



The Great Gamble

Much to win; far more to lose

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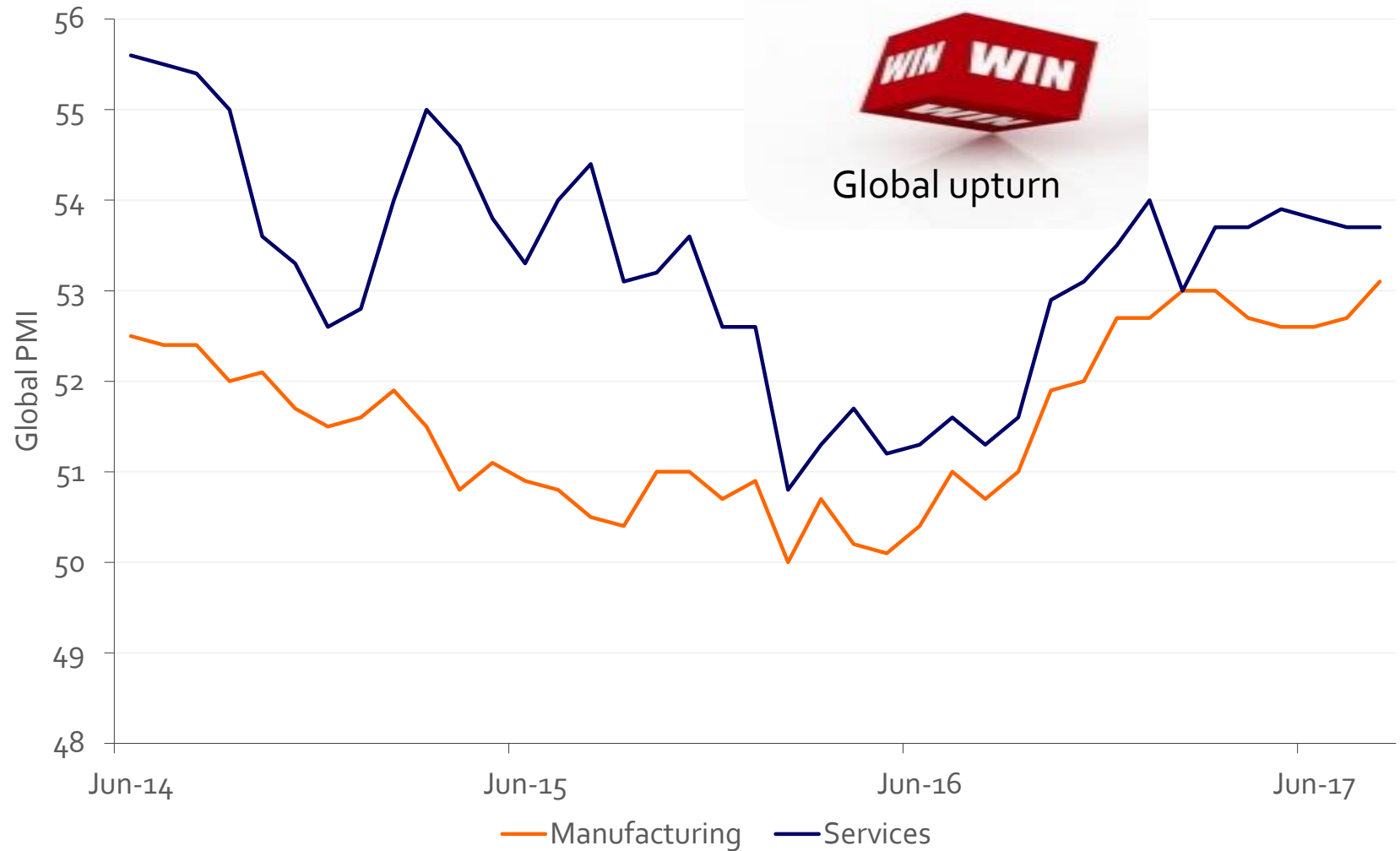
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All to play for...

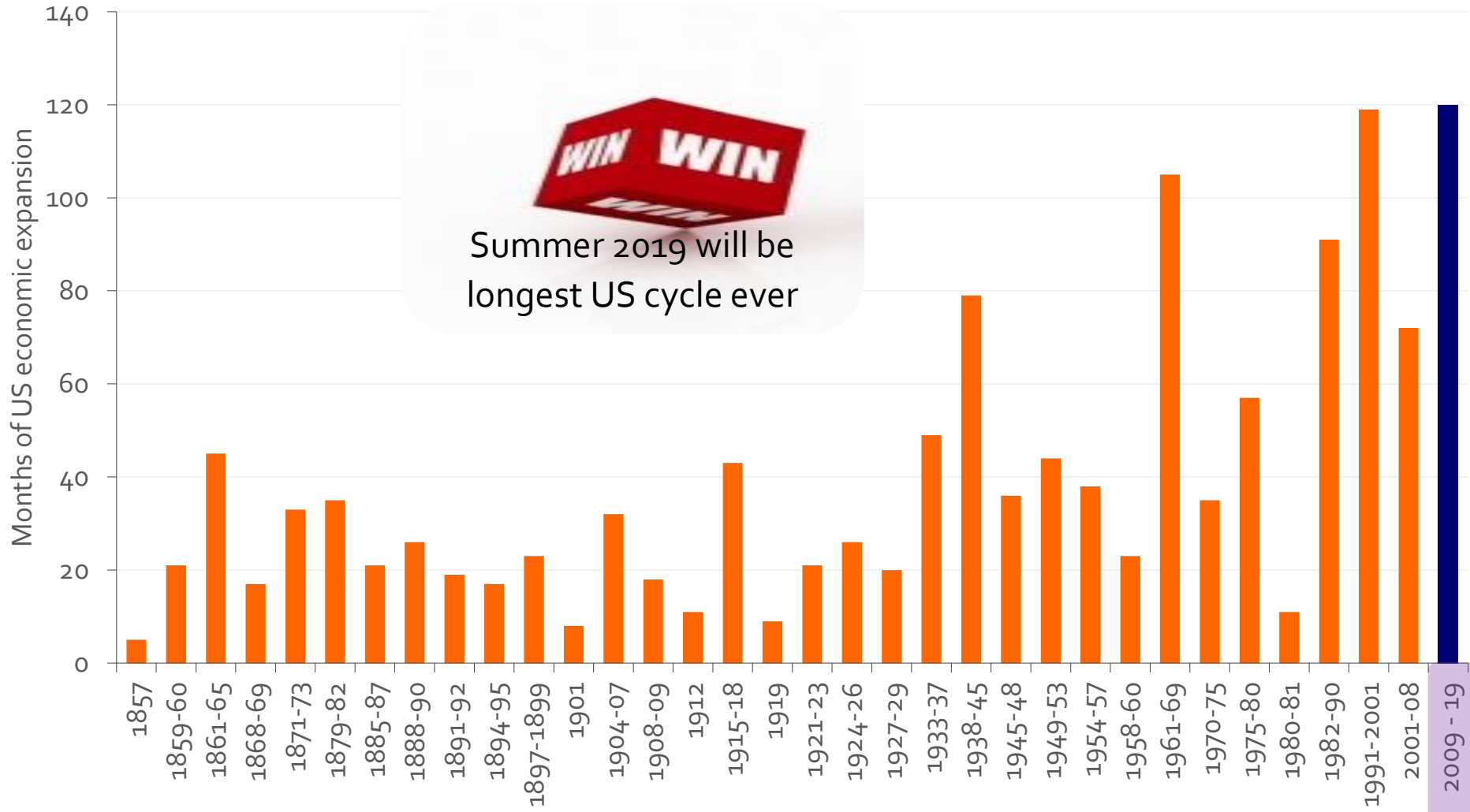




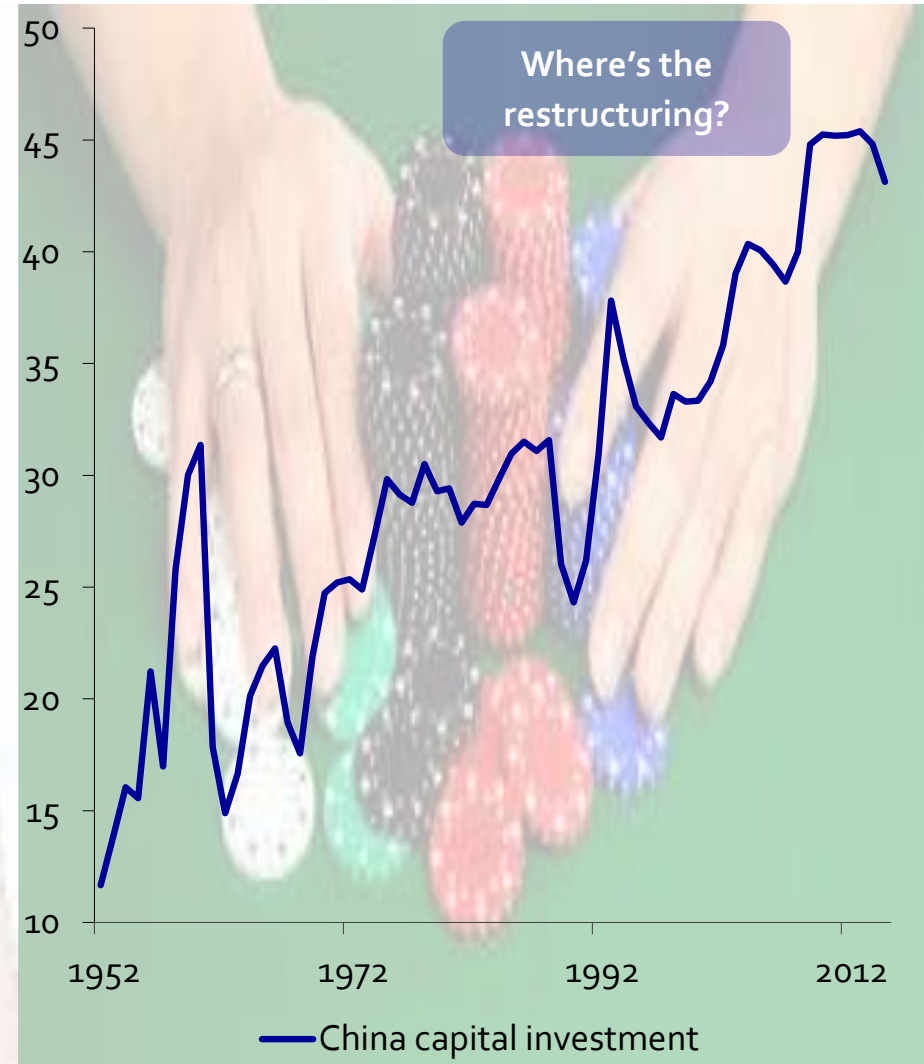
Still winning for now



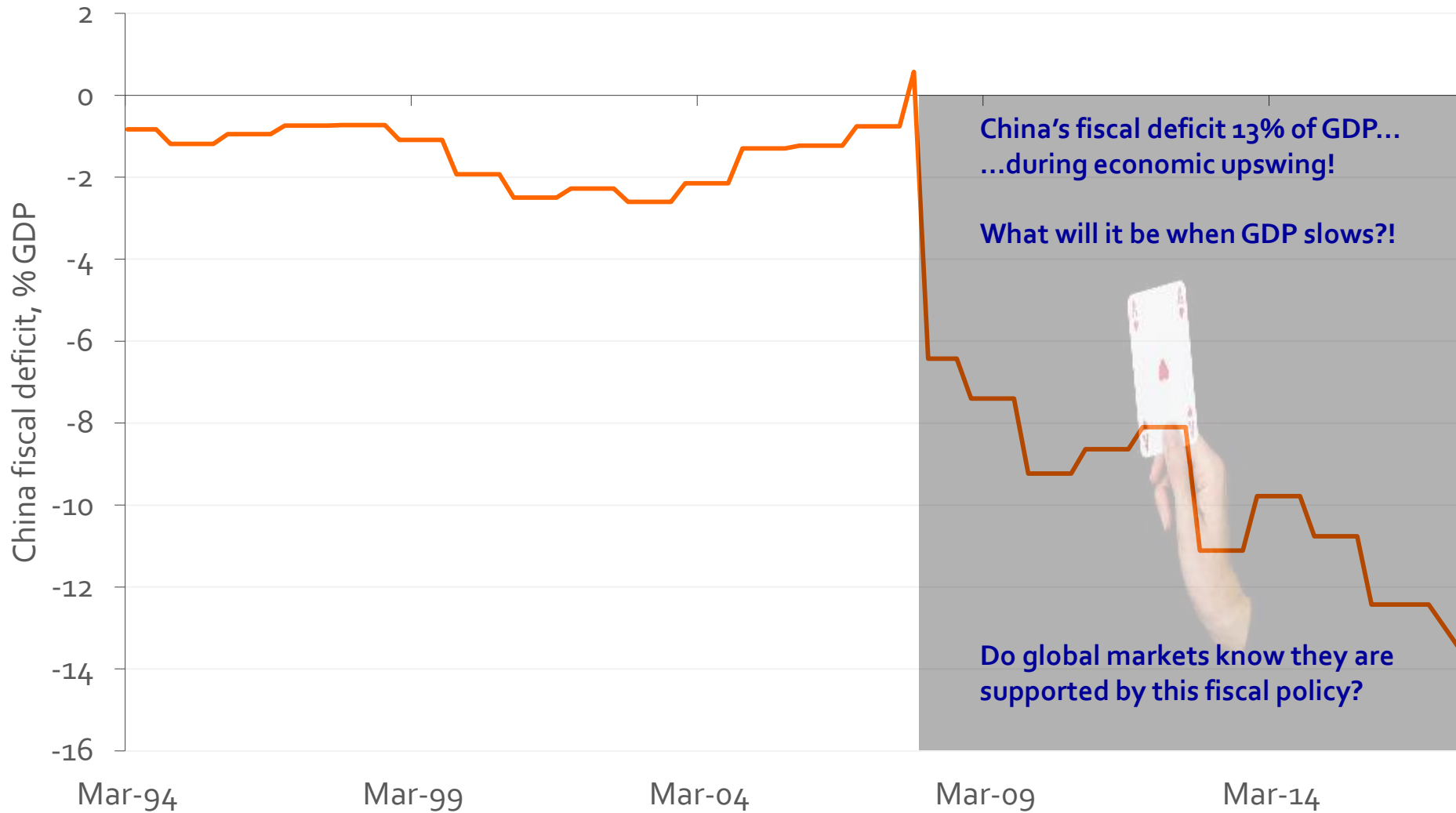
But very long winning streak...



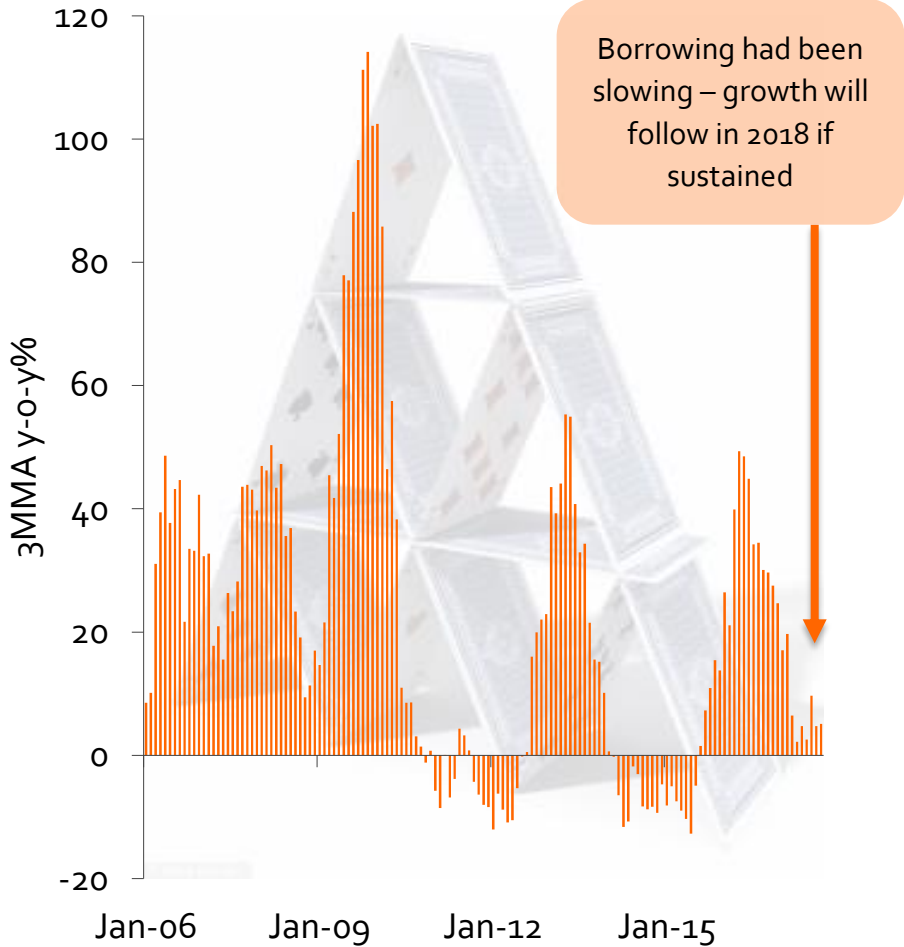
But all the chips on just one table



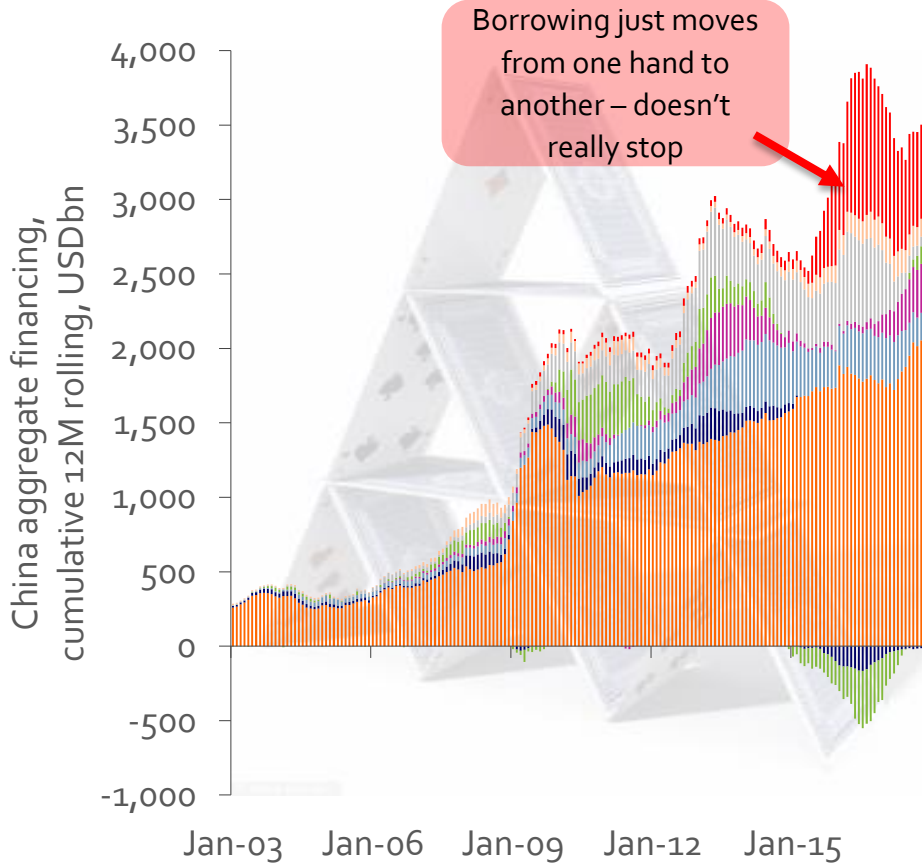
Playing last card since 2008!



House of cards

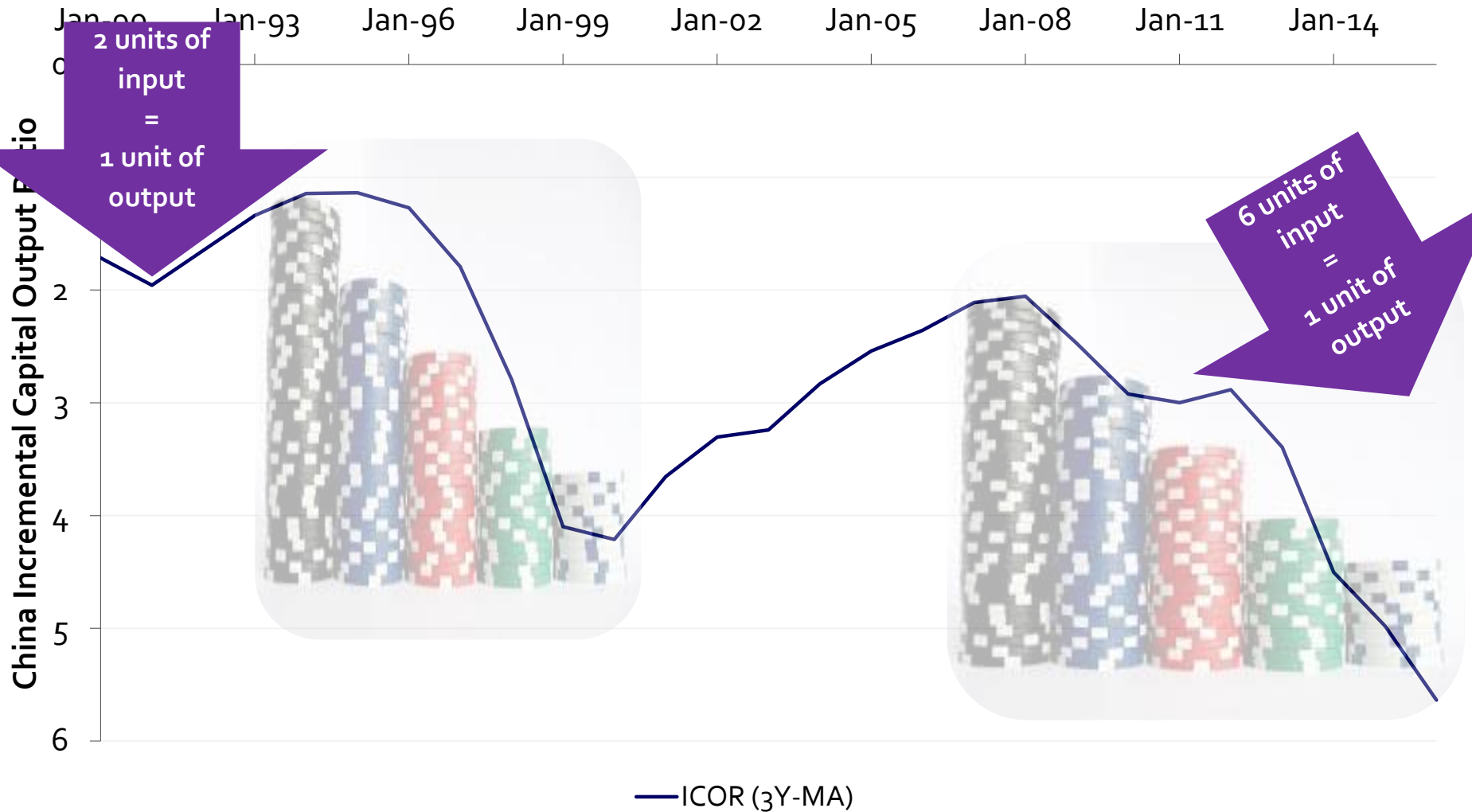


■ All-system financing + local government bonds

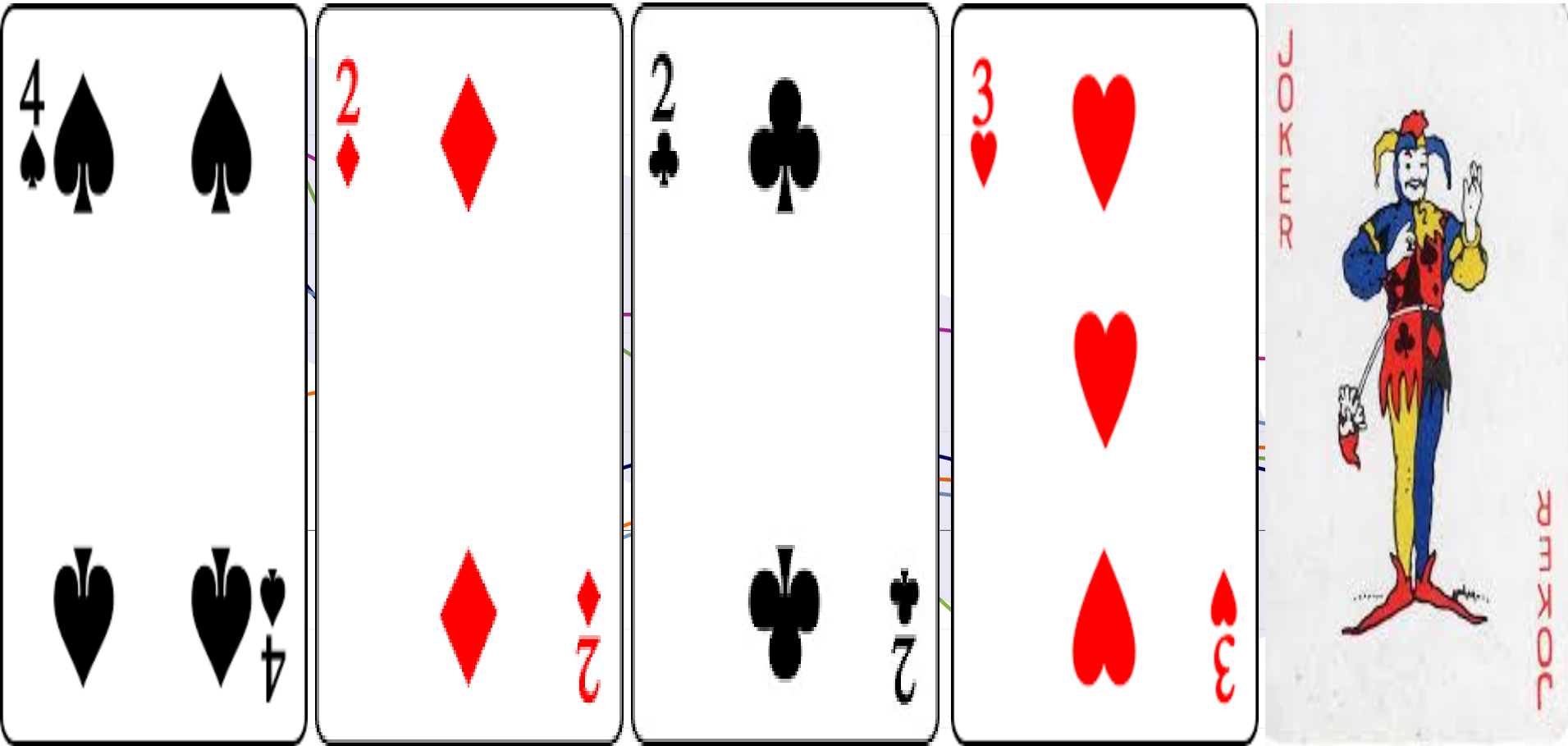


- CNY Loan
- FX Loan
- Entrusted Loan
- Banker's Acceptance Bill
- Equity Financing
- Trust Loan
- Net Bond
- Local govt bonds

How to lose that borrowed money



But *everyone's* a loser



2010 2011 2012 2013 2014 2015 2016

— UK — US — EU28 — JP — CH - RHS

Plenty of other losers out there



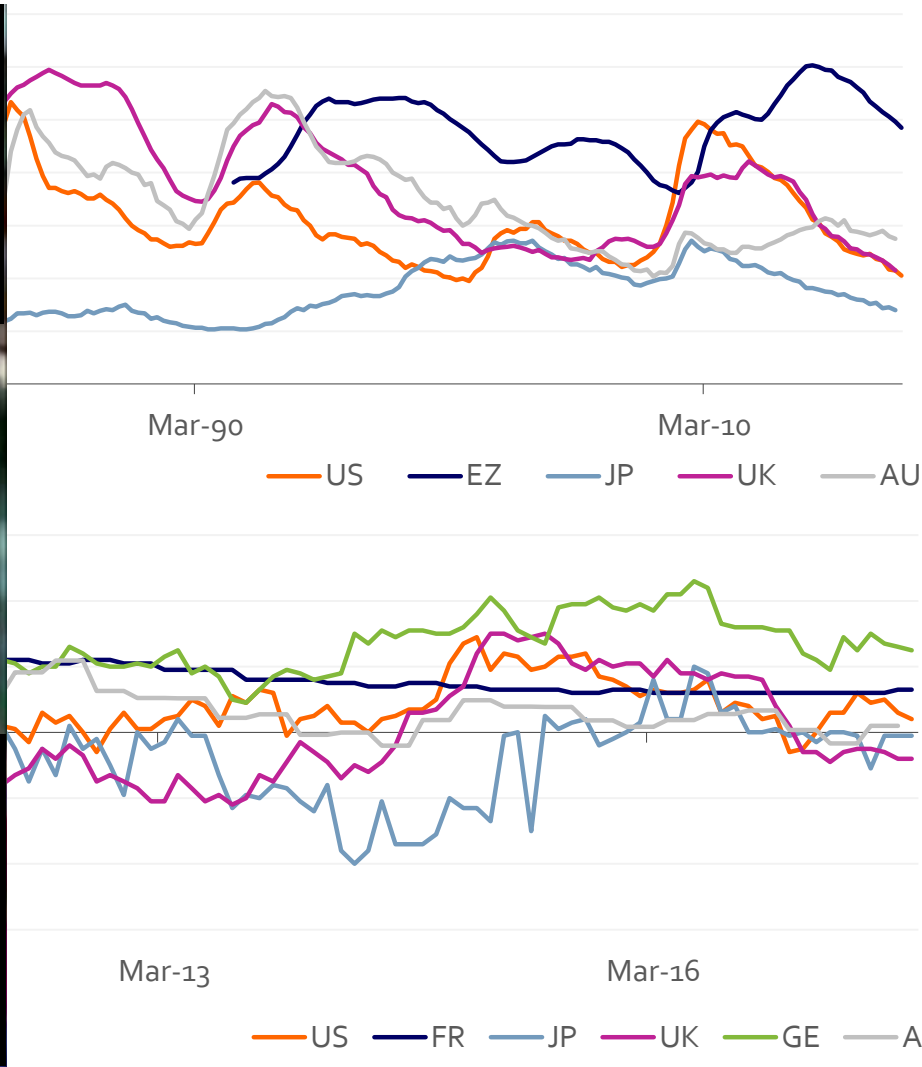
Unemployment low but still no real wage growth!

- True in 'Anglo' US and UK;
- True in 'Lucky' Australia;
- Becoming true in Europe too (ex-Germany);
- True in Japan....where next?

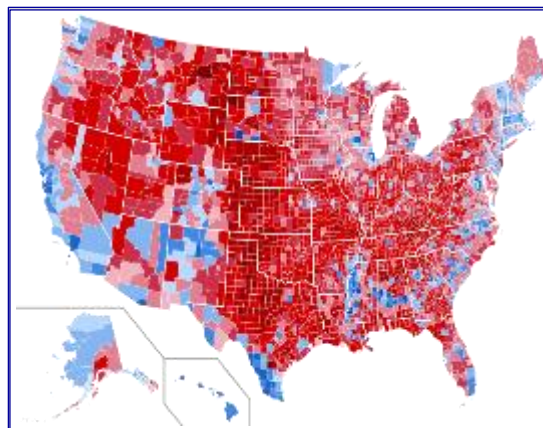
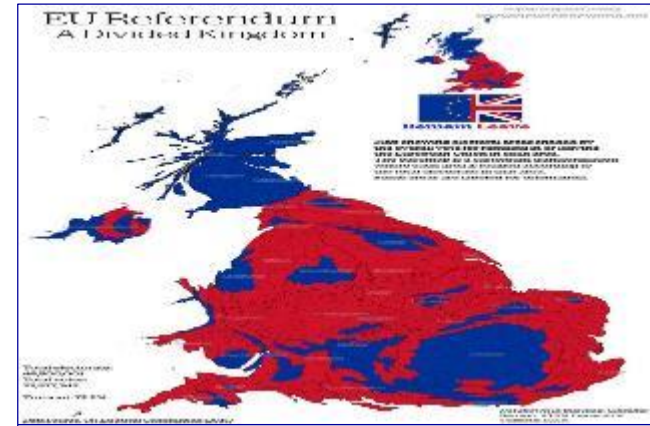
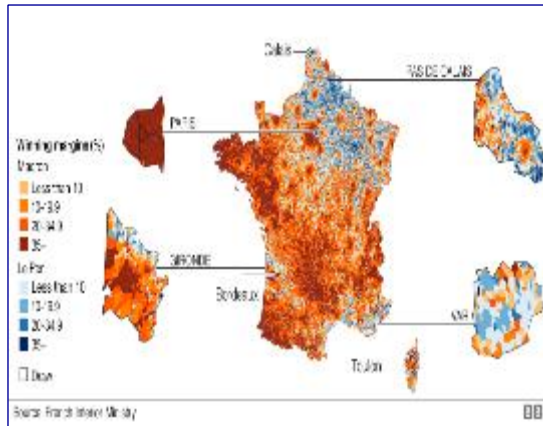


How much longer until workers finally 'win'...
...or we realize all our economic models are wrong!

Can central banks afford to be wrong either way?



The game is rigged



Consensus:
 Polarization dangerous

No consensus:
 What we do about it!



Can we keep winning?

PASS LINE	<i>Don't Pass Bar</i>	Don't Come Bar 🎲 🎲						
								10
								

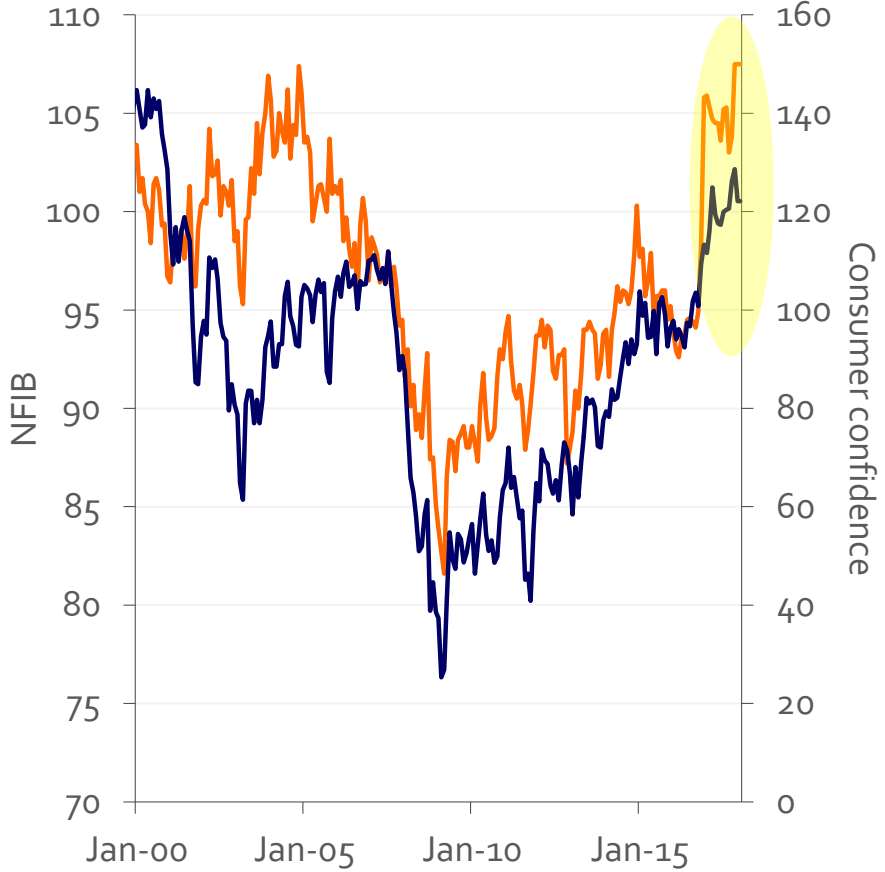
Brexit poker face



BREXIT NEGOTIATIONS:

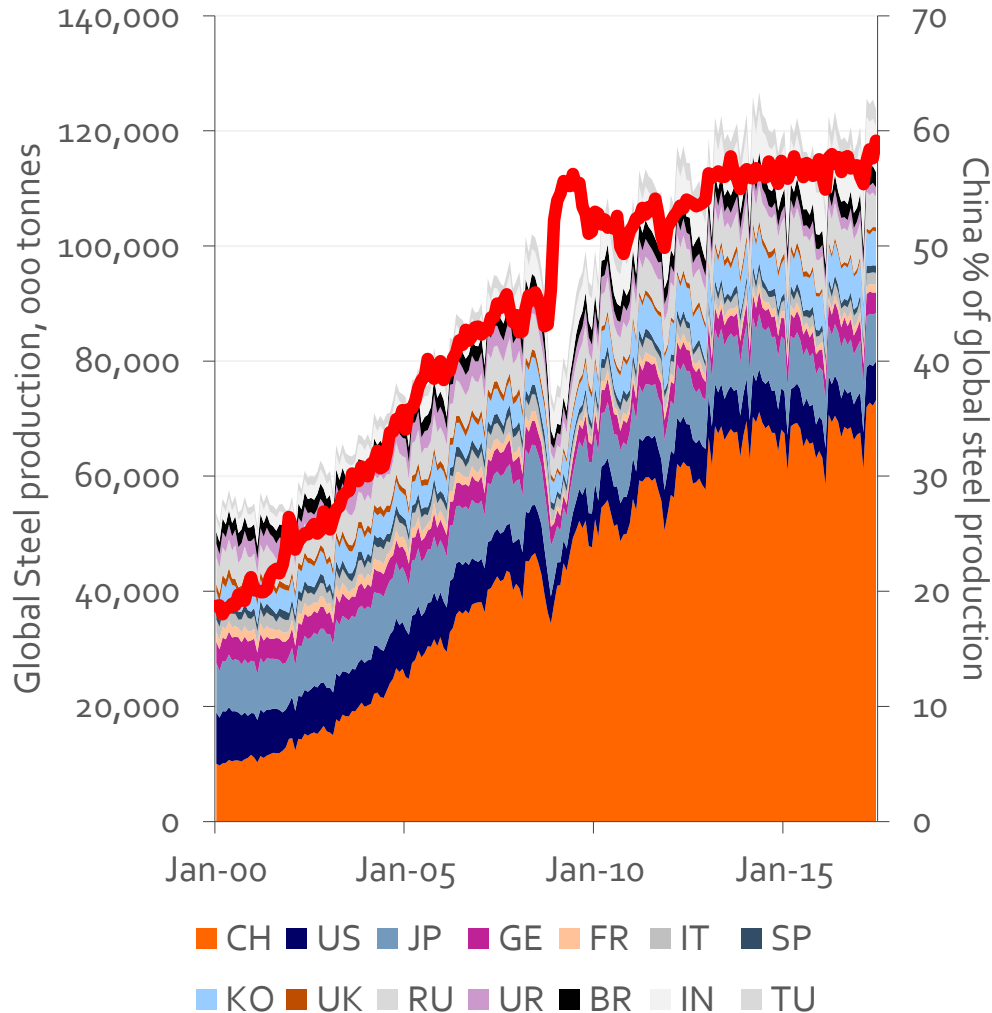
- Weak UK coalition government
- UK politics remain volatile
- Red-line issues of immigration, ECJ
- Will stronger Europe compromise?
- “Catastrophic” Hard Brexit looms?

Royal running bust?



— US NFIB small business optimism
 — US consumer confidence

Walking away from the table?



US Section 301 investigation into China trade practices launched August 14

Could take a year, likely to see US tariffs...
 ...and then trade war?

NAFTA also renegotiated



Playing same cards?



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May: *"Brexit means Brexit"*

Trump: *"America First"*

Turnbull: *"Australians First"*

English: *"Kiwis First"*

Macron: *"Buy European"*

	Nationalism	Immigration	Protectionism	Fiscal stimulus
ASEAN				
Australia				
Brazil				
Canada				
China				
West Europe				
East Europe				
India				
Japan				
Mexico				
NZ				
Russia				
S Africa				
UK				
US				

Playing same cards?


































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NZ				
Russia				
S Africa				
UK				
US				

Spin it!



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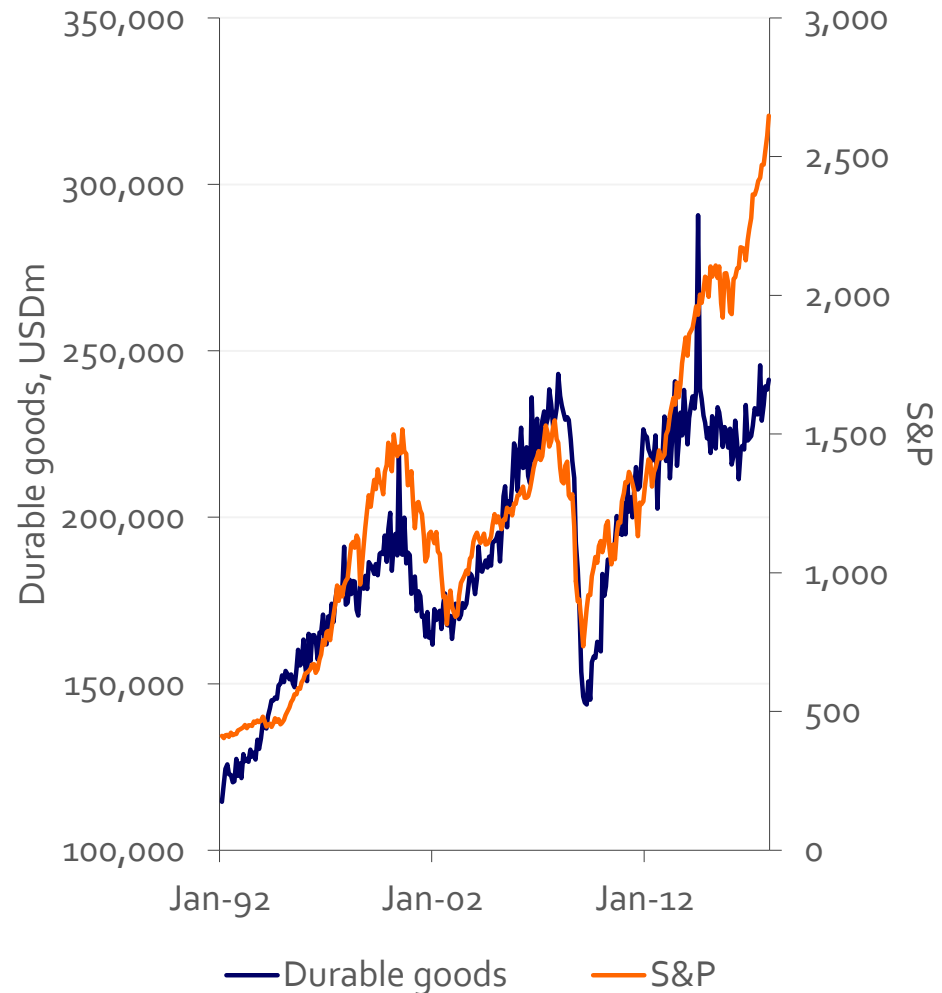
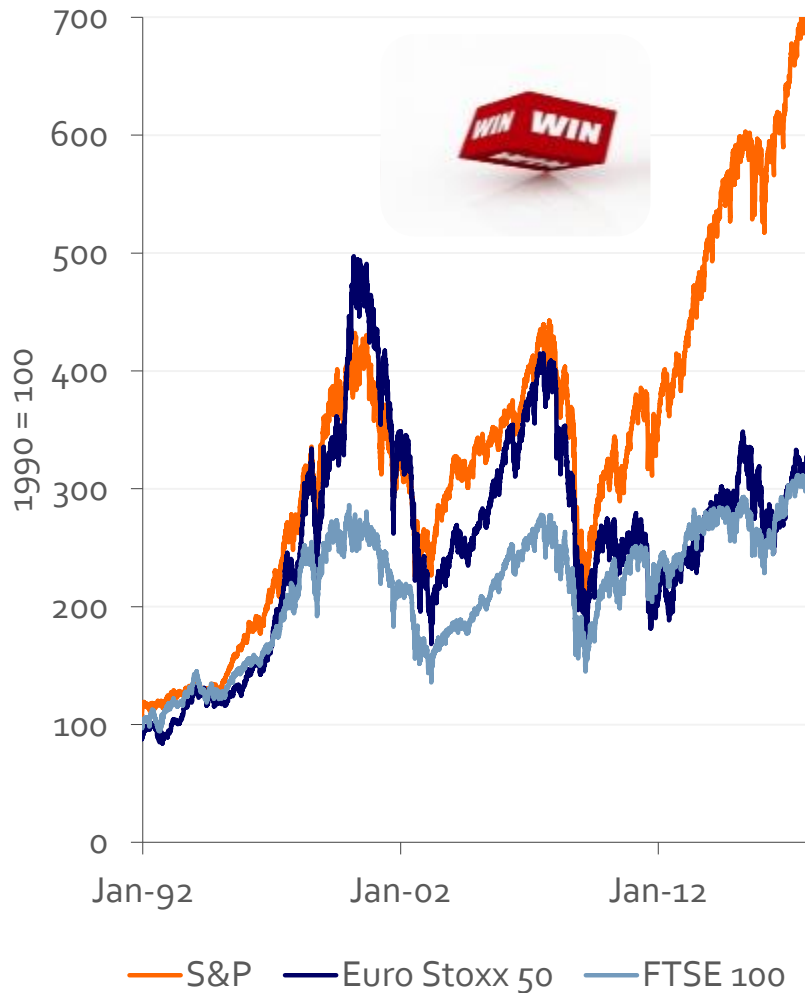




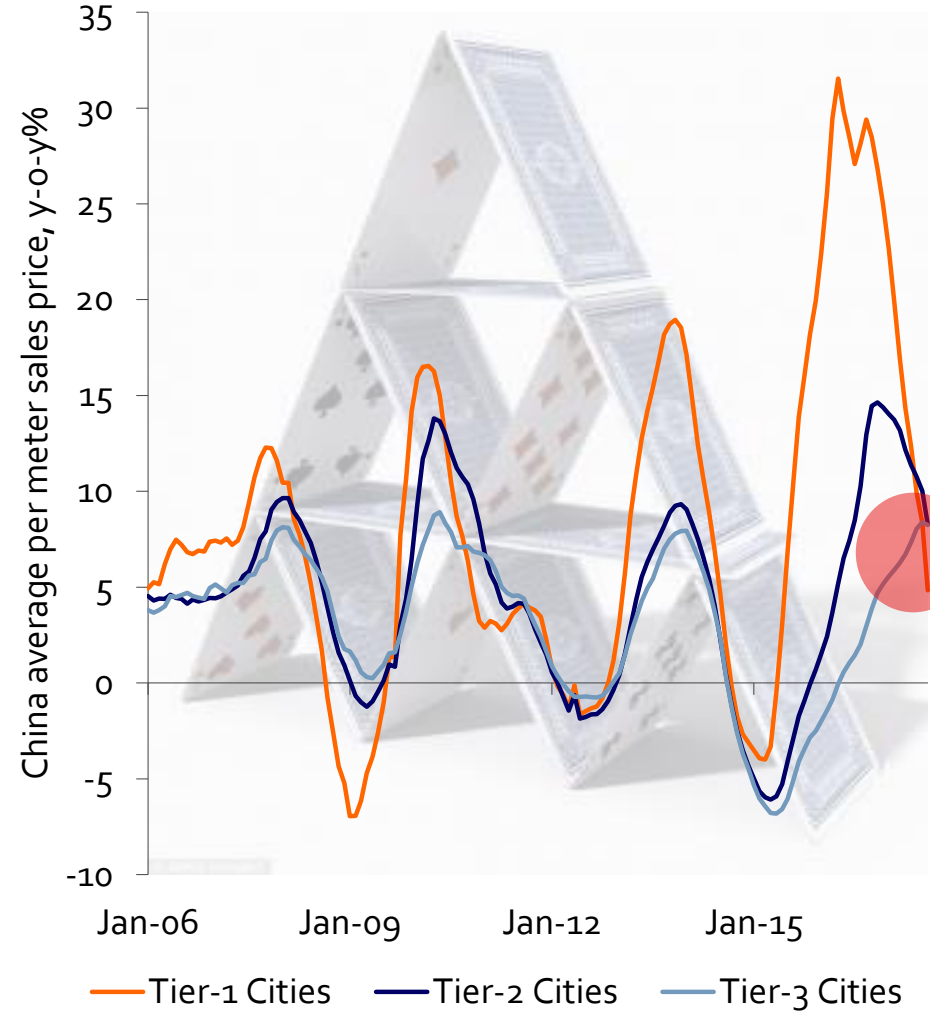
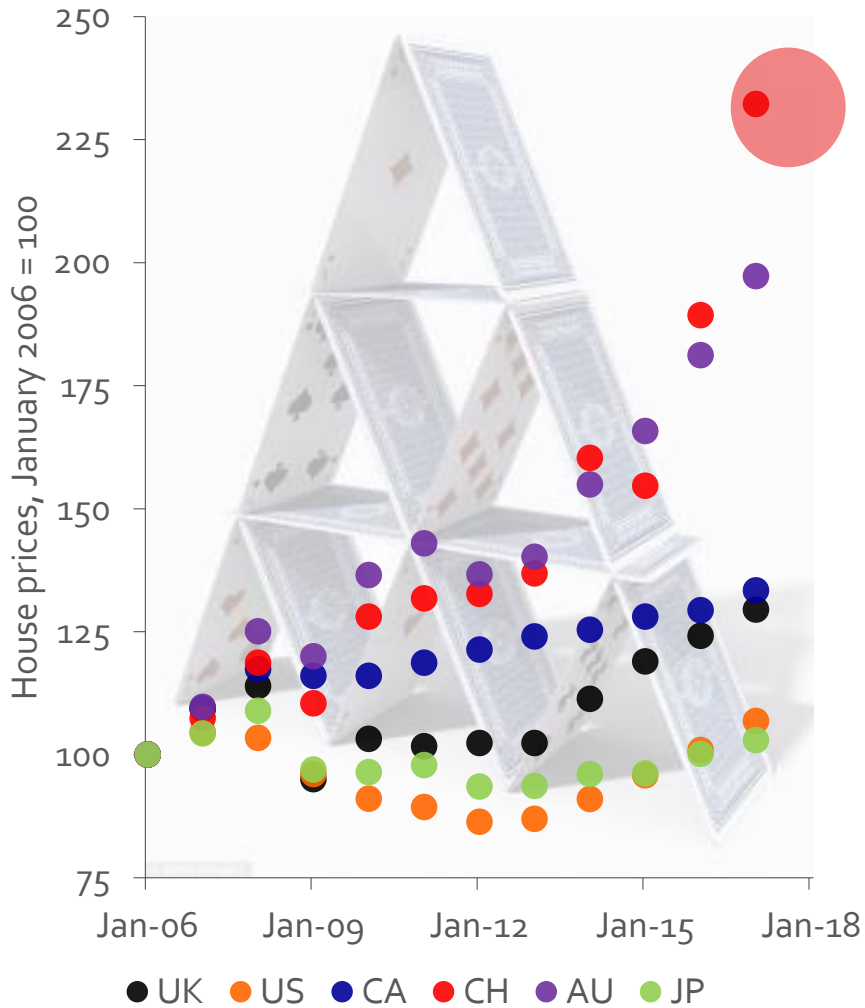
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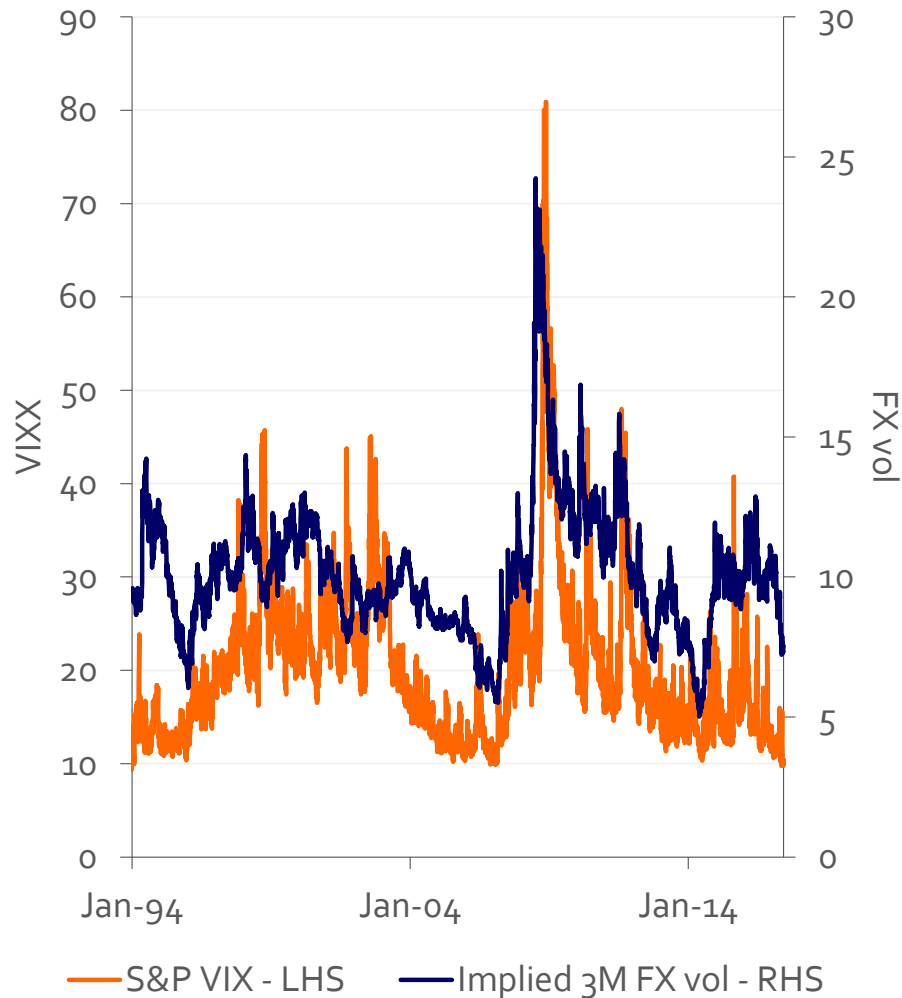
“Everyone’s a winner”(?)



“Excess exuberance” – AGAIN!



Markets encourage us to gamble



**RISK-FREE
IN-PLAY BET**

ENGLAND V WALES

Place a pre-match bet and get a risk-free in-play bet of the same stake, up to £50 per player.

The House wants you to win!



But...



2009:
Top central
bank
assets =
**19% of
GDP**

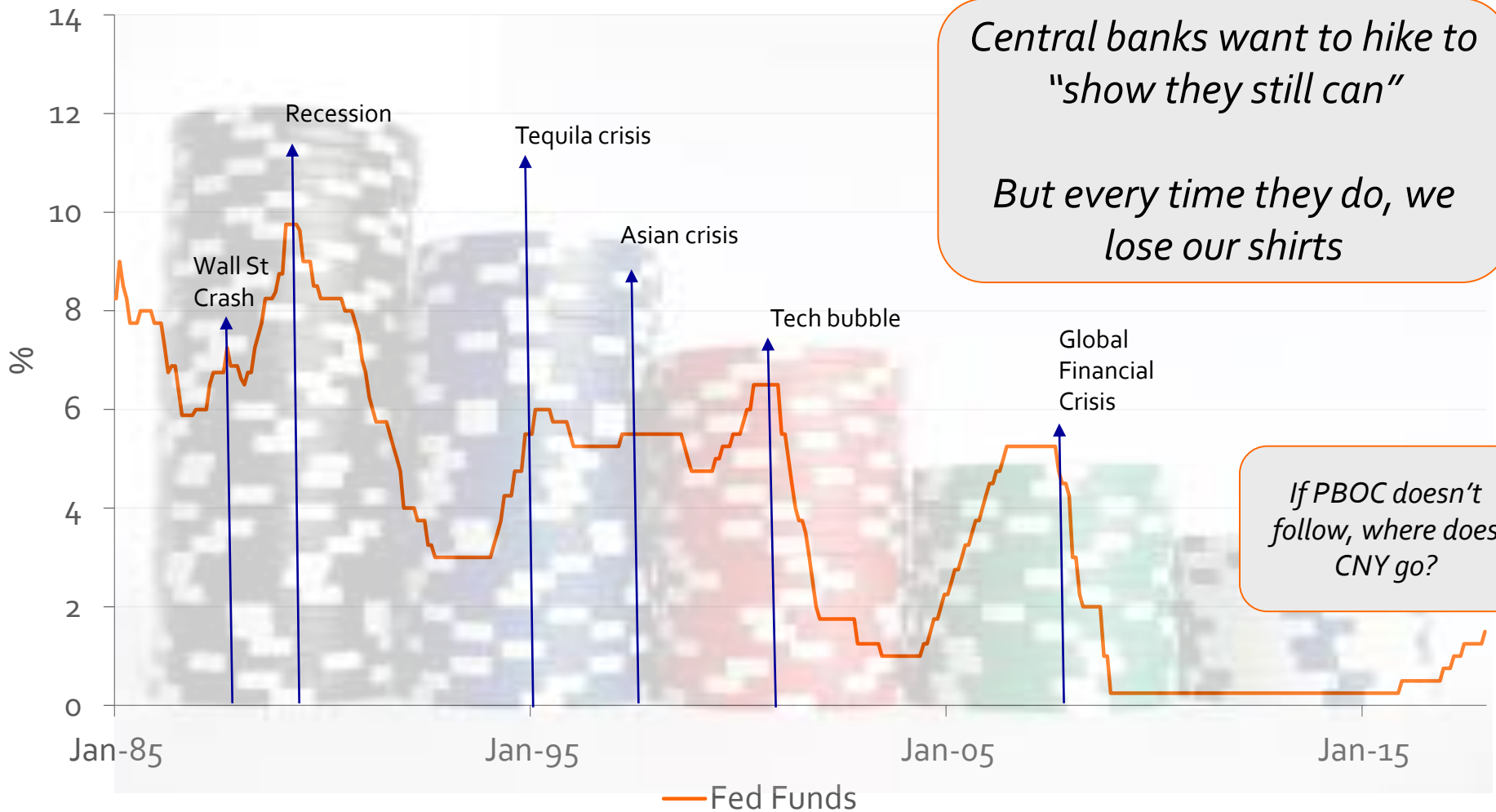
2017:
Top central
bank
assets =
**39% of
GDP**



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Losing our shirts

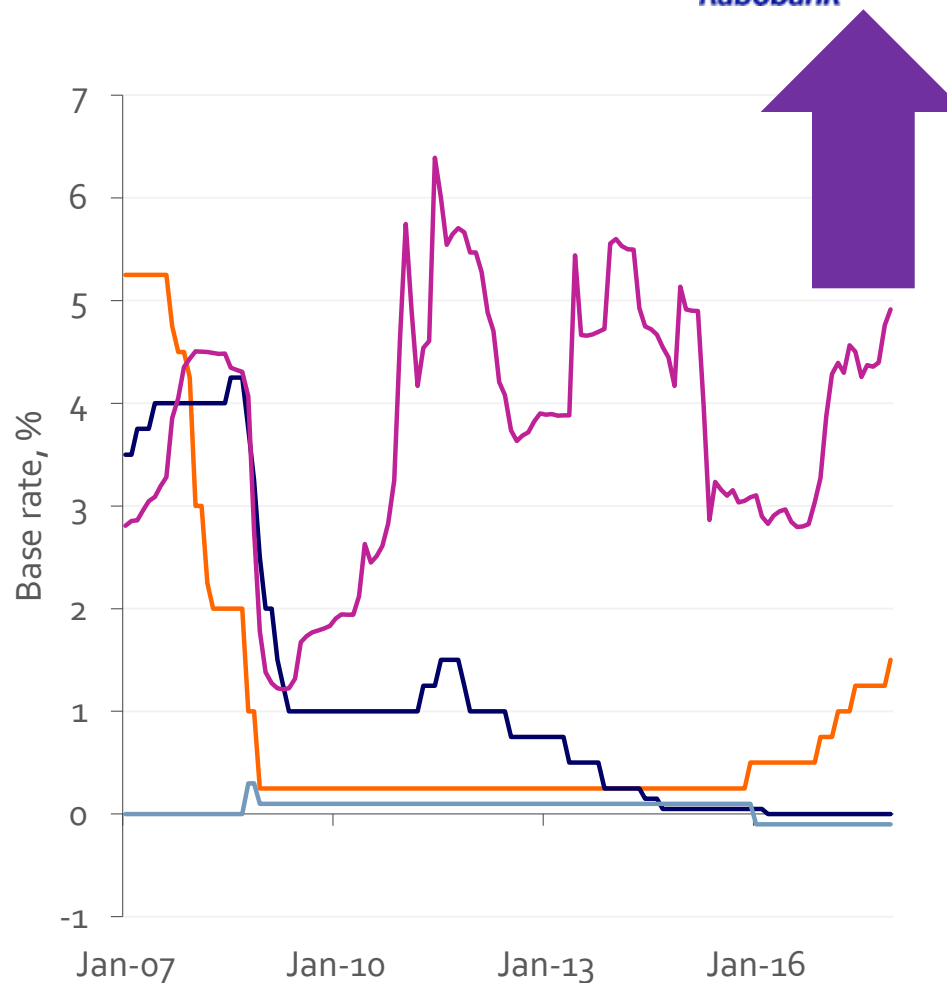
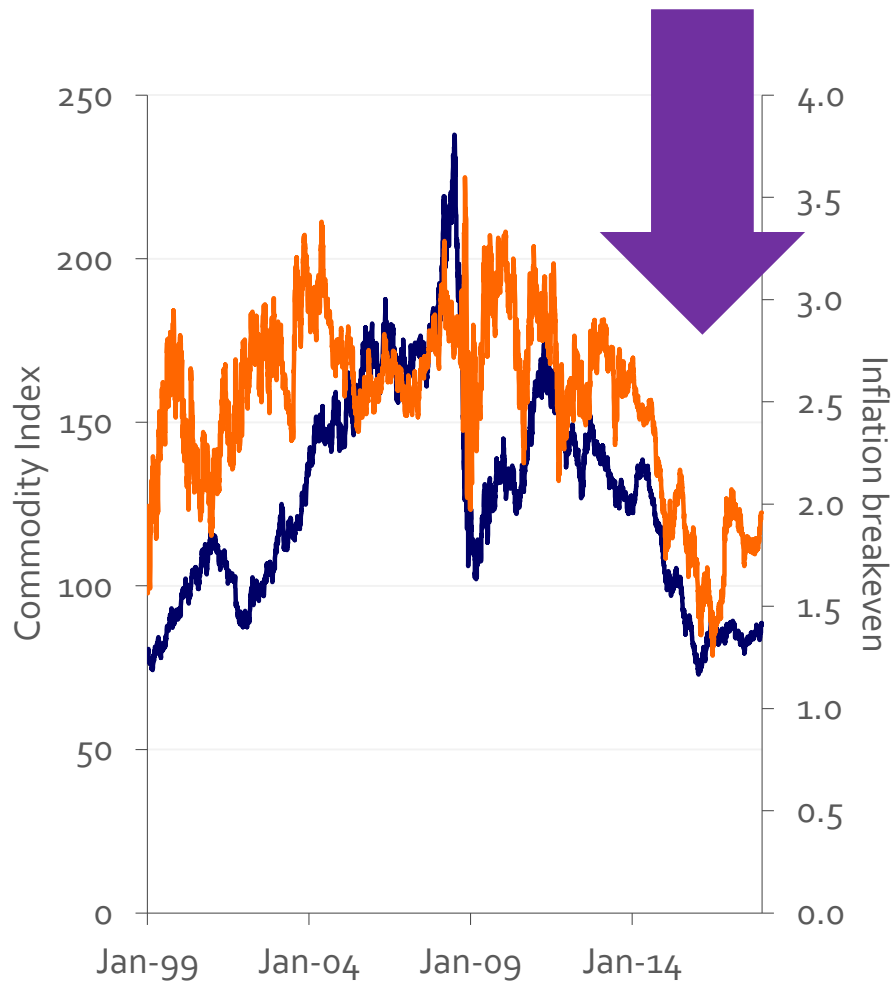


Central banks want to hike to "show they still can"

But every time they do, we lose our shirts

If PBOC doesn't follow, where does CNY go?

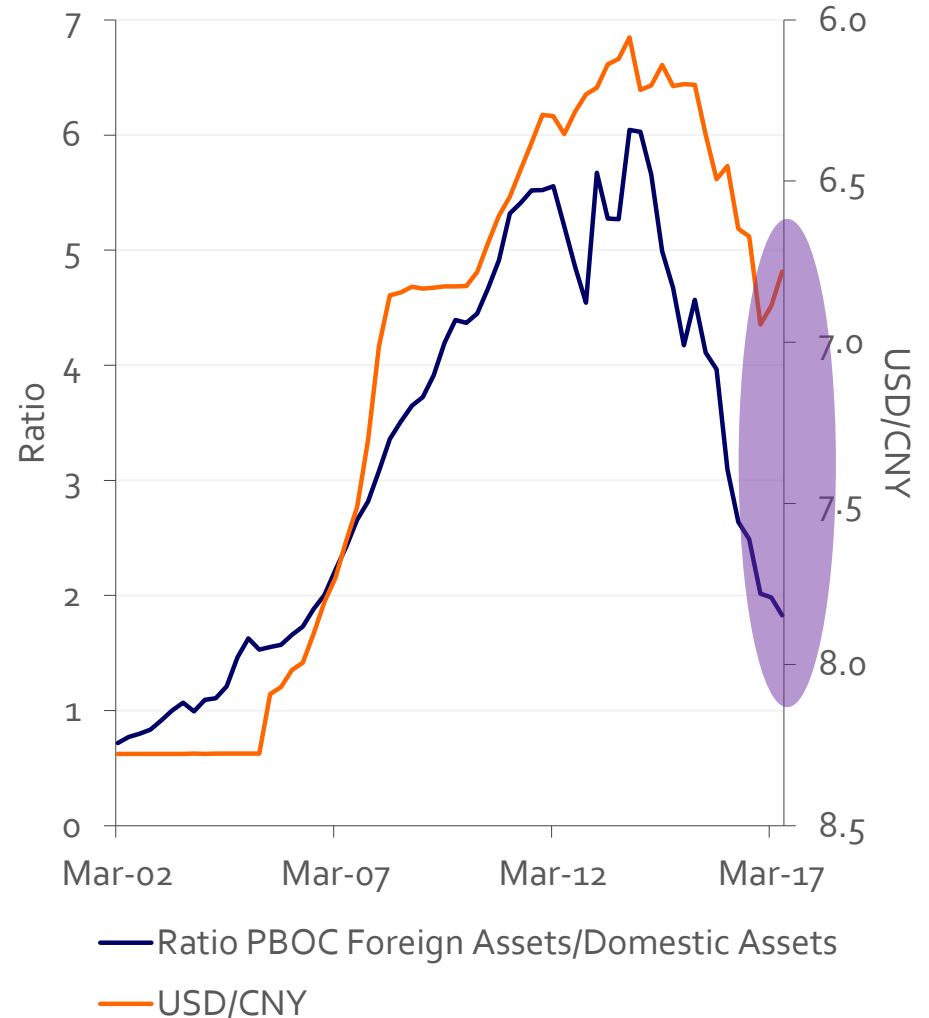
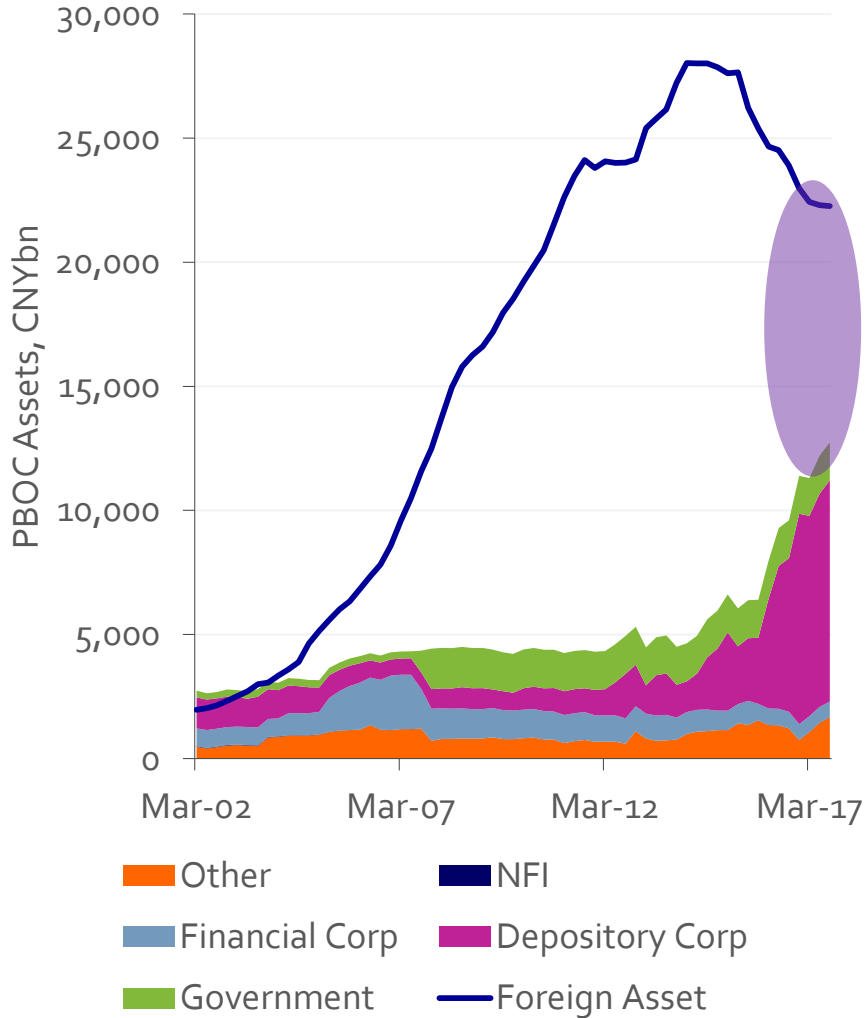
That's a VERY big bet!!



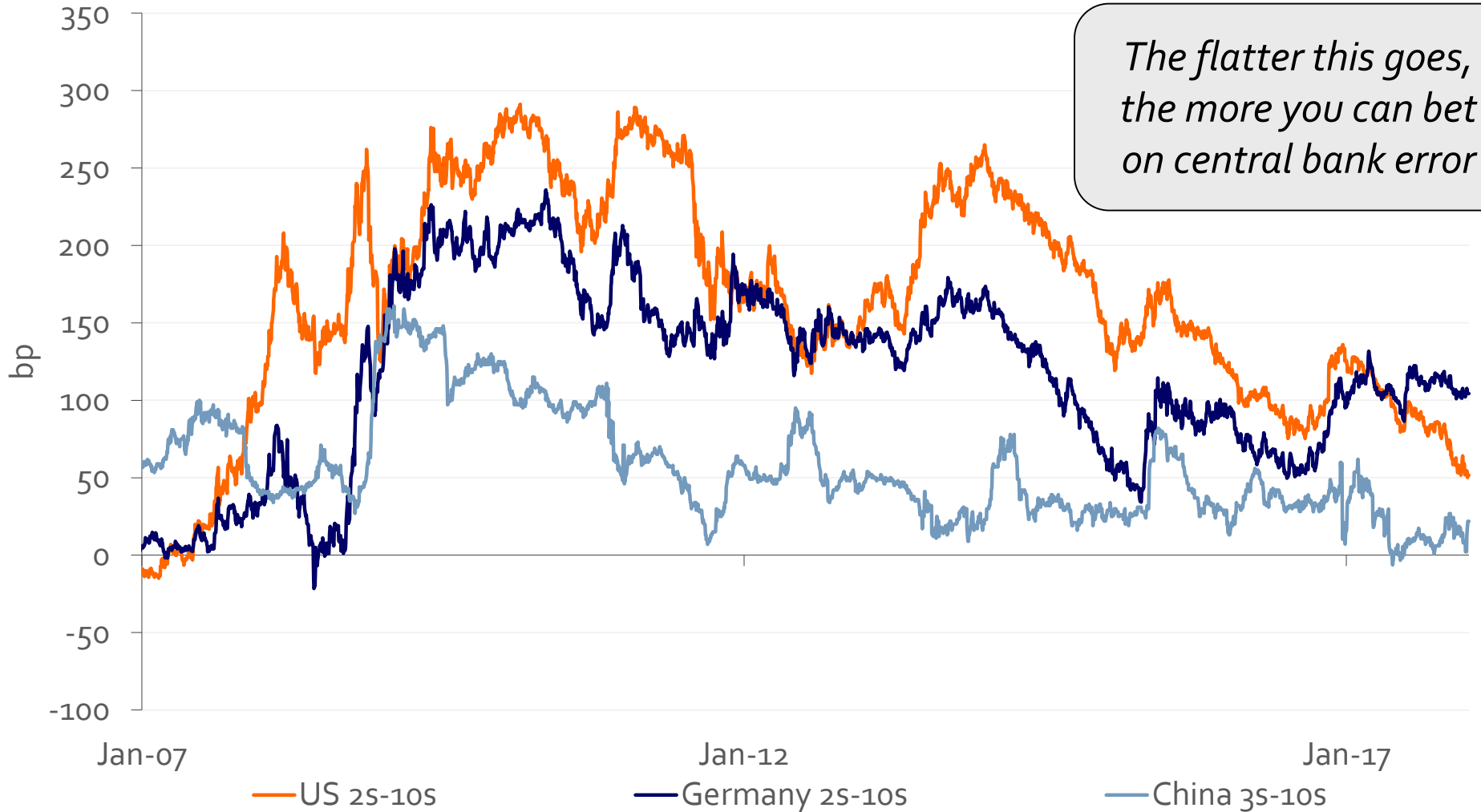
— Bloomberg Commodity Index
— Fed 5-Y Fwd Breakeven Inflation Rate

— FED — ECB — BOJ — China 3M SHIBOR

Can China control this?



A steep bet(?) Or a flat one



The house really loses – big time



Austerity



Event risk



Rate hikes

So is tightening just a joke?



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"Rates close to neutral"!



QE could be expanded!



"Prudent" policy!



JOKER



"Neutral rate" talk means nothing!

JOKER



"Exit strategy" > lower CPI forecast!

If things go wrong, reverse bets...



INSURED BET
ON SCORE
PREDICTION



Same old tricks won't work

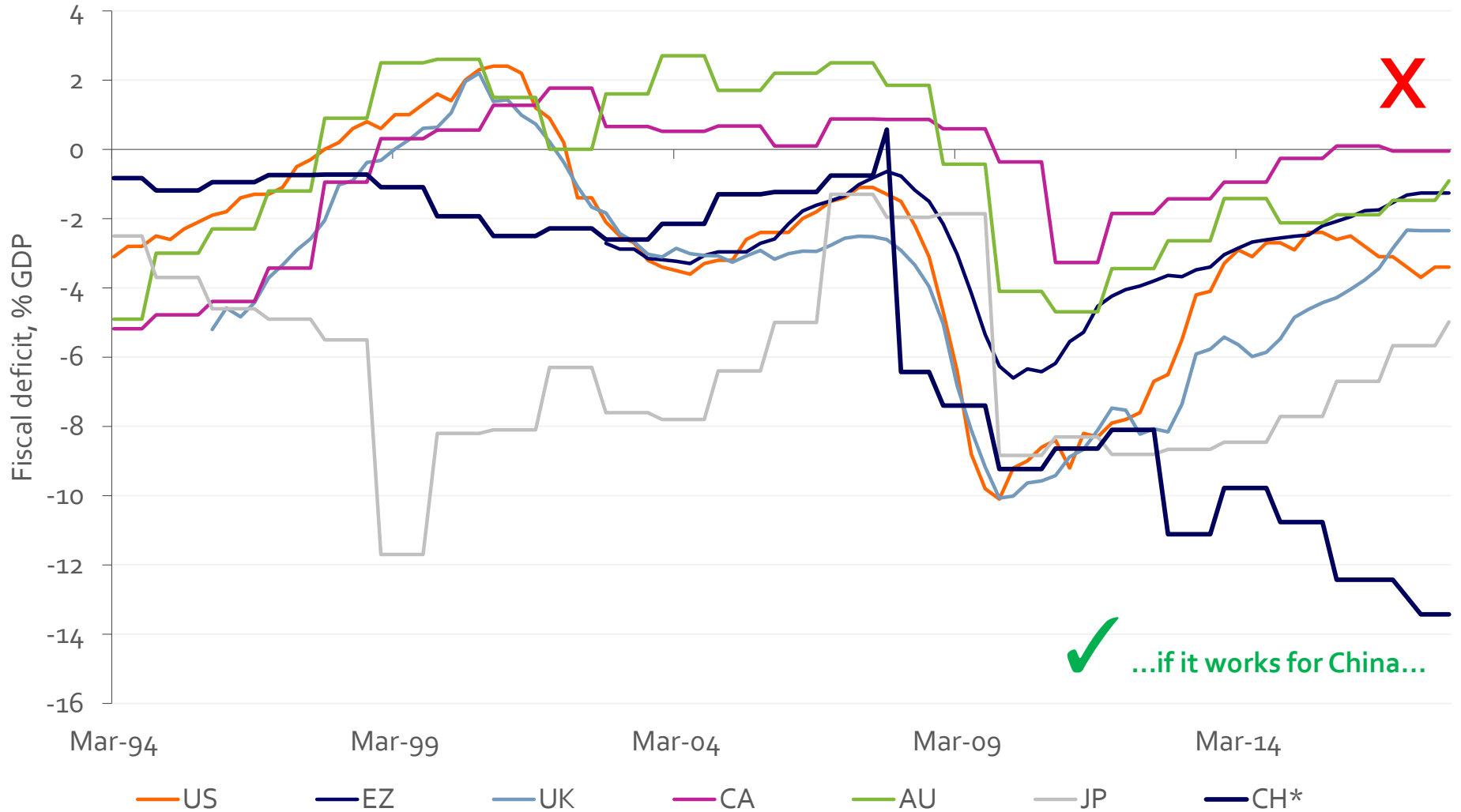


"Our policy has created 4.5 million jobs in the Eurozone so far. That's the reality, the rest is speculation."

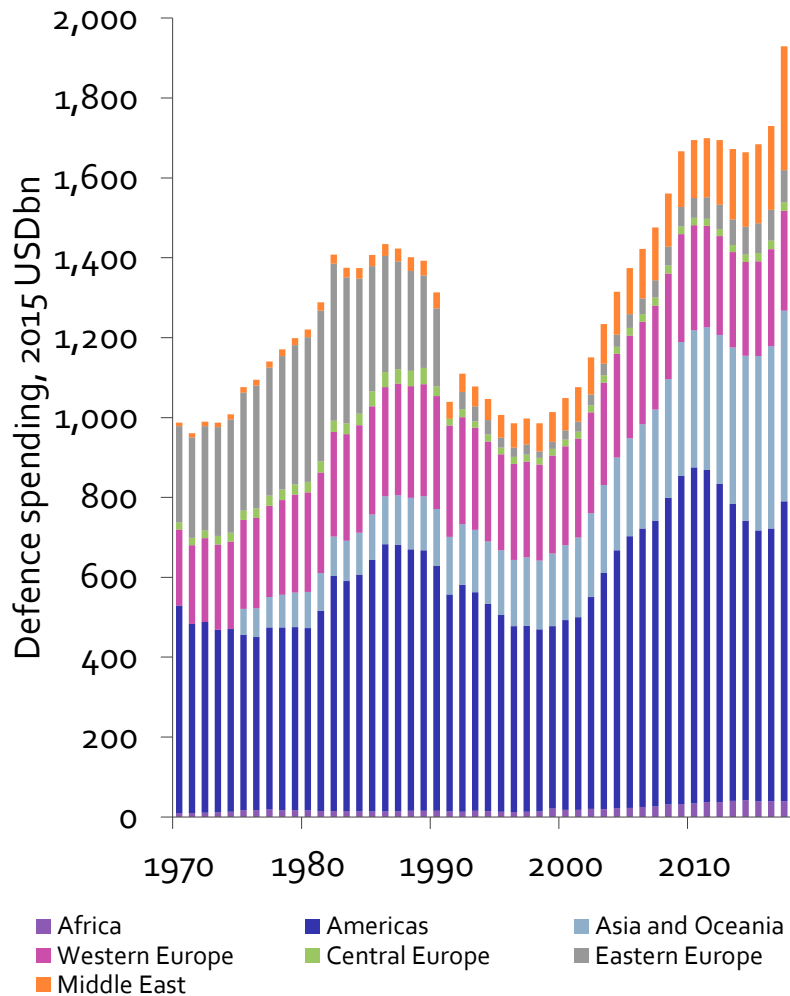
Draghi, 11 May 2017

- ❖ That equals **EUR 555,555** per job...
- ❖ ...and mostly **low paid**
- ❖ Is that a good way to spend your chips?

(New) Deal again? Fiscal forward



Shall we call security?



Trump lays out hike in military spending

Feb 27, BBC

Asia ramps up military spending as old order shakes

Jun 1, Nikkei Review

EU to outline plan to use funds for defence

Jun 5, The Guardian



Canada to increase its military spending by 73%

Jun 8, BBC

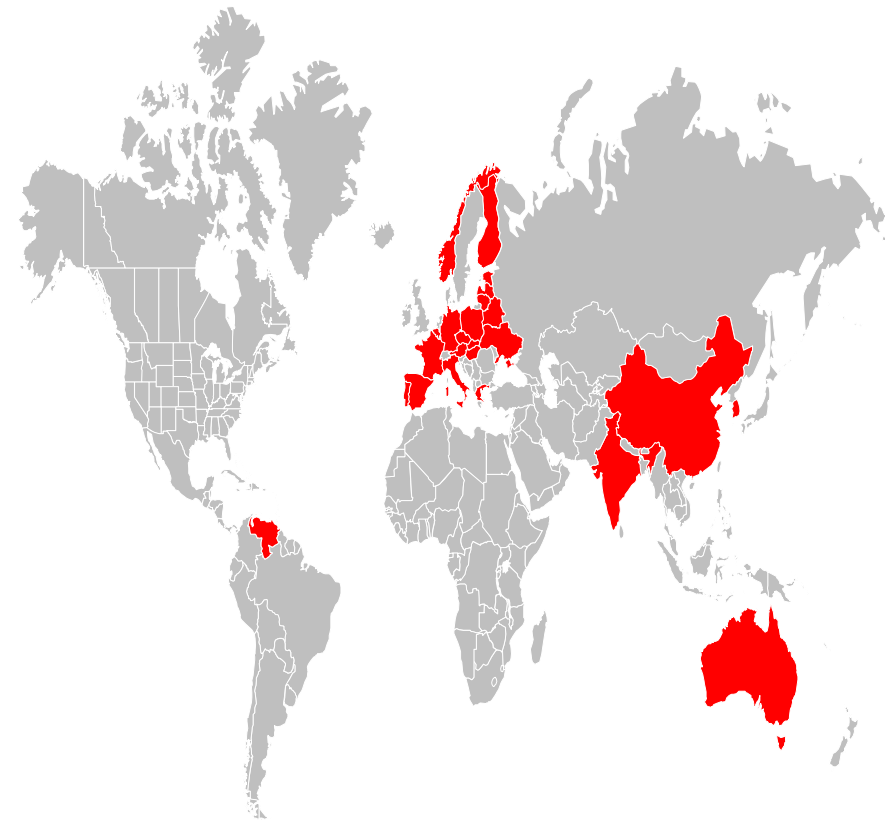
Invest in Britain's Armed Forces to boost the economy says PwC

Jun 26, The Telegraph

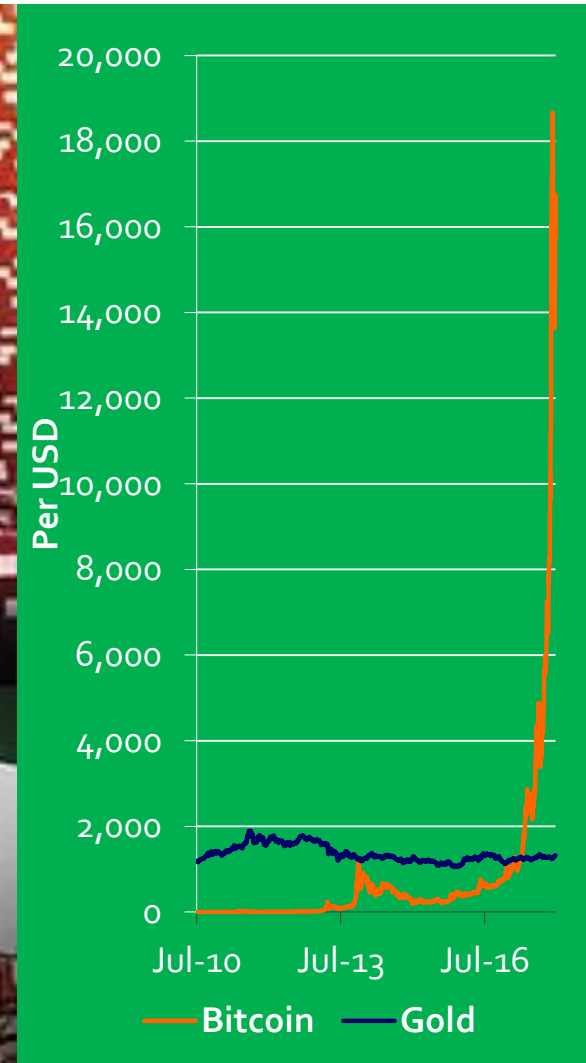
Or do we all go all negative?



Countries where use of cash being restricted or restrictions being discussed



Everyone loses



So, a Great Gamble



Central banks are going 'all in'

The bet **might** pay off:

Cyclical recovery - Record high stocks
Record house prices - Rate normalization
Stable China/CNY - Populism ebbing(?)

But unless we see

REAL WAGE GROWTH

the odds are against them

...and the stakes are sky high

All to play for

- 
- Politics normal;
 - Wages rise;
 - Reforms proceed;
 - Fiscal stimulus;
 - Growth holds up;
 - Rates normalized;
 - CNY stable;
 - Silk Road works;
 - Social QE if needed

- 
- More populism;
 - Wages flat/fall;
 - No reforms;
 - Fiscal austerity;
 - Over-tightening;
 - CNY falls;
 - Silk Road stalls

- CNY collapses;
- FX Wars;
- Trade Wars;
- Actual War;
- New mega-QE...;
- Monetary chaos;
- "Free" markets

How to play it



How to play it



**...but expect
jokers**

Important notice



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