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Market Routs Bring Out the Reassuring Bankers

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Mr. Dhillon's experience includes start-ups, venture capital, seed funding, and heading companies in construction and international power development. His extensive experience gives him in-depth knowledge and intuitive insights into macro and micro, national and international, geo-political and economic realities and trends. He 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 recent multiple stock market routs have brought out the big international bankers, heads of stock exchanges, investment bankers and brokers, T.V. commentators, brokerage house and mutual funds analysts, to reassure and placate investors, as they have always done, into the teeth of every failing bull market, that this savaging of the markets is not as bad as it looks, and is 'an overreaction' to news that is really not so bad. The overwhelming consensus at the ongoing World Economic Forum at Davos, Switzerland, of financial professionals which were the heads of the biggest banks, financial institutions, private equity firms, asset management firms, Central Banks and Finance Ministers, was that the current 'volatility' was an overreaction, and that in fact was downright perplexing! In their view everything was perhaps not perfect but quite positive overall.

The only glaring real outlier to this collective consensus of benign global economic and financial conditions was George Soros, who bluntly stated that the current turmoil was 2008 once again, and that the conditions this time around were in fact worse because of China, and the Central Banks being without any further ammunition to deal with the crisis this time. We of course agree with him entirely, and more.



Source:telegraph.co.uk

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As for the majority of the rest, their advice to the investors – ignore the volatility, in the U.S., and particularly in China (!), stay in the markets and keep buying. If this isn't the most brazen 'sucking in the sheep to be sheared tactics', in the face of overwhelming red flags, then we don't know what would be.

Some of the soothing sounds that some of the attendees made to calm the watching global public and investors were:

Christine Lagarde, Managing Director, International Monetary Fund (IMF):
"We believe that the situation is manageable..."

Mario Draghi, President European Central Bank:
"So far we've not seen signs of potential financial instability of the like we've seen in the pre-crisis times."

Jamie Dimon, CEO of JPMorgan is quoted as saying:
"Because of the complexity and the structural rigidity, the EU will experience lower growth, but there are still great investment opportunities out there."

John Mack, former CEO of Morgan Stanley:
"There's been a hiccup in China but I'm long term bullish. Would I invest in China now?...YES!"

Brian Moynihan, CEO of Bank of America:
"China will continue to grow by about 6% and that growth will be good for the world."

John Stumpf, Chairman & CEO of Wells Fargo:
"The (U.S.) economy is strong but the strength is regional."

Bob Greifeld, Head of Nasdaq Exchange:
"Once the emotion has left the market, you're left with businesses doing reasonably well."

These statements are made in the face of overwhelming evidence that all is not well with the major global economies, some of which are close to what could be termed as 'free fall', such as Russia, Brazil and possibly China, whose latest on-command 6.9% GDP growth rate is not believed by anyone that seriously follows China.

A number of the world's currencies are also in significant declines, putting further pressure on the rest, creating a persistent deflationary trend that the heads of major Central Banks have been fighting, *unsuccessfully for years*, with repeated rounds of QE. In the face of this gathering storm, more QE is almost a certainty.

China of course is continuing to pump in hundreds of Billions on a consistent basis to try to stop and stave off a total collapse. And, Mario Draghi, head of the European Central Bank has already indicated the possibility of additional 'no limit' QE, which rallied the global markets, albeit temporarily perhaps.

Bank of Japan will probably follow with even more QE than the ridiculous

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amount they have already pumped in under “Abenomics”, making it one of the most indebted economies in the World. To top it all, all that unprecedented QE could not break Japan out of its 25+ years of economic stagnation, create any sustainable inflation, or keep out of recurring recessions (*all stated targets of the extraordinary QE programs launched under ‘Abenomics’*). Yet, hopelessly, they shall continue to persist.

And the other major Central Banks remain committed to their singular path of ever more ‘Easing’ through QE and lower interest rates, even to deepening negative interest rates, where the EuroZone and Japan already are. The other developed countries such as Canada and the U.S. may have to follow in the face of greater turmoil, and amid continuing QE failure.

But to get back to our venerable economic and business leaders at Davos - to consider the business environment “doing reasonably well” (*Bob Greifeld head of NASDAQ*), is to be blind to the steadily falling revenues, profits and escalating job cuts worldwide.

Tens of thousands of jobs are being cut by multinational corporations throughout the world. Enough companies are scaling back in the face of shrinking business and an approaching global recession that additional millions are going to be without work in the coming years. Globally, the economic world is contracting, reflected by the most dramatic and deep fall in commodity demand and prices (*oil being just one*), across the board currency depreciations, falling trade, falling sales, shrinking profits, inventory build ups, global overcapacity, falling demand, and mass job cuts. In light of these facts, globally, we fail to see the benign conditions that these venerable leaders are seeing.

Mining companies were the first to feel the brunt of the current downturn and cut thousands of jobs in every continent and country they operated.

Next, oil and gas companies laid-off tens of thousands of jobs worldwide, and are continuing to cut tens of thousands more.

Now retailers are feeling the pain. Walmart (*to us a barometer of the lower end consumption, and therefore representing a significant segment of the majority of the retail customers*) is closing 269 stores and cutting 16,000 jobs, in the U.S. and Brazil. Other multi-nationals are also shedding thousands of jobs as they scale back in the face of falling sales and revenues, worldwide. Even Apple i-phone sales are dropping (*gasp!*).

Banks and investment banks are dramatically shrinking their workforce, globally.

And as usual, when it comes to sheer numbers, the ‘Biggy’ is China.

China International Capital Corporation (*one of China’s largest investment banking and research services company*) estimates that **3 Million jobs will be cut in China**, in the coal, steel, aluminum, cement, glass, and other manufacturing industries, in the coming years, due to gross overcapacity.

Significantly deteriorating economic and business conditions in most of the biggest emerging markets are a fact. The extent of the deterioration is already having an effect on the economic activity of the developed

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economies. The financial markets, being forward looking are reflecting this current reality in the recent volatility.

The Central Banks will try and stem this dangerous tide, but we believe its only a matter of time before the numbers in the developed economies confirm the next crisis. The leaders at Davos will continue to deny the bad news, as they have always done in the past.

The last financial crisis in 2008 was triggered due to bad, in fact horrendous and fraudulent lending practices by the Banks and other lending institutions, and their facilitators, investment banks, brokers and such, in the U.S.

To-date the U.S. and U.S. based international banks have paid over **\$250Billion** in penalties for their various nefarious practices in the past, to the U.S. Government agencies and aggrieved investors. The list of Banks participating in these illegal activities are the who's who of big well known banks, such as Goldman Sachs, JPMorgan Chase, Bank of America, Citigroup, Barclays, HSBC, BNP Paribas, and Royal Bank of Scotland, to name a few. Most recently Goldman Sachs (*doing "God's work", the Chairman and CEO' Lloyd C. Blankfein's words post 2008 crash*) agreed to pay **\$5.1Billion** in penalties to regulators, and settlements to willfully damaged Goldman Sachs's clients (*a practice indulged in commonly by some of the most venerable 'banks' wherein they sold investments to their clients that they considered "junk", and then turned around shorted it, in anticipation of its significant decline, and made a killing both ways*). By the way, they did not think that was wrong, willfully and gleefully screwing their clients. The photo below is from February 12, 2009. (Source: Reuters)



The chief executives of banks that have received federal-government aid testified Wednesday before the House Financial Services Committee, including, from left: Lloyd Blankfein of Goldman Sachs, James Dimon of J.P. Morgan Chase, Robert Kelly of Bank of New York Mellon, Kenneth Lewis of Bank of America, Ronald Logue of State Street, John Mack of Morgan Stanley, Vikram Pandit of Citigroup and John Stumpf of Wells Fargo. Reuters

In the various Congressional and Senate hearings, on the role the 'Banks' played in the 2008 crash, the heads of these institutions were defiant and unrepentant. For the most part they did not express any regret or remorse in lying and willfully defrauding their clients, and in fact were aggressive about their right to make money in whatever manner that suited them, even for activities that would be considered illegal for the rest of the public. For the most part, without admitting guilt, they agreed to pay the penalties levied against them for various criminal activities.

The estimated **\$250Billion** in penalties so far (*and no jail time for the heads of these institutions*) is a good risk/reward ratio, as it is estimated that the banks

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in the U.S. made over \$700 Billion in profits (source: Federal Deposit Insurance Corp.) during the same time period, 2007 to 2014.

The point of bringing up this bit of history is that the banking people making the soothing noises now, and encouraging people to ignore the volatility, while failing to see the perverse distortions created in the global financial markets and the global economies, once again, by excessive debt, are by and large the same people that willfully misled and defrauded their own clients while they shorted the same financial market investments and instruments that they were selling, while making the same reassuring sounds. We certainly find their reassurances – not reassuring!

In a study published in early 2013, the damage caused the U.S. economy alone, by the crash of 2008, is estimated by the Government Accountability Office, to be over \$22 Trillion! That study does not even begin to estimate the total damage caused to the Global economies, which never did recover from the 2008 crash and are still being actively supported by the Central Banks in 2016. That damage is inestimable.

This current developing crisis is the result of the World trying to recover from that 2008 crisis, only the method chosen by the Fed and the other Central Banks has led to a QE party that has put the last financial engineering spree to shame (*and it has not ended yet as more stimulus is coming*).

In one of our earlier Reports we had outlined the following scenario and asked the question:

“...the past financial excesses were by the regular banks, investment banks, insurance companies, and other financial players. This time the excesses are by Central Banks.

Last time (2008) the crap hit the fan, the Central Banks were there to bail the crashing banks and financial system out. When this time the crap hits the fan, who will bail out the failing system, as this coming crisis has been engineered by the ‘experimenting’ and speculating Central Banks?”



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