

Dragons As Guardians Of Wealth

by [Steve Brown](#)

The next Hobbit movie is out and this one concerns the dragon Smaug who hoards vast quantities of gold in a big spooky castle. There is a long history in stories of dragons as the fearsome guardians of wealth. The first recorded versions of this relationship are found in Greek mythology, continuing through the tales of Beowulf and in Biblical stories. Medieval paintings also have plenty of dragons, generally involved in mortal combat with saints. Dragons are universally portrayed as fearsome and loathsome and the personification of evil - except in China, where dragons are symbols of good luck and nobility. Like so many things, it all depends on where you grew up.

Speaking of China, there has been lots of news about the country recently. There are the usual issues about currency manipulation of the value of the Yuan, but the Chinese government continues to widen the trading band, allowing greater fluctuations of currency values. The Yuan rose to a 20Y high this year on a surge in the country's trade surplus and the People's Bank of China is seen as basically ending intervention and allowing the Yuan to fluctuate according to market supply and demand. China's trade balance has also widened, as exports have increased. The wider band for the currency should allow the Yuan to go up in value versus other currencies for some time.

Related and important for the population of China is a report that new leadership is undertaking some broad based economic and market reforms. The changes will bleed over into social policy as well. Already announced are changes allowing more private investment in state controlled industries and a relaxation of the one-child policy.

Why the change you might wonder? China has experienced rapid economic growth in the last two decades, but the result is that the wealth gap between the rural and the urban population has increased. This has created social unrest and especially with some slowing of economic growth, the government is taking steps to help the rural population. There are land reforms, which should unlock wealth for farmers by allowing them to sell land that previously was beyond their reach. The sale of land will generate tax proceeds for local governments and allow them to issue bonds like a US-style municipal market.

All of these changes means there will be more freedom of movement of the population allowed between the rural areas and small cities, which should improve income and productivity. That should increase the pool of labor for China's manufacturing industry. Market-based reforms are always slow to roll out in China, but the latest ones include greater access to banking licenses. This should boost the entry of private enterprise into the banking sector, thereby increasing diversity and competition in the sector. The result should be more efficiently priced capital.

None of these reforms will take place overnight and resistance to change will clearly slow progress at times. Nonetheless, things are on the move with one the US's most important trade partners. If your bank processes international trades with companies that do business with China, these developments should allow for greater growth and prosperity in China and therefore growth opportunities for your bank. Remember as with the history of dragons, perspectives differ, so keep an eye on all sides of the equation and your bank should be poised to benefit.

BANK NEWS

Good News

RealtyTrac reports foreclosure filings in the US fell 32% in Nov from a year earlier to an 8Y low, as housing prices continued to rebound nationwide.

Minimum Wage

A survey by the Wall Street Journal and Vistage International of small businesses with annual revenue of \$1mm to \$20mm finds 65% are opposed to raising the federal minimum wage to \$10.10 an hour, 28% are in favor and 7% did not choose either option.

Business Changes

KPMG research finds 93% of US companies say they are changing their business models in order to meet customer demands due to a changing customer focus and behavior. Meanwhile, nearly 50% of companies said they do not regularly align the business model with their strategy.

Economy

Moody's is projecting economic growth will increase in 2014 as debt burdens continue to decline for consumers and the jobs market heals further.

Rate Hike

Economists at the Federal Reserve Bank of Cleveland calculate the most likely date of a Fed rate increase (based on inflation staying at 1.75%) would be Q1 2016.

Taxes

CNBC reports a review of a Congressional Budget Office report released this week finds the top 40% of wage earners in the US pay 106% of individual income taxes and the bottom 40% pay negative 9%.

Mobile

A survey by Yesmail that analyzed data on more than 5B marketing emails found 49% of them were opened on a mobile device.

CFO Survey

A Bank of America Merrill Lynch survey of CFOs finds 94% say they expect to grow in 2014, 54% expect sales to be higher than in 2013 and 37% expect sales to remain the same YOY.

Stronger Housing

Zillow reports the percentage of homeowners who owe more on their mortgages than their homes are worth declined to 21.0% in Q3 vs. 23.8% in Q2 (almost a 12% drop). In total, about 10.8mm people remain underwater on their homes.

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