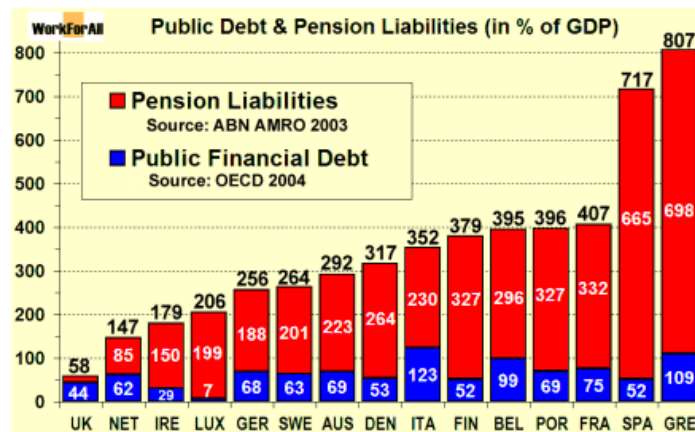




The world is getting interesting

Greece is looking more and more likely to default at some point. And it seems to make sense for everyone.



Source: <http://workforall.net/Public-Debt-pension-liabilities.html> Accessed 9 July 2015

While big, the debt is not the real problem. The problem is the cumulative future promises given to mainly government employees in the form of pension benefits. As one can see in the above chart from 2004 the Spanish and Greek governments long ago promised their employees the world as retirees and the economy cannot ever grow fast enough to deliver.

By defaulting they solve two problems in one fell swoop: they will have no future debt or interest liability to pay for and they can take the opportunity this crisis throws up, blame the rest of Europe and default on their pension promises as well. A massively devalued drachma would do the trick as well.

By giving such advance warning of an impending default, anyone with half a brain should have removed all their money, if not from Greece, then from the banks. Thus the majority of Greek citizens, ex the pensioners, will be spared the worst.

We have long argued that a generational war is coming because the older generation have promised themselves a rosy future to be paid for by the younger generation and they did this when the younger generation was too young to know what was going on. By creating this massive liability of government debt, healthcare and pensions, the economy is getting dragged into the mire taking young people's hopes and dreams with them. And they are getting irritated to say the least.

The Greek government debt is probably largely held at the ECB. Any bank or institution who hasn't repo'ed it deserves their fate and private individuals who still hold it could be accused of excess yield greed and therefore deserving of their fate. The only open question is whether the ECB will 'make good' the banks who were encouraged to hold these toxic government bonds with implicit guarantees as the ECB were not allowed (theoretically at least) to hold these bonds directly. We expect they will. The ECB can now shrink its balance sheet by the amount of Greek bonds held which will amount to direct monetisation. So from where we sit it appears inevitable and probably necessary.

However, politicians are renowned to do what is expedient not what is necessary so they could easily “extend and pretend” by restructuring the debt, delaying the inevitable.

The funny thing is, pretty much EVERY western country has done what Greece has done to some degree so what ended up happening to Greece could well be a preview to forthcoming attractions. Greek government, given its own central bank, would have done the inevitable and print their way out of their funding mess. Most countries with central banks and their own printing press are doing this in some form or another resulting in asset price inflation (which is curiously absent from the CPI or RPI figures).

On to the second interesting global macro smoking volcano which is the Chinese stock market. China has increased its debt from 2008-2014 by 20 trillion Yuan (400% over its 2008 level of debt) in order to sure up a very weak economy which frankly, if you have 1.5 billion people who rely on it, is a BIG problem. Most of this money has found its way either to property in Australia, New Zealand or Canada or to the stock market where a classic bubbles have formed and may well be popping as we speak. The Chinese stock markets are going down like very homesick moles and this is creating some very concerned investors!

The Chinese government response has been pretty heavy handed, to put it mildly, by suspending trading, bullying current investors not to sell with thinly veiled threats and banning short selling. Like a motorbike gang invading prom night, this is not a welcome development.

So the three legged stool of Europe, China and US is wobbling, the US the only leg looking remotely stable.

The bigger the crisis, the bigger the monetisation response and the bigger the resultant asset price inflation. This will lead to greater and greater swings in assets prices in shorter and shorter timeframes, much like the harmonic motion of a bridge in an earthquake.

Sounds like volatility to me.....

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