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

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- **Multiple engines of growth continue to propel the global economy in a synchronized fashion:** all 45 countries tracked by the OECD are currently growing, with 33 accelerating from last year. However**, anxiety is palpable.** In contrast to just a few months ago, global policy-makers no longer talk about accelerating economic growth, but focus instead on preventing any deterioration of the current tepid recovery. Two things highlight this change of sentiment. (1) In Jackson Hole, central bankers confessed that monetary policy can only go so far and admitted their inability to address structural issues such as low productivity or wage polarisation. (2) Wall Street insiders are now selling their own banking shares, outnumbering purchases by about 14 to 1. This is the clearest signal so far that optimism about Trump is going into reverse.
- **A future scenario of sustained political violence in the US is no longer the preserve of political fiction.** There are respected American scholars who put the probability of civil war within 10-15 years as high as 30-50%. Not only is polarization increasing; but the dismal performance on a multitude of living standards and wellbeing indicators (real wage growth, labour force participation, life expectancy at birth, overall mortality rate, healthcare coverage – among others) suggest that the US is becoming the "sick man" of the rich world and that President Trump is not an accident, but the symptom of a profound societal crisis.
- Against this backdrop, it is not surprising that, since January, the USD lost 11% against the EUR and about 8% against a basket of major currencies, wrong-footing many analysts who were structurally bullish about the greenback. Its fate is now subject to the vagaries of the US presidential administration that has given the markets a strong taste for the unexpected (on the downside) and raised questions about whether the USD can sustain its safe haven status. **If the US is more at risk than the markets formerly thought, the value of the USD might erode still further**, with major global implications.
- For the first time**,** the IMF has taken the unusual step of issuing a warning to China about **its "dangerous" level of debt** - expecting non-financial sector debt to exceed 290% of GDP by 2022, compared with 235% last year. Similar concerns emerge from **Chinese insiders who warn about a pending onslaught of non-performing loans**, which, according to some analysts, could be almost $7tr above official figures. Credit-fuelled economic growth and the authorities' willingness to allow the problem to fester on are putting off the day of reckoning, but when it comes, the fallout on the global economy and the markets will be gigantic. China's geopolitical ascendancy will not be derailed, but it might well be delayed.
- L**ooking for resurgent inflation is like waiting for Godot: it won't come.** Using out-dated and mechanistic models, the Fed and other central banks have been waiting for inflation to rebound for years, but in vain. A look at Japan explains why. The BOJ, after trying everything, has just given up on the idea of reflating the economy: none of its 9 board members believes that Japan will reach its 2% inflation target despite full employment, mountains of government debt and huge fiscal deficits. **Tech disruption and ageing have made inflation obsolete.**
- In the Eurozone (EZ), **the idea of a European Monetary Fund (EMF)** to replace the current bailout fund (ESM) **is gaining traction**. Together with a EZ budget and finance minister, this would constitute the cornerstone of a "grand bargain" between France and Germany – both committed to further integration and convergence within the EZ. Ironing out the differences between the two countries that have very diverse ideas on how this should be done will take time, but the political will to do so exists and the direction of the trend is clear. **Bullish for European assets**.
- As shown by the affair of the Google engineer who authored a memo that caused an internet uproar and got him sacked, the social media may at any time pick on a story that can inflict reputational damage on a particular business or an individual related to it. In addition to being targeted by fake news, **companies will increasingly be subjected to a kind of social coercion.** This will oblige them to scrutinize what they, their employees and stakeholders can say. Investment in reputational control and combating false reports on social media will become paramount, just as it now is for cyber-security.
- The fact that Kenya just passed the world's toughest law against plastic bags might seem anecdotal but it portends a powerful trend: **as global environmental problems become more acute, countries will toughen their stance against the perpetrators of all kinds of pollution.** Not everybody will follow Kenya's extreme example of imposing a USD 38,000 fine and up to 4 years in jail on anyone who produces, sells, or uses, a plastic bag, but legislators and regulators will increasingly impose financial penalties on all industries and companies that pollute. **'Greenness' now matters more - investors beware!**
- The strategy behind Amazon's $13.4bn acquisition of Whole Foods is now clear: it has little to do with a sudden passion for organic food but rather reflects the **juggernaut's objective to continue its onslaught on retail – this time it's the turn of groceries.** On its first day as owner, Amazon did what it normally does: cut prices to win market share. Some Whole Foods products' prices were clashed by as much as 43%, in the process wiping out over $11bn from the market value of US grocery chains. Further down the line, Amazon will try to digitize an exceedingly analog market: it's no coincidence that Alexa (Amazon's virtual voice assistant) is now selling at Whole Foods alongside organic kale and responsibly farmed salmon.
- Over the next few weeks and months, **"must-watch" issues include**: (1) the October deadline for US Congress to raise the federal "debt ceiling". Failure to reach an agreement could lead to a potential government shutdown and wreak havoc on the markets; (2) China's debt – the major systemic risk to the global economy; (3) whether USD weakness will persist, with its wide-ranging impact - positive and negative – on the global economy, from commodity prices to EM debt; (4) Brexit – negotiations are at a standstill and the cost of indecision rising for the UK, negatively affecting the GBP and growth; (5) the vast array of growing geopolitical and societal risks, with a focus on the Korean peninsula. **For real-time / in-depth analysis on any of these, please contact us!**