MONTHLY BAROMETER
PRESCIENT & SUCCINCT ANALYSIS OF WHAT'S OUT THERE

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- The global economic backdrop of slow and diminishing growth forecasts is being exacerbated by the financial drama occurring in countries as diverse as China and Greece. There is no end in sight to this morass, because **everywhere, incremental policy-making prevails**. "Incrementalism" gives the impression that issues are being dealt with, but this is nothing but an illusion, for it fails to offer long-lasting solutions and the promise of a better tomorrow.
- On June 12 having peaked at a price corresponding to 85-times earning (almost 5 times the world average of 18.5!), the Chinese stock market bubble began to implode, in 10 days wiping out more than $3 trillion of its value. The government only succeeded in stabilizing the market by threatening to arrest sellers: **a victory that will eventually prove self-defeating**. It lays bare the insurmountable contradiction of a market economy trying to co-exist with a one-party, centrally planned political system. **Further volatility is a given**. It will unnerve global markets for months to come. Most importantly, this gives plenty of ammunition to those who doubt the Chinese leadership's ability to implement the vast array of structural / pro-market reforms required not to fall into the middle-income trap.
- In June, Singapore's GDP contracted by a much larger than expected 4.6% (Q-o-Q). On the global scale, the city-state's economy is tiny, but Singapore **is considered as the canary in the mine** of Asia's economy. The figure therefore suggests that China isn't achieving anywhere near its 7% growth target.
- The reasons why the US will grow below consensus (ranging from 2.5 to 3% Y-o-Y) are threefold, and intertwined: (1) the **"debilitating effect" of an appreciating $** (on a trade-weighted basis, the $ has appreciated by more than 20% over the past 12 months) on corporate profits and the current-account deficit, (2) the absence of wage growth, (3) continued disappointing retail sales.
- An €86bn agreement between Greece and the Eurozone has finally been sealed, but it is only the beginning of an arduous and unpredictable journey. **All the parties involved doubt it will work.** One thing is obvious: the current Greek proto-communist government cannot deliver the structural reforms so badly needed to re-start growth. **The confusion and uncertainty will continue to prevail until new elections are called.**
- Then, what happens? The Greek saga is portrayed as a financial conundrum but is in reality a moral drama, in which self-righteousness (Germany) and humiliation (Greece) constantly lock horns. When the blame game comes to an end (it's impossible to have bad borrowers without careless lenders), what will a solution look like? It will comprise: (1) **some debt forgiveness** on the Eurozone side and (2) **a credible plan of reform** on the Greek side. At the moment, both seem beyond reach, but without them, Greece will exit.
- Whether "transformational" or not, the P5+1 agreement with Iran has the potential to alter the global geo-economic landscape in the Middle East and beyond. If properly implemented, (1) it will reduce the likelihood of Iran possessing a nuclear weapon, and (2) will empower the moderate / reformist forces within the country. In the short-term, **lifting sanctions** (with an estimated USD150bn in bank funds unfrozen) **opens the Iranian "candy store" to all sorts of major industrial projects**, primarily in oil and gas.
- (1) The death of OPEC, (2) the deal with Iran and (3) the fact that shale is more like mining than drilling are the three key reasons why the consensus of a V-shaped recovery for oil has now evaporated. **In the coming months, oil prices**, which dropped by almost 20% since June, **will trend flatter or downward**. Countries whose political stability is contingent upon oil revenues will be hit. Those most at risk in the short term: Iraq, Venezuela and Libya. In the longer term: Nigeria and Russia.
- New research shatters one of today's most established dogmas in the investment and business communities: the conviction that the global middle class will relentlessly go on increasing. Most global companies and investment banks estimate it at 2bn+ and rising fast, but even retaining the broadest possible definition (those living on between $10 and $100 a day), **just 1.7bn people can be considered as middle class.** The research shows not only that the sector of society is smaller than we think, but also less well off and more regionally concentrated.
- Whether related to climate change, health (vaccination), or economics, there is plenty of evidence to suggest that **ignoring the facts is a growing and pervasive trend**. In a new book, the philosopher Lee McIntyre calls this **"wilful ignorance".** The obsessive framing of the economic debate in terms of "austerity" versus "stimulus" is a symptom of this: it grossly oversimplifies the reality and obscures the criticality of structural reforms. In highly overregulated countries as different as Greece, Japan, or France, "less austerity" and "more stimulus" are only part of the solution. In the end, **it is only structural reforms that can unleash sustained economic growth**.
- It doesn't take an economist, but an anthropologist (David Graeber in "The Utopia of Rules"), to describe the corrosive effect of red tape **and just to what extent it can be an obstacle to growth.** Increasingly, bureaucracy dominates our personal and professional lives, characterized by intrusive paperwork and ever-changing rules. Intuitively, we might think that the Internet should make administrative tasks simpler and more efficient, but the opposite is happening: we've all become administrators at the constant mercy of the institutions that bureaucratize our lives. **Their vested interests are considerable, which to a large extent explains why structural reforms are so hard to implement.**
- In the coming weeks, "must-watch" issues include: (1) the implementation of the Greek and Iranian deals, fraught with all kinds of difficulties (2) China's deceleration (its PMI fell to 48.2 in July, much worse then expected) and its impact on the world economy (at the end of 2014, China accounted for 38% of global GDP growth); (3) the impact of the sharp fall of EM currencies against the $ - particularly on the economies of Indonesia, Thailand, Malaysia, Korea, Mexico, Brazil, Turkey, and South Africa; (4) the resulting nervousness about the "distress loop" in EM hard currency corporate bonds - it will coincide with the Fed's first rate hike; (5) global geo-political turmoil, with a focus on tensions between Russia and the West, the war between Saudi Arabia and Yemen and troubles in south Turkey (with the army fighting both ISIS and PKK). **For real-time or in-depth analysis on any of these, and if you are interested in prediction markets to better forecast some of the risks, please contact us.**