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

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- Today's world is safer and richer than it has ever been, but this is of little comfort to those whose expectations are repeatedly disappointed. **When one starts connecting the economic, geopolitical, societal and environmental dots, reasons to worry are mounting**. In the realm of economics, the bond markets foresee very weak economies at best, and possibly deflation, for years to come. They read into the more unconventional policies adopted by central banks as a sign that they've run out of ammunition.
- The fact that Japan just implemented a Negative Interest Rate Policy (NIRP) is a **leading indicator of central banks' impotence**. Monetary policies' various attempts to offset deflationary forces and to revive sustained economic growth via conventional measures (cuts in interest rates) and unconventional ones (QE and now NIRP) have not yet succeeded in lifting aggregate demand. **"Helicopter money"** ("monetary finance" in the economists' jargon) **is next.**
- If ultra-low or negative interest rates persist for too long, they will **devastate the portfolios of pensioners, insurance companies** and endowments, forcing a large majority of people to reconsider things hitherto taken for granted (such as the right to retire with a permanent stream of income). Pension plans continue to assume that the future will resemble the past and to anticipate unrealistic future returns of 7-9%. CALPERS, one of the world's largest pension funds, just provoked an outcry when it decided to reduce its base forecast from 7.5 to 7%. This is just the beginning…
- The recent G20 meeting in Shanghai proved that **global fiscal and monetary co-ordination to boost global growth is not going to happen**. Countries are too divided about what to do next and are increasingly inclined to pursue economic growth via currency depreciation: a zero-sum game that stokes protectionism. Non-tariff barriers to trade (such as subsidies, bailouts, export rebates, local content requirements, etc.) have been on the rise for the past 6 years. This trend, even if it eventually leads to currency wars and a dead-end, will continue as net exports account for most of the tepid GDP growth registered in Japan, Germany, etc.
- The main February PMI - Purchasing Manufacturing Indices - are all below forecast: declining in China, Japan and the Eurozone, flat in Germany, and barely above expansion, but weakening, in the US. **This decelerating global manufacturing trend reflects the sharp reversal in global trade** (last year, the $ value of cross-border goods fell by 13.8%). What's behind it? China's growth deceleration and its domino effect on EM, but also the disturbing rise in protectionism as noted above.
- Bad loans are a key to understand what's happening in many economies around the world. The problem is most acute in China where non-performing loans amount to $5 tr.+ (half of GDP), but they also act **as a powerful brake on growth in countries as diverse as Italy and India.** The longer the procrastination over gripping the issue, the greater will be the ultimate challenge, particularly at a time when growth is decelerating.
- We often refer to the widening gap that exists between the opinions voiced by the elites (those with a university degree and an income in the top quartile) and those of the large majority who feel dispossessed, disenfranchised or simply "cast aside" citizens displaced by technology. Such disconnect explains why phenomena previously considered by pundits as "inconceivable" (like the possibility of Donald Trump becoming the next US President) are actually happening. An ever-growing number of those angered by democracy's failure to deliver the "goods" chose to **use elections as an insurgency platform against the elites**. It is thus possible that a large number of British voters may take advantage of the referendum on June 23rd to vent their frustration and release their anger. **The chances of a Brexit are greater than commonly assumed.**
- Merkel's European fan club is dwindling fast as tensions mount across the continent. However, **the risk of disintegration is considerably less acute than opinion-makers would have us believe**. Yes: the Eurozone economy is now spluttering and huge challenges lie ahead: the migrants' crisis (that will, however, lead to further integration, not disintegration), the potential Brexit and Grexit, the dire situation of many banks, deflation, overleverage, low growth, high unemployment and so on… But when considered in relative rather than absolute terms, the Eurozone remains a **heaven of stability and opulence** - the reason why it remains the most attractive destination in the world for FDI.
- Goldman Sachs's decision to abandon most of the "top trades" it had just recommended to clients for 2016 (long $/short ¥, short US government debt, long European stocks and long banks) echoes what we said last month about some prominent hedge funds throwing in the towel because they could no longer cope with such a tough macro environment. **Even for the "best in class"** like Goldman**, the world is becoming harder to decipher, if not un-investible…**
- We warned our readers two years ago that the Western world would be moving towards a cashless society. The idea is gaining much traction. **A growing chorus of financial regulators**, pundits (like Lawrence Summers), prominent bankers (like Peter Sands) **are demanding an end to large denominations of paper money**. The benefits would be twofold: (1) make life harder for tax evaders and criminals; (2) impose costs on those hoarding cash. In a world of negative interest rates, this is a trick to "force" them to spend.
- At the moment, concerns about a Saudi-Iranian conflict have been replaced by **fears that the animosity between Russia and Turkey might escalate** and that the two will come to blows in Syria. The risk exists but is limited. In the medium-term, it is the Kurds' territorial consolidation in Iraq and Syria that poses an existential threat to Turkey.
- In the coming weeks, "must-watch" issues include: (1) China, that remains at the epicentre of global economic and financial stress; (2) continued pressure on EM economies, and particularly their hard currency debt; (3) the impact of lower commodity prices on commodity exporters, with possible black-swan effects in Algeria, Nigeria and Central Asia; (4) whether US real wages will increase and US core CPI will continue to surprise on the upside, (5) the extent to which the commodity price shock will affect banks (with a commodity-driven financial crisis all too possible in EM), (6) the vast array of global geopolitical and societal risks. **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.**