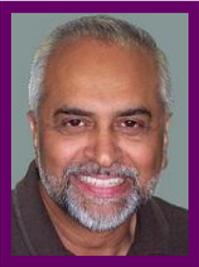


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WRITTEN BY: ASHOK DHILLON



Ashok Dhillon has 40 years of front-line business experience in Canada and International markets. He has founded and led companies in construction and international power development.

Mr. Dhillon has worked and negotiated with highest levels of Governments in Canada and India. He has pursued and won mandates to develop power plants in Canada, and foreign jurisdictions such as Hungary, Iran, Pakistan and India with uncompromising ethical standards. His extensive experience in securing and negotiating multi-hundred million and billion dollar mandates in power project development, gives him in-depth knowledge and intuitive insights into macro and micro, national and international, geo-political and economic realities and trends.

Mr. Dhillon has been invited to speak on international business at various forums, including as an expert witness for the Standing Senate Committee, Government of Canada, on "The Rise of Russia, China and India".

The Defeat of Central Banks, and the Ensuing World Chaos



On September 17, 2015, the Federal Open Market Committee ('FOMC') rendered its decision to *not* raise interest rates from its long term near zero position. In the speech given by the Chair of the Federal Reserve, Janet Yellen, a new twist was added to the regular reasons usually given (*National (U.S.) Economic Indicators*) for holding the rates to their historic lows. That new twist this time, was that the Federal Reserve took into consideration the rapidly deteriorating global economic conditions to be pertinent to American economic well-being, and therefore a good reason for the FOMC to include in their considerations to not raise interest rates. Both decisions, to *not raise interest rates, and to include global economic conditions, in the Fed's consideration for the first time*, triggered a storm of negative reactions in the U.S. and abroad. The financial markets, although addicted to the ultra-low interest rate environment, reacted badly to this news, as they had been expecting a rate rise. And the precedent setting inclusion of international considerations in the FOMC's decision was equally unexpected and frowned upon in the U.S., and sent most everyone into a mild state of hysteria.

The general angst caused by the decisions, made the Federal Reserve panic in its own right, and a week later while giving another speech at the University of Massachusetts, in Amherst, Massachusetts, "*Inflation Dynamics and Monetary Policy*", Janet Yellen was compelled to add, at the end of the speech, that the FOMC was still planning an interest rate hike at the end of the year (*to reassure the markets*), unless economic conditions dictated otherwise. We had expected the Federal Reserve to not raise interest rates and had mentioned it in our recent Economic Reports. And our

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steadfast contention, and in fact our reason-d'être for our Economic Reports, has been to explain the effects of the interconnectedness of global economies, and the fact that none can for the most part, function in isolation from the others, no matter how independently strong they may be. In point of fact, we have been calling for the continuing deterioration of the global economic conditions; China's 'hard landing'; and had stated that in spite of the apparent strength of the U.S. economy, we believed that the U.S. was heading for a recession precisely due to the interconnectedness of all major economies (See our past reports). Recent global, Chinese and the U.S. general macro-economic indicators, and the resultant financial markets' reactions, have once again proved us right in the face of general expert opinion. The global economy is continuing to deteriorate, China is in a hard landing, and the U.S. economy is weakening.

To us, it could not have gone any other way, given the single minded, narrow impact, 'trickle down' wealth creation policies followed by Governments and the Central Banks through their QE programs over the past 7 years.



Excerpt from Janet Yellen's speech at University Of Massachusetts:

"Most FOMC participants, including myself, currently anticipate that achieving these conditions will likely entail an initial increase in the federal funds rate later this year, followed by a gradual pace of tightening thereafter. But if the economy surprises us, our judgments about appropriate monetary policy will change."

It is quite shocking that after all these years, with over US\$4.0 Trillion spent, and the near zero interest rates for all these years, the Fed still cannot be certain about the direction of the economy over the next couple of months, and hence the caveat in the last line of the excerpt.

Considering the current volatility in the Global Markets, and the further confirmation of China's hard landing (since her September 17 and 24 speeches), we can be pretty certain that Janet Yellen and the 'data dependent' Federal Reserve isn't going to see any real improvement in the coming economic data, and therefore will not be in any position to raise the interest rates, again, "later this year".

In fact, it is our belief that the global economic conditions may further deteriorate to a point that the Federal Reserve may have to reverse course. We can only imagine the chaos that action will cause in the U.S. and global

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markets (*if it happens*) that till now have been convinced (*or wanted to be convinced*) that the economies have been steadily improving, and that anytime now the long road to 'normalization of interest rates' will start, and the return to steady economic growth will become a fact. Unfortunately, we foresee more troubles ahead in global economic conditions, and particularly in the global financial markets that have been sustained, and are being artificially.



As we have stated before, the considerable overcapacity in the World, built over the past decades of increasingly loose monetary policies have created a glut of supply in everything from oil, natural gas and coal (*and solar panels*) while energy demand has shrunk, to the other raw materials such as iron ore, copper, zinc and nickel, to finished materials such as cement and steel, and household consumer goods. While the overcapacity continued to rise, global demand from over leveraged consumers facing uncertain jobs prospects shrank, bringing about the stubborn and relentless deflationary global economic environment of today.

As we had also previously pointed out, each country, under increasing pressure to boost internal economic growth and jobs, resorted to devaluing its currency, discouraging imports and encouraging exports. But when all or most countries resort to the same tactics it becomes a frantic race to the bottom, as it has over the last few years. This downward momentum is not going to abate anytime soon, until the over capacity is substantially written down and global consumers are meaningfully deleveraged and recapitalized, like defunct banks.

In this current environment of global economic deterioration neither of the needed factors are taking place fast enough. Meaningful downsizing is just starting in the major economies, particularly China, but that is also taking the consumers in the wrong direction, with uncertainty of job security and possible loss of incomes. These conditions exist in most of the major economies of the World, and are going to get further exacerbated as demand continues to shrink and serious oversupply and overcapacity continue to linger.

These conditions exist and persist in the face of the most determined and collective effort of all Central Banks to reverse these trends over the past

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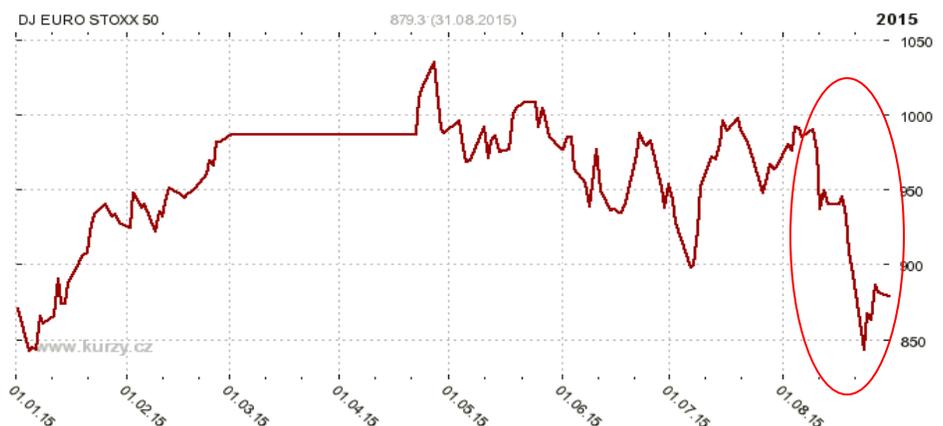
years, at times taking these efforts to the most absurd and dangerous levels. The fallout from such ill advised actions is starting to be felt now.

Japan embarked on the most aggressive, and relative to its GDP, the largest quantitative easing program in the World under Abenomics, opening its Central Bank's spigots for Trillions-of-dollars in liquidity to boost economic growth and create targeted inflation of 2%. It failed on both counts. Over the years as Japan's exports were undercut by competition and internal demand stagnated, it tried expanding into large emerging markets to try and retain market share. The recent decline in growth in those and its former big markets, the developed countries, and stubbornly flat internal consumption, is making it almost impossible for Japan to find any economic traction in spite of its recent massive infusions of liquidity (*currently totaling approximately US\$2.9 Trillion*). In the last few quarters, the economy is back into recessionary territory in spite of the all-out effort of its Government and its Central Bank (*Abenomics*) to break it loose from its decade's long inertia. Its stock market, like the other major markets below, is starting to reflect the internal and external realities and the growing loss of confidence in the Central Bank's power to permanently overcome multifaceted economic, business, and demographic headwinds.

NIKKEI 225 LAST 1 YEAR



The EURO STOXX 50 reflecting Euro Zone and global realities is in tandem with the other major markets.



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In spite of the repetitive mantra of how good the U.S. economy is, reality is starting to set in.

Dow Jones Industrial Average Historical Chart

September 2010 to September 2015



China in this context merits additional comments as it was the stock market that had the most meteoric rise over the past year, going up approximately 150% between June 2014 to June 2015, on the direct promotion, and more importantly - the implicit backing of the all powerful Chinese Government.

When the confidence broke in June 2015, eroded by the relentless negative numbers emanating from its overinflated economy, it was a sheer rout. The market fell by over 30% initially, wiping out over US\$4.0 Trillion in wealth before being arrested (*pardon the pun*) in its fall. But the trust in the Government had been broken and panic had set in. The more the Government tried, through downright draconian measures (*by any market standards*), to stop the plunge, by halting trading and arresting sellers, and tried to boost confidence through injecting massive amounts liquidity, the more the investors panicked. In the end, and in spite of all Government efforts, as can be seen, the market has been defying all the Governments efforts, and has been relentless in its downward trajectory. The latest dismal economic numbers coming out aren't helping any. On August 24th, 2015, the Shanghai Market dropped another 8.5%, the day being labeled "Black Monday", as additional Hundreds-of-Billions in wealth evaporated, leaving trapped investors desperate to exit, and leading to future selling pressure.

As the internal and external economic conditions continue to deteriorate, we expect the Shanghai Stock Market, where China's largest companies are listed, to continue its jagged decent, in-spite of all Government efforts to

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artificially halt and reverse the trend. The stock market will continue to reflect China's hard landing.

The Shanghai Composite Index So Far This Year

The index at one point today suffered its worst decline since 2007



In China, where individual wealth creation, and ownership, is a relatively new experience, the recent plunge in the stock markets, wiping out Trillions of newly acquired wealth, is much more serious a phenomena than in the more mature markets and economies of the rest of the World. In China, the sudden loss of capital for the 90 Million plus individual account holders, most of them relatively poor and most of them buying on highly margined accounts, could very well trigger a cascading effect on China's highly leveraged financial system. A collapse or a real crisis of the financial system could become a trigger for serious social unrest, and spreading political instability. These possible unpleasant out-comes explain the Government's panicked efforts to stop the falling markets at all costs, including the suspension of trading, threats of arrests of sellers, and 'under-order' forced buying. These extraordinary measures taken by the Government of China are to prevent the more unpleasant scenarios from unfolding.

After 7 years of pursuing its extreme zero rate monetary easing policy, the Fed should come clean and admit defeat and change policy to normalize interest rates and bring back true price discovery, rather than continue to pretend that the day is almost here when the economic conditions are normal enough to warrant the normalization of interest rates. Because, whether they (*the 'FOMC'*) admit it or not, economic conditions in the United States and globally are proclaiming loud and clear that the Federal Reserve's, and the other Central Banks' (*China's, Japan's and Europe's*), post 2008 sustainable economic recovery inducing policies have utterly failed, in-spite of the ongoing

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and massive financial stimulus from the Central Banks in all the major economies, 7 years on. Artificial asset price inflation has teeth on the other end, as China is finding out.

The recent past and all current efforts to reverse the deterioration of global economic conditions, and financial market plunges are eventually doomed to fail as market forces relentlessly exert their dominance over political and Central Bank's collective will, and public and private financial engineering.

Since the financial crash of 2008, the major Central Banks of the World have injected over US\$15 Trillion into creating the wealth effect in the global economies, by inflating asset prices. The recent plunges of the major financial markets have probably wiped that out, or will wipe it out in a matter of weeks or months, leaving only massive debts on most major public and private balance sheets, that will eventually be assigned to the tax payers of the World, and to ordinary shareholders to shoulder, over a very long period of time.

But the other price attached to this Governmental and their Central Bank's folly is the ongoing and coming massive job losses that the ordinary citizens will have to suffer, as the foolish attempts to engender a fake economic recovery comes to its final and impotent end. Already, since last year, major international and national corporations have been announcing massive layoffs as business and profits shrink globally.

Most international banks, the largest technology companies, biggest auto manufacturers, international energy companies, other major corporations, and governments under budget constraints, have cut hundreds of thousands of jobs cumulatively, and are continuing to do so. This trend will only accelerate.

And as usual China will be larger than life when compared to everyone else, even on the jobs cuts front, in spite of the Government's efforts to try its utmost to prevent job losses. The excerpt below, from a recent article in the CHINADAILY, is indicative of what may be coming.

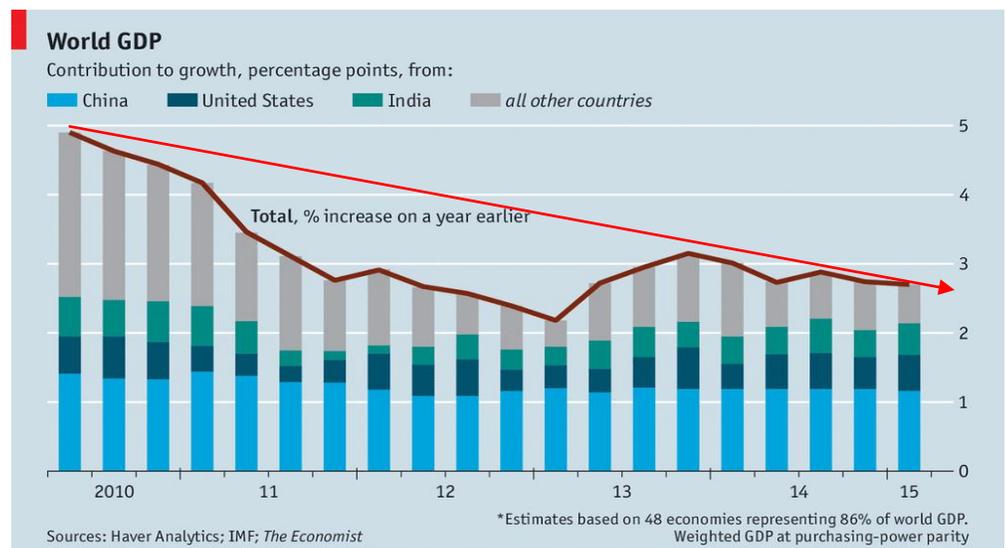
CHINADAILY (EUROPE) - "The largest coal mining group in Northeast China is cutting 100,000 jobs within the next three months to reduce its losses - one of the biggest mass layoffs in recent years."

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In the Chart below, based on 48 of the largest economies, is the estimate of growth rates of 86% of world GDP. As is apparent, collectively, the level of growth rate is still substantially lower than the peak achieved in the rebound in 2010 (*almost 5%*), after the 2008 crash. But more importantly since mid-2013 the global economic growth has once again turned downward and is estimated to be well below 3%, in spite of upwardly fudged numbers by most governments and the over US\$15 Trillion spent in economic stimulus to-date. When one accounts for the fact that government numbers usually err substantially on the side of over optimism, one can safely assume that the latest real growth number is probably a lot lower than shown, and is probably around 1.5%, and heading lower; we think that down trend can only continue.



Economist.com

This persistent contraction of the global economic growth rate is taking place in spite of the absolutely unprecedented liquidity unleashed by all the major Central Banks since the financial crisis of 2008. As the Central Banks become aware of their helplessness in the face of the relentless slowing of global growth and the accompanying deflationary trend, and major financial markets begin to crash with increasing frequency, maintaining the downward trend and wiping out the artificially induced “wealth effect”, one can almost feel the growing and palpable sense of confusion and fear that is starting to permeate the Central Banks and the global financial markets in the face of the reemerging reality.

Unfortunately the financial carnage and the accompanying economic chaos from pretend economics and pumped-up asset prices are just starting. It is too bad that the people responsible most for the economic disaster, currently unfolding, will as always escape the pain.