

## G20: Resolving Discrepancy!



## Microscope

China indicated last week that it was scrapping the yuan's two-year-old peg to the dollar. The move may have muted criticism from US President Barack Obama and other world leaders ahead of the G-20 talks, according to Bloomberg. China, the world's largest exporter, is aiming to raise consumption and reduce reliance on exports. Measures will include a structural tax cut of about 500 billion yuan (\$73.6 billion) this year and more subsidies to low-income families, according to Ministry of Finance of China. The official said the exchange rate reform was determined by China's economic fundamentals, not foreign pressure. China's pledge for a more flexible yuan will slow the nation's exports this year, adding to difficulties that include the European debt crisis and rising costs, a Chinese government official said. However, China's decision will help it control inflation and avoid asset price bubbles. Chinese leader Hu Jintao last week said China was seeking to strengthen the communication and coordination with the US. Obama said China and the US have been working to build a relationship of trust and mutual confidence in dealing with the economy and security issues. **E**

Group of 20 leaders are poised to endorse targets to tackle deficits while giving nations flexibility on when to start balancing their books, according to Bloomberg. The G-20, which accounts for about 85 percent of the global economy, replaced the G-8 last year as the world's foremost international policy-coordinating forum. The larger group means developed and emerging economies are trying to find common ground amid differences in prosperity that vary from the US's \$46,400 in GDP per capita to India's \$3,100. It was expected that leaders would agree on the need to cut deficits, while urging countries with the most precarious fiscal positions to accelerate their plans. As the economic recovery takes hold at different rates around the world and as domestic political pressures figure more prominently than the threat of a global meltdown, one can expect these declarations to become increasingly general.

In fact, the G-20 has to bridge a gap between leaders such as President Barack Obama who want to focus on growth and officials such as German Chancellor Angela Merkel who favor budget cuts. Merkel said in an interview with ZDF television that she lobbied her counterparts at the G-8 meeting to pursue "solid" fiscal policies and defended her own plan to reduce Germany's budget deficit by about 10 billion euros (\$12.4 billion). Bloomberg quoted Bank of America Merrill Lynch index data as saying that US Treasuries are having their best year since 1995, returning 5% through June 24 as investors seek alternatives to Europe, where Greece and Spain had their credit ratings downgraded. Whatsoever, the upcoming agreement might effectively endorse the austerity plan set out by the UK, which has the highest deficit in the group, while acknowledging US concerns

that countries shouldn't be required to start cutting public spending until their own recoveries are fully entrenched. The G-20 will call also on countries with current account surpluses, such as Germany and China, to increase sustainable economic growth, according to Bloomberg. According to Bloomberg, US Treasury Secretary Timothy Geithner urged G-20 leaders to focus on growth, as the world economy was still emerging from the fires of the crisis. We see there are long-term deficits that have to be dealt with, while restrictive austerity measures will hurt economic recovery. So the feasible policy should rely on monetary measures. Last week, Federal Reserve officials retained a pledge to keep the benchmark interest rate at a record low for an extended period and signaled that Europe's debt crisis may harm American growth. **E**

### MARKET BRIEFING

YTD % (local curr)

<b>US DJ</b>	10,143 (-2.7%)
<b>Nasdaq</b>	2,223 (-2.0%)
<b>Euro Stoxx 50</b>	2,629 (-11.4%)
<b>HSI</b>	20,690 (-5.4%)
<b>Japan NK225</b>	9,737 (-7.7%)
<b>China Shanghai Composite</b>	2,552 (-22.1%)
<b>Singapore</b>	2,851 (-1.6%)
<b>India BSE30</b>	17,574 (0.6%)
<b>Brazil BOVESPA</b>	64,823 (-5.5%)
<b>Aus All Ord</b>	4,439 (-9.1%)
<b>US-10yr Bond</b>	Yield 3.11%

As at 25/06/10

## Insight: "Financial Freedom"

To many, financial freedom means being free of debt, or just not having to work for a living. They dream of stepping off the treadmill of going to work everyday to pay the bills. Some may want to escape the stresses of the job itself, unpleasant working conditions, boredom, and so on. Others may just value more time to be with their families and pursue their own interests. For most people, it's some combination of those. That is to say, financial freedom may be defined broadly as reaching the point where you no longer have to trade your time for money in order to provide for what you want in life. Some people want to continue to

work, even after they've reached a state of financial freedom. They may already have a job they find personally rewarding, or they may be able to switch to another job which they love. If they're financially free, the income they receive from a job doesn't matter as much. Financial freedom, for them, means they don't have to trade their time for money, but they may choose to do so. To reach financial freedom, you will have to decide on your own means of getting there. You may find you can reach that point on an income, most likely from your own business, from investment income, or from a combination. If you take the investment income route, be sure to build something that will continue to provide income, even if you don't trade your time for it. Otherwise, you won't have reached that level as we have defined it here. **E**

## Financial "In & Out"

**IN:** Gold price will continue its bull run amid the pessimism that global economic growth is too weak to boost risky asset investment and sustainable low rate reduces opportunity cost for holding gold.

**OUT:** USD will face profit-taking pressure in recent bull run due to concerns over the slow economic growth in the coming year. **E**



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Wealth Management Advisory  
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Call 2268 6308  
Email: [insider@ibccapital.com](mailto:insider@ibccapital.com)

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