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Global Economy – Running Aground & Breaking Up

WRITTEN BY: ASHOK DHILLON



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Source: maritime – executive.com

To borrow a phrase from the American constitution and paraphrase, 'we hold these truths to be self-evident' – Central Banks have gone insane, because after years of their stimulative efforts not producing the required results, they produce instead: massive wealth inequality driven to unconscionable levels by their "trickle down policies" that don't work; global debt at an all-time high; the global economies heading for a severe recession; massive job losses that are already underway, and more in the offing; global trade at historic lows; Europe, China, Japan and the US as growing threats of violent corrections; and asset bubbles poised to implode.

It is 2016, the eighth year after the great crash of 2008, and the Central Banks of the World, including the Federal Reserve, considered to be the World's Central Bank, are in a deep quandary as to what to do with the World's economies that have run aground and are breaking up, in spite of them 'stimulating' the economies all these years, through spending of inordinate amounts of money (*almost \$60 Trillion, since 2008 alone*) through regular injections of Trillions of dollars, through bond buying programs, and near zero interest rates. Their first line of defense had been total denial, insisting the economies were well on their way to recovery while they continued to prop them up actively and continuously. Well, that 'line' isn't working any more as the evidence keeps mounting that they have broken the global economic system, through decades of increasing liquidity and debt (*Globally over \$200 Trillion*) and created over-consumption, over-capacity, mal-investment, gross inequality and debt (*lots & lots of debt*) that has burdened and crippled the economies.

The torrents of easy money flooding the financial systems have distorted true price discovery and inflated asset markets, making the system come full circle, and once again be vulnerable to potentially severe corrections.

Even as the Central Bankers have distorted completely out of shape all the fundamental rules of sound economics, and pandered almost exclusively to the speculators and money changers, bestowing upon them *unfathomable* amount of risk free riches, they have simultaneously burdened their tax

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paying and struggling citizens, with almost limitless debt, while impoverishing them through systematic destruction of their personal savings accounts, retirement and pension funds, through low or near zero interest rates. And now with teetering economies, people's jobs are once again on the line as major corporations around the globe have been, and will continue to, lay off tens of thousands of workers (*In China those numbers could be in the millions*).

The other travesty the Federal Reserve and its flock of following Central Banks have perpetrated is to actively herd all investors, savers and institutions into higher risk assets. As there are little to no returns in saving accounts or safe money instruments (*bonds*) under zero interest rate policies, and keeping money under matrices doesn't pay better interest rates either (*might keep it safer than in some banks thought*), stocks, bonds, real estate and art/collectors items have been the assets that investors have been driven to, to fulfill the Central Banks mandate to create the 'wealth effect'. The idea being that if people own these risky assets rather than keep the money in their savings accounts or some other means of secure savings, then the economies will recover, and if everyone spent their money on appreciating assets, and those assets went up substantially in value, then people will 'feel richer' thus creating the 'wealth effect', and by spending their new found wealth more, they will stimulate the economies further.

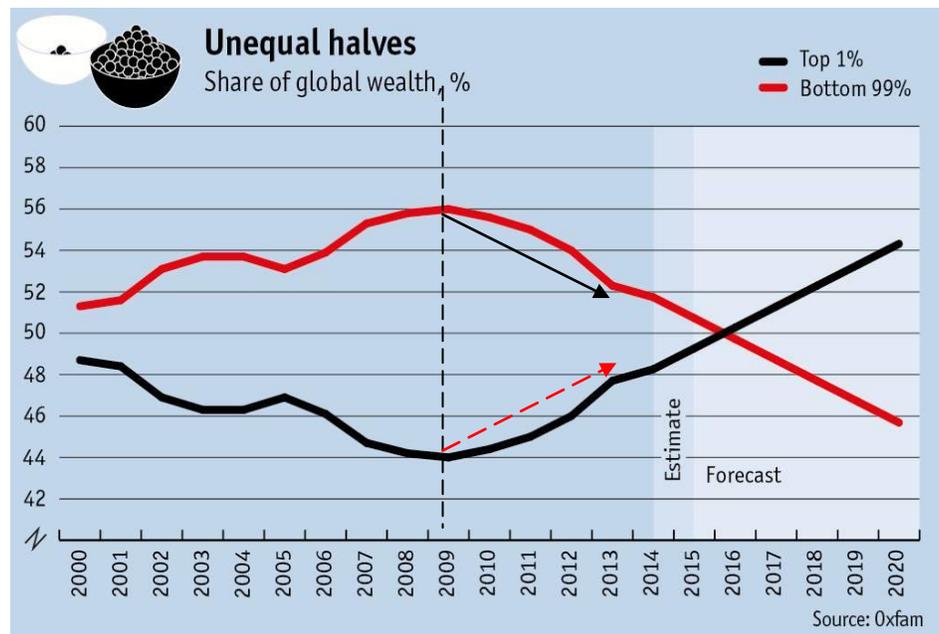
So that's precisely what the Central Banks have done; purposely inflated the stocks, bonds, real estate, art/collectibles markets, kept interest rates low, to drive money from savings vehicles into the inflated asset markets. Of course they are not warning people (*savers & investors*) that the flip side of inflated asset markets is the potential for sharp corrections and crashes (*Ala China's overhyped stock markets of yesteryear*) which can wipe out years of gains in days and impoverish people for life, if they are in the wrong assets with leverage, or in those assets are permanently impaired or bankrupted (*corporations, real estate development companies, investment vehicles, etc.*).

Of course retirement and pension funds are particularly vulnerable to low interest rates and risk prone assets such as the financial and real estate markets. And, in an age of aging populations, in the developed countries particularly, the interest rates have been the lowest; in fact in some countries they are now negative. The timing to impose such risks on people and saving institutions couldn't be worse. But that's exactly what the Federal Reserve and the Central Banks have done over the past 7+ years. The ongoing and coming corrections are going to hurt a lot of ordinary people around the World, particularly the retirees, pensioners and economically weak. But then the weak (*meek*) do not inherit this physical earth (*perhaps the spiritual one*) as this earth and its systems belong to a handful few who through their control of governmental policies, favourable regulations and financial systems, have also little regard or respect for the vast majority they consider as mere exploitable slaves, put on this earth to simply enrich them with their readily available and cheap labour.

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Aground &
Breaking Up

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Interestingly the top 1% really started to have things go their way in 2009 when Hundreds of Billions in bailouts and the QEs really started in earnest, and continued to ratchet up till the Central Banks had printed and put out (in the hands of the few in the banking systems), Trillions of dollars worth of cash, and the additional benefit of having the capacity to borrow more Trillions at practically 0% interest rate. No wonder the disparity in inequality rocketed up from 2009 onwards, as per the Chart below. The scales of inequality are so out of whack here that even if the numbers aren't precise the obvious imbalance is quite unsustainable (verified by numerous academic studies, data gathering organizations, books etc.).

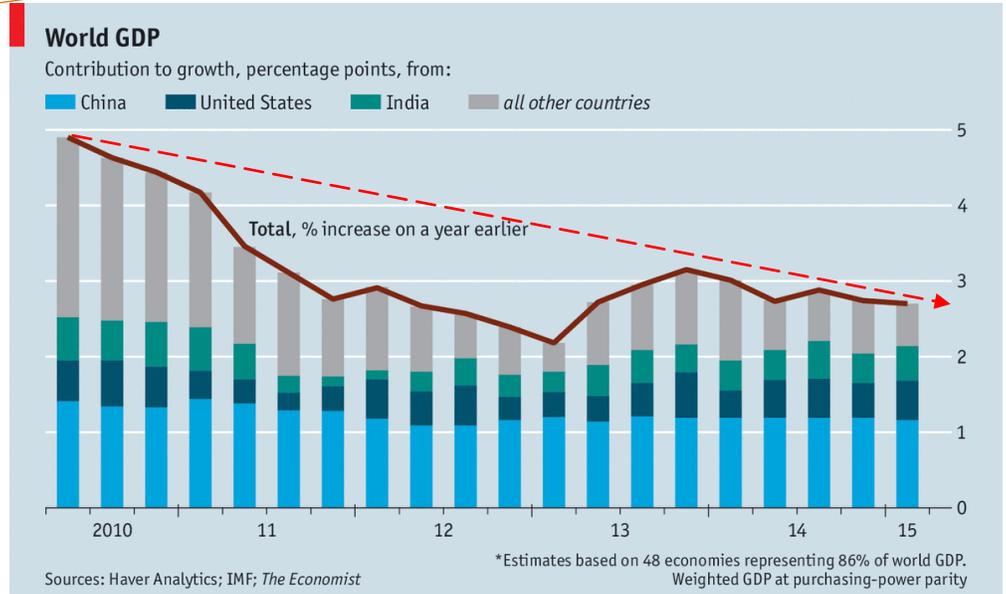


Yet, the economies are made up primarily of the ordinary people. Without them no amount of brilliance of any and all entrepreneur's works, be they old fashioned and brilliant Warren Buffett types or the new generation of brilliants like Jeff Bezos (CEO of Amazon.com) or Mark Elliot Zuckerberg (Chairman, CEO & Co-founder of Facebook) types. All of these, and all the rest of the current and past crop of multibillionaires, multimillionaires, governments and charities, need armies of workers for their businesses to work and do well.

Well, the policies of the past eight years have enslaved and indebted the working class to the exclusive benefit of the very few. The current economic system therefore is not workable or sustainable as it's the billions of the average people that the economies need, as consumers, to grow. The vast majority global consumers are at best, struggling to maintain their current status, and at worst, only getting poorer. Without a healthy spending consumer, the global economies cannot grow at a positive pace, and that is not happening (Chart below) in spite of all the 'easing, spending and lending' by the Central Banks, as the World's GDP has been steadily declining.

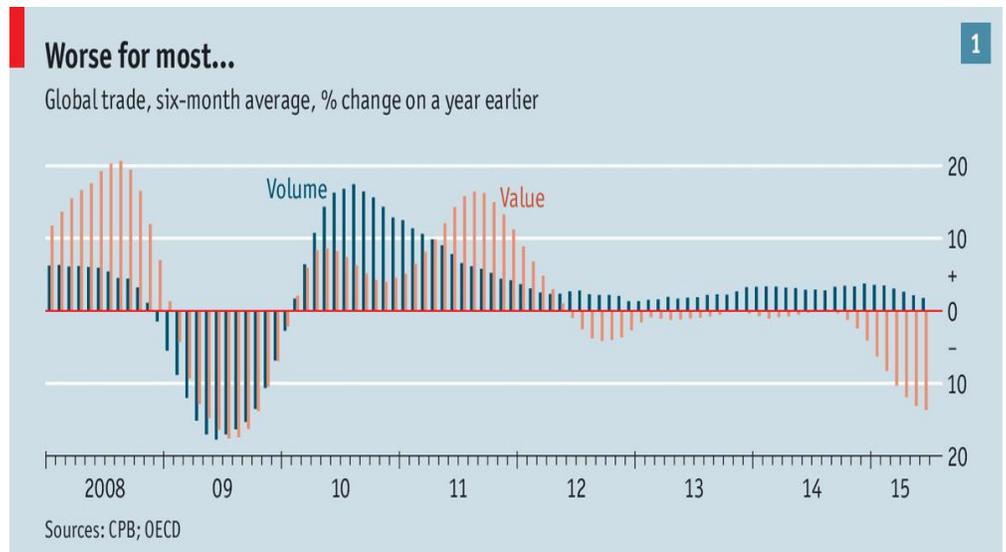
Global
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Aground &
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As can be observed in the Chart below, since 2009 when the Central Banks flooded the global systems with printed cash to stave off a financial collapse, the economies experienced the 'Dead-cat bounce', peaked in 2010, and have dived ever since. This Chart clearly shows, since the end of 2014 the trend downward has picked up considerable momentum so that in 2016 the global trade in value and volume is 'Falling off-a-Cliff' and the World is poised on the edge of another severe recession.



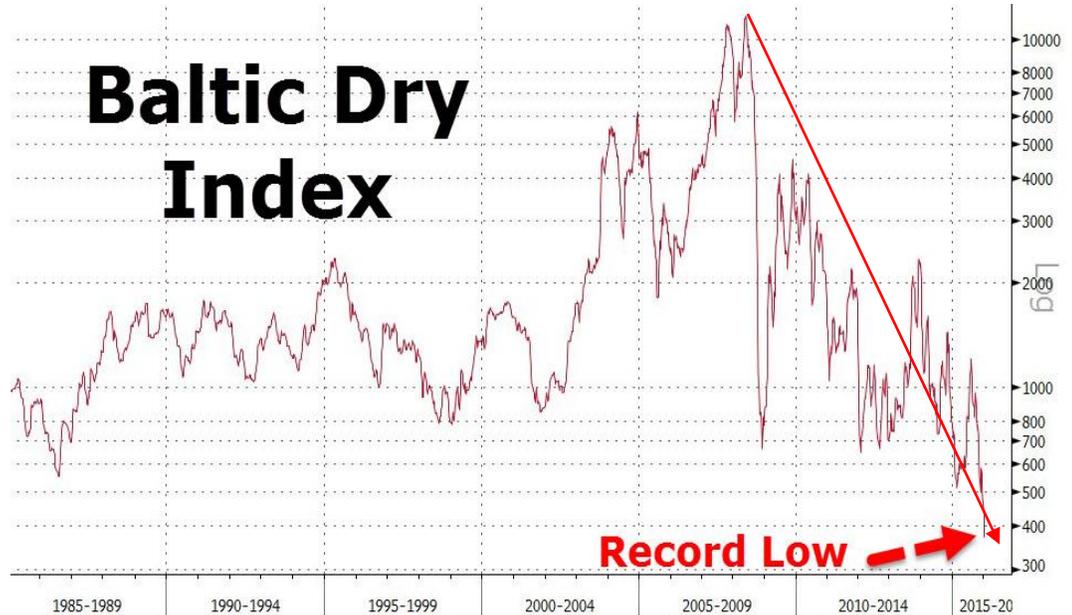
Economist.com

The next two Charts demonstrate the severity of the decline in clearer and in unambiguous manner. The first Chart is the Baltic Dry Index (BDI) or dry goods index, which is a measure of the supply and demand in global shipping as measured by the price being charged by the shippers, of the world's dry goods exporters. When the global trade and business is good, prices are high and the index rises. When the global trade is down or weak,

Global
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the index falls. The BDI is considered an important indicator by economists and analysts to gauge the health of the global economies. Currently the BDI is *at an all time historic low and has never been lower* since it first started to be tracked in 1985. The BDI has gone from a peak of 11,000 in 2008, to less than 400 now. Quite simply, a monumental crash.



Not only the volumes are down dramatically, as indicated by the data and supported by the crash of the shipping prices (*BDI*), but the *value of goods* being shipped are also down equally dramatically (See *Chart below World trade by value*). This means that the value of imports and exports for all countries are down. Those two indicators point to significantly shrinking trade, the life blood of modern economies, in volume and value. In other words the global trade has become severely anemic. These conditions presage deflationary conditions (*volume [demand] and value [price] declines*) and are predicated by the crush and stifling of the economies by record debt, over capacity and gross wealth inequality.



Global Economy – Running Aground & Breaking Up

April 30, 2016
Page 6

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The global economic ship is sinking fast, and there is still a rising tsunami of debt and crashes heading its way.



<http://www.theherald.com.au/story/1907952/archival-revival-hunter-shipwrecks/>