EToro Blog Presents: China, Pulling the Strings Behind the Scene by Nitlevitan

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One of the comments that we at the eToro Blog most often receive is: why do you write about China? This question stems from the fact that most forex trading platforms, eToro included, do not have the option of trading the Chinese currency, since historically the Yuan has been pegged to the USD for most of its existence, a peg that has only been broken in 2005, but is now threatening to be reinstated. Neither do we offer the option of trading the Chinese stock index, since it is not a major global index and its liquidity is limited.

So what is the point of reading about China? Well, the Chinese economy may not affect your trading decisions directly, but as a major global player and one of the biggest economies in the world, it definitely affects the price movements of all the other markets that youâ€™re likely to trade in. The instruments most immediately affected by changes in the Chinese economy are the JPY and the AUD, because both Japan and Australia rely heavily on Chinese imports and exports. Thus, a change in the Chinese monetary policy or interest rates is likely to cause a swing in the AUD and the JPY markets.

However, the ripple effect of Chinese economic policy does not stop there. Like Japan and Australia, the US and the Euro countries also conduct a massive amount of trade with the Asian giant, but most importantly China is the main buyer of American and European debt. With both aread struggling with debt and deficit that heavily influence monetary and economic policies, Chinaâ€™s role as a bond purchaser is critical to their recovery. Thus when China makes a decision to buy up more or less European or US debt, we may expect investor sentiment to change accordingly.

You can learn more about Chinaâ€™s role in the global economy by keeping up with the eToro Blogâ€™s â€œChinese Focusâ€• column. The posts in this column explain in direct and simple terms the impact that Chinaâ€™s economic behavior is likely to have on the markets you trade in, so you no longer have to stay in the dark about Chinaâ€™s role as a global powerhouse.

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