

EMERSON LETTER™

May 23, 2019

Will China Call Trump's Bluff?

Expect a long and protracted war between China and the USA on trade, intellectual property rights and geo-political posturing. It is our view that China will challenge this administration, and will not back down from its current position on trade and other issues. The \$64,000 question is what will China decide to do with its \$3 trillion in foreign exchange reserves? In the past 15 years, China has directed some of its foreign currency reserves away from the USD by increasing five-fold its holdings of gold from 10 tons to 60 tons, and has built and financed infrastructure projects and extended direct loans to Latin America, Africa and other areas of interest. China, with its large pile of reserves, its importance to the global supply chain, and its ability to restructure-if necessary, internal debt, is in a unique position to challenge the US\$ reserve currency status. We do not believe that China will succumb to US demands and lose face, but rather, will dig in its heels with the strategy that global financial chaos will result in the loss of the 2020 election for Trump.

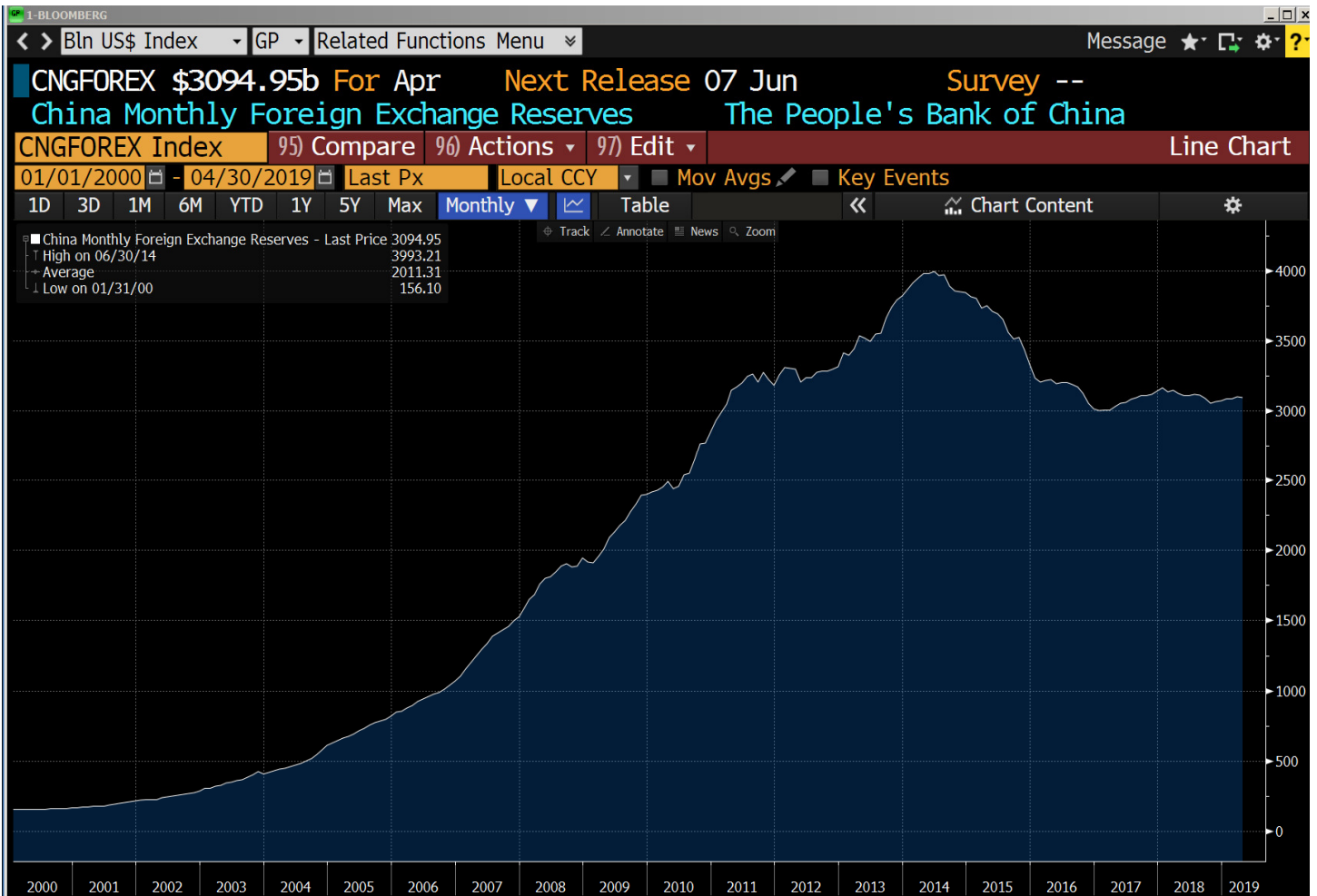
On rare occasions, global financial markets experience both a strong USD\$ and higher Gold prices as investors seek safe havens. It appears as though we are at the door step of this trend once again.

In the following pages you will find various charts highlighting China's ability to withstand a long and protracted trade war with the United States.

Respectfully,

Emerson Letter Editor

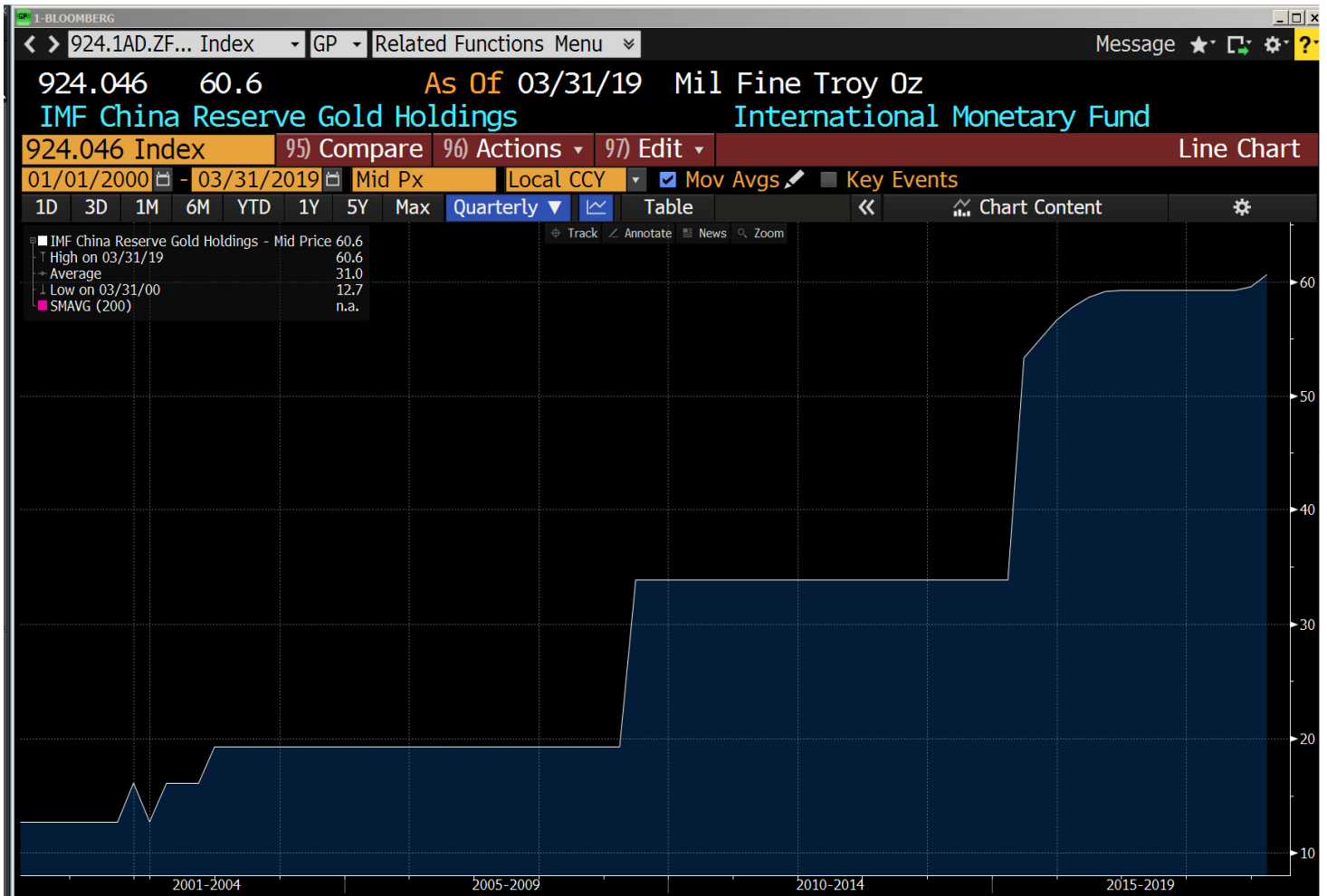
China Foreign Exchange Reserves at \$3 trillion provide a lot of firepower to confront a long and protracted trade war:



Source: Bloomberg

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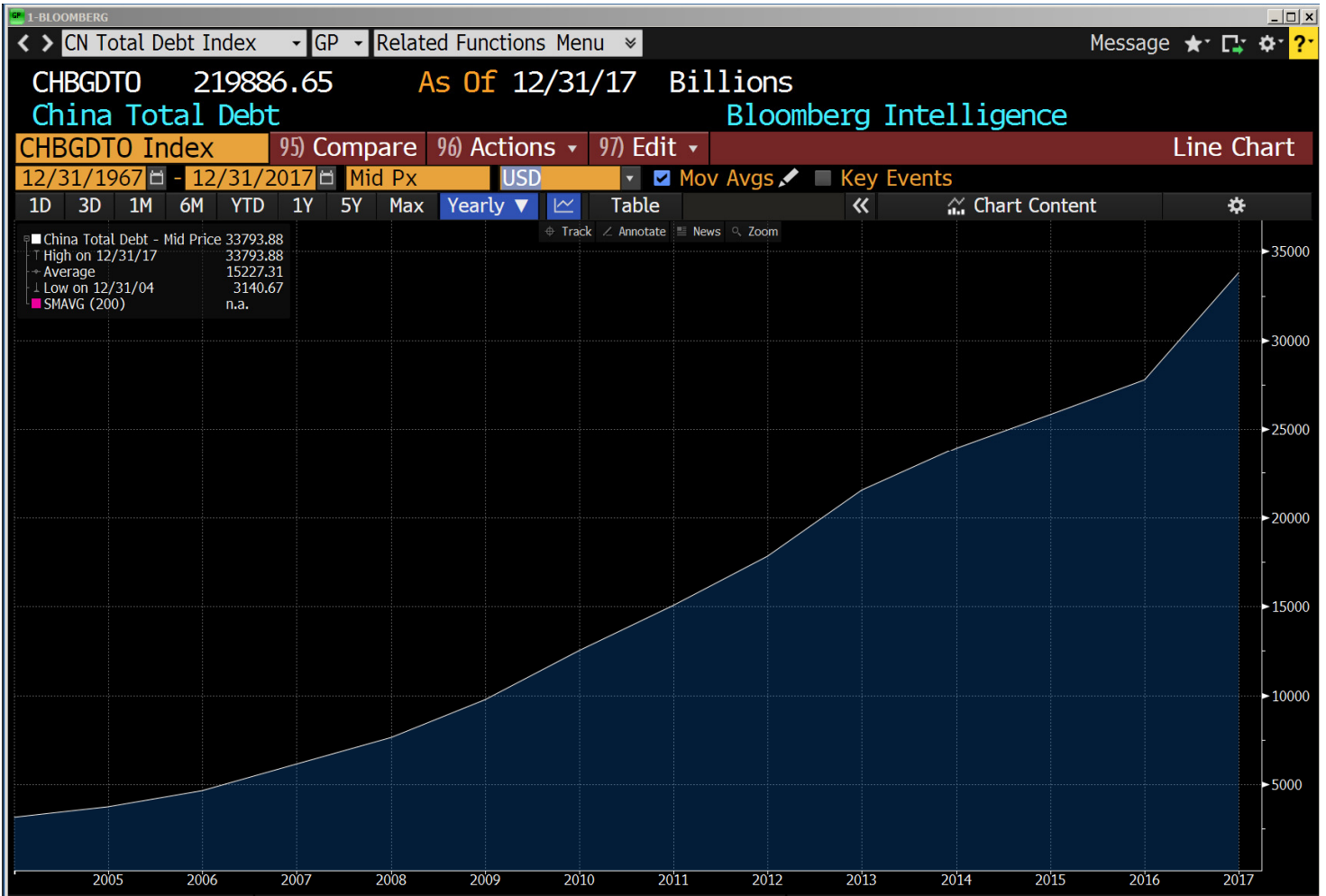
Official China Gold Reserves have increased five-fold in the past 15 years, although more than likely this number is considerably higher:



Source: Bloomberg

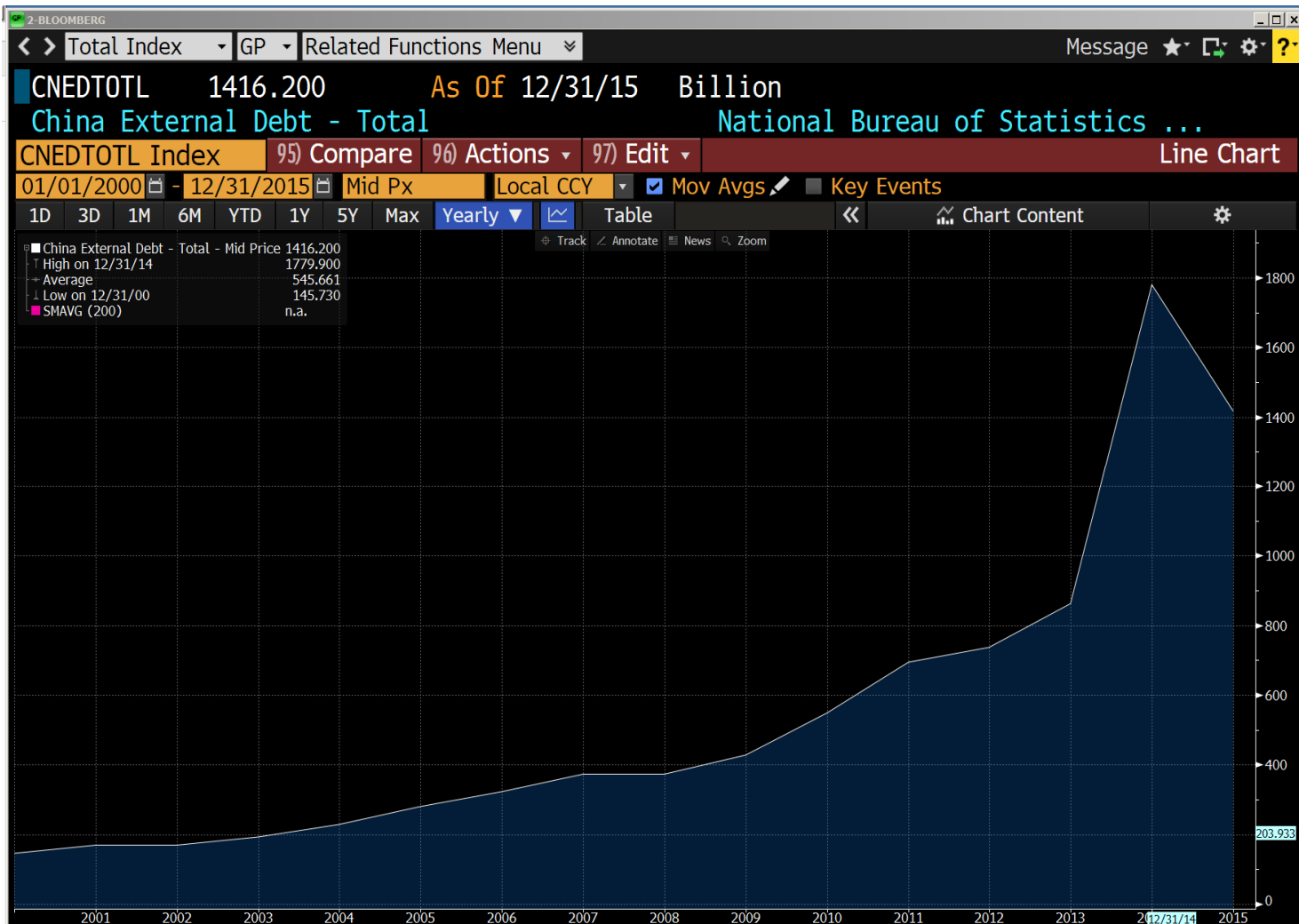
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Total China Debt has more than tripled in the past 10 years, but most of this growth in total debt is denominated in local currency, and held by domestic institutions, individuals and corporations. These holders will do what they are told to do by the central government:



Source: Bloomberg

Although total China external debt is \$1.4 trillion, this still represent only 12.8% of total external debt to GDP. As a comparison, Mexico's total external debt of \$422 billion represents 40.7% of total external debt to GDP:



Source: Bloomberg, World Bank 2018 Int'l. Debt Statistics

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