

When the Sky falls, I'll Still be Part of the Union

Paul Gambles, Managing Director

I'm looking forward to catching up with Martin Soong and Oriel Morrison again on Monday morning in the CNBC studios at the SGX (Street Signs, CNBC 11:10 Bangkok time). It's been too long since I've been down to the Lion City.

The problem is that there's so much happening in the world, it's hard to know what to talk about.

The global economy?

MitOptimal's Scott Campbell was recently in Bangkok¹, expounding a case that austerity is strangling the Eurozone's economy to death, Asia and emerging markets are largely dependent upon China and the US and that these 2 economies are both now through the worst; although structurally lower growth numbers for China should be anticipated from hereon in. I half agree. Austerity is destroying the EuroZone and smaller emerging economies' fates are out of their own hands and much more down to the whims of policy makers in DC and Peking. However the US economy seems to be facing headwinds that remain unabated since the global financial crisis (GFC) and China's economy seems to be getting ever closer to the moment when my more apocalyptic friends think that a suitable musical accompaniment would be Adele singing "when the sky falls..." Admittedly, I'm disregarding the positive ephemeral data and focusing on the unresolved structural issues, but they continue to get bigger everyday simultaneously delaying but also increasing the inevitability of an "Adele moment" if the economy doesn't change path.

This week's FOMC meeting?

We don't have the minutes yet of course, so we don't know everything that was said. But other than getting to know which regional Fed members asked "Janet, what does considerable or mechanical mean?" or "Janet, are you really, really sure this stuff is working?" or "Janet, do you promise this will all go back to normal one day?" Reading FOMC minutes is depressingly like reading the minutes of a cult whose leaders are committing all the cut members to a "mass suicide", while telling them that the garden is rosy and they'll all live forever. Our own research has recently highlighted some 'maturity management' strategies by the 2-headed spectre of the Fed/Treasury that help to understand why so-called 'tapering' was nothing more than a scam – a kind of artificial book-keeping

¹ *Nothing but Blue skies?* Scott Campbell September 3 and September 4

exercise, that wouldn't satisfy even America's own highly dubious standard accounting practices for financial institutions – but then The Fed doesn't get audited so it doesn't even have to clear that low bar, does it?

Secular stagnation?

Spitting Image, an irreverent, latex puppet satirical show that older UK readers may recall, used to have a segment lampooning TV intellectuals (Dr. Jonathan Miller came out very badly) called 'talking bollox'. In mainstream economics, the intellectuals do it to themselves and simply call it research. Paul Krugman may have the conscience of a liberal but that's allied to the economic understanding of a 5 year old at times (what's the great Dennis Skinner's phrase about being educated to a level beyond your natural intelligence?). Having previously announced that the government could easily "end this depression now" ('this depression' being one that in his view couldn't actually have happened anyway), he now admits that they can't (at least not by his prescriptions) and has come up with the idea that it would be normal and natural for interest rates always to be negative (i.e. I'll borrow your money but only if you pay me to do so); and that the right way to achieve sustainable economic growth is to create a series of bubbles so that there's another one to hop to (like some capital market version of the 1980's video game 'Frogger'). Our Chief economist at IDEA Economics, has actually taken time out to expose this view as nonsense² and you may also have seen my recent attempts to do the same on MoneyChannel.

Part of the Union?

Much kerfuffle this week about whether the Flower of Scotland would remove itself from the pastures green of England (and to a lesser extent Wales and Northern Ireland). MBMG's most Scottish face, Graham MacDonald MBE, has spoken openly on Nation TV a couple of times about this. Despite Graham's evident passion and wisdom, I'd rather lost interest by the time that the vote came around. This was largely driven by the realisation that the vote didn't actually matter. At this phase of the economic cycle, we're about to enter the phase where small independent nations are no longer economically or strategically sustainable. Scotland leaving The Union at this time was not only unlikely (although the final results were closer than many had expected) it was also unsustainable. They'd have re-joined The Union again (probably on worse terms) within a very few years. Scottish independence would be much more viable in 2050 than it would be today....

Geo-politics

Expect tensions globally to continue to rise, not just in Scotland; that's what happens at this part of the cycle. The logical conclusion of this week's FOMC meeting (and everything else happening from Ukraine to Damascus to Jekyll Island) is the descent into World War 3. Many blame Putin, I've taken Kerry to task, most of Scotland will, with considerable justification, probably blame Dave the numpty. The reality is that the economic course that is currently being charted is the ideal breeding grounds for a universally unwanted conflict. Janet, can you promise

² *Secular Stagnation and endogenous money*, Steve Keen, Real-World Economics Review #66

me it won't happen? If it does, Paul Krugman and Larry Summers can be relied upon to come up with the idea that causing a bigger war will be the way to fix it!

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