Cellular  
(863) 401-3832 Fax  
[art@mckeeinvestments.com](mailto:art@mckeeinvestments.com)