

Nature sides with the hidden flaw

While the West has effectively weaponized the financial system by imposing strict sanctions against Russia, unbeknown to the West, we might be shooting ourselves in both feet as we are aiding and abetting the "weapon" of inflation.

Inflation is the Achilles heel of the West, I think we just don't know it yet... It is our hidden flaw.

Double digit inflation would force western central banks to raise interest rates aggressively which could, if high enough, pop the massive western debt and credit bubble which was thirty years in the making. This could result in a financial collapse which could, in its most malevolent form, rival Russia's epic 1998 financial collapse.

Sounds too surreal to contemplate, but I think this scenario is moving from a black swan to a grey swan i.e. from unknowable to knowable, but still a remote possibility.

The reality today is that inflation IS the weapon that could simply blow up the massively overleveraged western financial system, which seems fragile on every level.

This inflation is being felt today.

A rogue wave is simple a few big waves that happen to synchronize and build in size.

Coming our way is the rogue wave of inflation.

Inflation, to my mind anyway, can occur in three basic ways: (1) the cost of goods and services increase for whatever reason; (2) if demand exceeds supply; or (3) the fiat system upon which trade operates is devalued by central banks printing too much money, making credit too easily available or keeping interest rates too low. Any one of these can cause inflation.

What happens when all three happen simultaneously? We get a super tanker buster, a rogue wave of inflation.

Cost push inflation as a result of higher energy and food prices (the Ukraine war) and higher "everything else" prices as a result of the logistical snarl-ups, after the last two years of lockdowns worldwide and more recently the current strict Covid-19 lockdowns in China, which must be causing unbelievable supply line problems.

Demand inflation is also increasing due to pent up post Covid-19 demand, people want to taste the freedom of travel etc. that they enjoyed two or three years ago.

Last but not least central bank actions, the enormous amounts of QE done by central banks over the last two years, ultra-low interest rates and the easy credit policy.

They are all occurring simultaneously... now.

And this inflation is unwittingly targeting the hidden flaw in the western financial system, its Achilles heel.

I am not even sure it is a grey swan anymore, i.e. knowable but a remote possibility, but rather a white swan, knowable with a high probability. The only question remaining is how bad the fallout is going to be and how to keep one's wealth relatively intact?

It is the 64 trillion dollar question.

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