

36 South Views

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An intellectual insult

The intellectual insult at the moment is that it feels like there is massive risk inherent in the world's financial system but that feeling is not supported by either prices or the rate at which prices are changing (volatility).

There is a prevailing view that price stability equates to financial stability, so the more stable it appears to be, the less risky it is. (Many a zebra at a watering hole has fallen foul of crocodiles, mistaking calm waters for safe waters!)

Rationality seems suspended.

If you don't think so, please explain to me how a BB rated bond can be approaching a negative yield, unless a mad billionaire had taken a liking to your small illiquid bond offering and driven it to those inexplicable levels...

Anyway, even if it is true that asset prices have been driven to absurdly high prices by Machiavellian central bank policy, how do you position yourself in a market when you know the second order consequences of any systemic crisis will be more QE, resulting in higher asset prices not lower?

It seems a massive fallacy, glacially constructed. It is exasperating if you stop to think about it.

Just as well I didn't have this mind view about Santa Claus when I was young because I would have had to come to the conclusion that my parents and grandparents and all their friends were liars. My promise of a positive outcome (presents) overwhelmed any qualms I had about a very flimsy mistruth. It would also be very frustrating to try and convince the other kids your age of the obvious truth about Santa Claus (and the tooth fairy for that matter).

And so it is with the economy; the illusion of high nominal prices manufactured by zero or negative interest rates has created a delusion which we all buy into because we want to believe it.

But the economy and the financial system cannot be OK like prices and volatility indicate, otherwise why are interest rates staying so low, why are major shipping companies liquidating, why is the ECB still buying corporate bonds, why is Chinese credit expanding at a non-sustainable rate?

There is no end to what the politicians and government officials will do or say to avoid the painful truth. It reminds me of an interview with a government minister in a third world country who was slated by the interviewer for being so obviously well fed whilst the majority of his countrymen were starving.

He replied "they are not starving, they are fasting!"

Well, more and more of the first world population is 'fasting' too as this current regime favours speculators and debt owners. Most people don't get to avail themselves of the opportunities afforded by zero interest rates unless they buy ridiculously overpriced property which, even at low mortgage rates, eats a substantial part of their take home pay. Publicly listed corporates, on the other hand, are falling over themselves to buy whatever they can whilst their funding cost is negligible, including their own stock. The pie might be getting smaller but they are getting an ever-increasing share of it! Even certain central banks are cashing in on the action, buying swathes of equities.

All of this occurring whilst the general population plays Pokémon Go.

I wonder who will be the one to tell the world that Santa Claus does not exist.

I feel like Major Tom, floating helplessly... watching... waiting.

Now it's time to leave the capsule if you dare

This is Major Tom to Ground Control

*I'm stepping through the door
And I'm floating in a most peculiar way
And the stars look very different today
For here
Am I sitting in a tin can
Far above the world
Planet Earth is blue
And there's nothing I can do*

David Bowie¹

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¹ Bowie, D. (1969). Space Oddity [Recorded by D. Bowie]. Single [Gramophone record]. London, England: Philips Mercury RCA.