

BY RICHARD "JERRY" HAWORTH

## Snake prank

Remember the snake prank where someone gets a plastic snake, attaches a string to its head and a clip on the other end? And when the victim is not looking, the string is clipped to his person?

Made aware of the snake, the victim runs only to be followed by the snake. It is funny.

Governments are the victim (the only time in history I imagine) and the snake is inflation.

Everything the governments do to get away from inflation just causes inflation to follow them.

Inflation becomes rampant. They raise interest rates. Savers are now in the catbird seat and have much more disposable income. Borrowers, on the other hand, have to find more money to pay interest. In the case of governments running a deficit (which is all governments pretty much these days!), they print more money to pay interest which ends up in the savers' hands who, feeling flush with more money than anticipated, spend it. Inflation follows higher interest rates in a never ending spiral until the borrowers' pain massively outweigh the savers' gain.

Real economy deflation sets in as higher costs of goods and borrowing weigh in on the economy. Citizens cry out for relief from the torture of real world deflation.

Government response... well, it only seems wise to reliquify the economy through fiscal spending and loose monetary policy. How do they fund it? Well, by printing more money, of course!

China is in the midst of doing exactly this to counteract a property debt implosion. The problem is that whilst the money is well received, it goes anywhere except in the property sector, unless mandated to. I suspect a lot of it is leaving China and ending up in the magnificent seven/six/five.

In the US, inflation is falling due to the effect of unclogged supply lines and higher interest rates taking their toll. The Fed seems willing to claim victory over inflation and reduce interest rates again. Fiscal spending continues unabated (election year maybe?) and has reached truly gargantuan proportions in what can only be described as a healthy economy. God knows what they will do when a recession hits and fiscal spending is really needed.

Once again, the snake of inflation returns, sometimes with a vengeance, as the mass of money is now considerably greater and individuals who saw the trailer to this movie, know what to expect. They are more nimble in deploying it thus creating velocity of money which, I believe, contributes exponentially to inflation.

Inflation returns and once again, central banks raise interest rates and governments once again pay the interest with further borrowing. The inflation snake follows consequently.

This, as Pippa Malmgren quipped, leads to either hyperinflation, then war, or war and then hyperinflation. War being either internal i.e., a civil war when people just get fed up or an external one, where the powers that be find a scapegoat or a distraction for the bread and circuses' economy.

A very painful and bitter reset button is then pressed on the economy.

Whilst I do not seriously consider hyperinflation as anything but a very low probability, I do think that 10% inflation is probable and that 20-30% inflation is possible.

Surely it would be better to stop inflation in its tracks before this unenviable pathway is trodden?

It will take brave politicians and central bankers to mete out the necessary medicine.

To break the credit cycle but allow borrowers to fail; to curtail the money supply and fiscal spending and endure a good old fashioned recession.

Now that would be a true black swan.

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