

“Actually, Maybe Not So Excellent”

Everything under heaven is in chaos; the situation is excellent.

— **Mao Zedong (1893 – 1976)**

A quick email on China’s currency devaluation last night. The news itself is big enough, but it’s the Narrative that’s developing around the devaluation that has my risk antennae quivering like crazy. What do I mean? I mean that initial media efforts to portray the devaluation as a one-time “adjustment” that’s in-line with prior policy have been overrun by stories of “shock” and disjuncture. This is true even within Rupert Murdoch’s various media microphones, which tend strongly to toe the Beijing party line. Moreover, the devaluation is not being described in Western media as Chinese “stimulus”, which it surely is and would send markets higher if portrayed in this light, but as Chinese “currency competition” and as a sign that the growth problems in China are more severe than Western central bankers would like to believe. Or more precisely, would like to have YOU believe.

What’s the Truth with a capital T about Chinese growth, Fed intentions, and the future price of growth-sensitive assets like oil? I have no idea and neither does anyone else. Seriously. But what I do know is that the [Common Knowledge](#) about Chinese growth – what everyone thinks that everyone thinks about Chinese growth – is dramatically changed for the worse today, and it’s a change that will accelerate unless the Narrative shifts. That could happen. I still have nightmares about how the Narrative around the ECB’s OMT program shifted from “Draghi’s Blunder” to “Draghi’s Bold Move” within a single day in the pages of the Financial Times in the summer of 2012. But unless and until that Narrative shifts, the path forward for the Fed just got much more perilous. And that’s why the 10-year US Treasury is at 2.12% as I write this note. Unless and until that Narrative shifts, the path forward for oil and any other global growth-sensitive asset or security just got much more perilous. And that’s why oil is at \$43 as I write this note.

One last point, focused on what’s next for China. As with everything else here in the Golden Age of the Central Banker, my crystal ball is broken. But I think that I’ve got the right lens for viewing China and its political dynamics, and you can read about it in two Epsilon Theory notes: [“The Dude Abides: China in the Golden Age of the Central Banker”](#) and [“Rosebud”](#).

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