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## Catastrophic Consequences – Of Misallocated Trillions



Since later part of 2012, the start of the last round of QE by the Federal Reserve (*the 'Fed'*), we at GETAnalysis.ca have been critical and alarmed by the unsound policies being repeatedly implemented by the cabal of major Central Banks and their respective governments, led by the Fed, to try and right the severe global economic damage done by the crash of 2008. We had felt that not only were the Central Banks heading in the wrong direction, but that their policies of ever greater 'Quantitative Easing' and 'Zero Bound' interest rates were stimulating the wrong end of the economies, with the wrong type of people, doing all the wrong things. And since then we have been right on the mark.

In *March 2014* we wrote a two Part Economic Report titled 'GLOBAL ECONOMY, 2014 – Looming Catastrophe', in which we warned of the dangers the Central Bank policies were posing to the global economies. As we saw the looming economic catastrophe building, we warned of what we saw as the flawed and dangerous direction that most every major economy was heading in, and why. We warned of the conditions prevalent in the global economies that were '*threatening global economic stability*' (See *excerpt below*). Well, those are not threats any more. They have morphed into the perfect storm that we feared. Some major economies are either already in the midst of it, or are about to experience it in the coming months.

In *March 2014*, Part I of 'Looming Catastrophe' Economic Report we wrote:

*Never in recent memory has the exercise of piling on vastly more debt and leverage, to solve a problem that was created by excessive leverage in the first place, been carried to the current fearsome and*

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*fateful extreme. And, this 'experimental cure' is going to exact a heavy price, globally. So batten down the hatches because a perfect storm of excessive liquidity, force fed speculative investment into asset markets, inadequate global demand, serious overcapacity, high energy prices, moribund labour markets and excessive debt, is threatening global economic stability.*

Well, what we saw coming, is here.

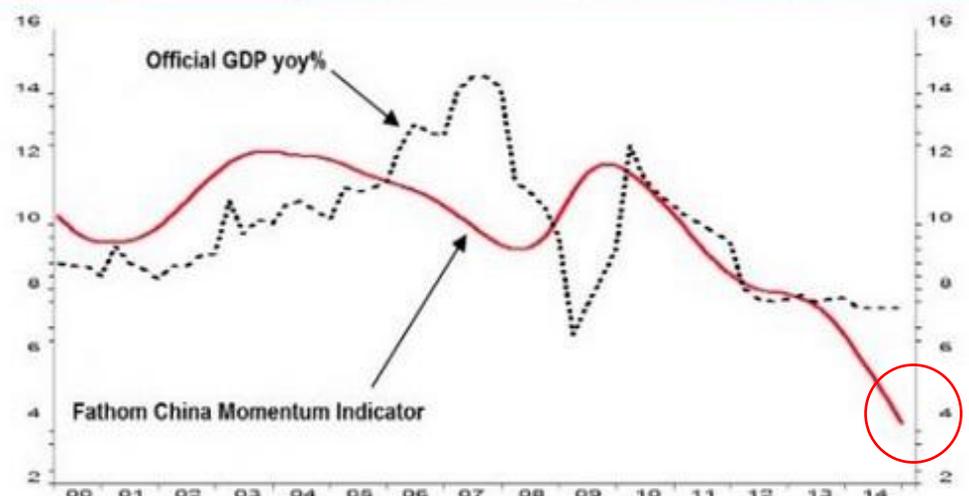
Former star emerging economies are crashing, such as China, Russia, Brazil, South Africa, and are in a 'hard landing'. In fact, regarding China, we pronounced in our *May 12, 2015 Economic Report 'Global Economies – Now What?'*:

*The government's ability to control numbers notwithstanding, the reality of China's economic hard landing is indisputable.*

That was written some 10 months ago, and one month before the Shanghai Stock Market crashed in June 2015. Since then it is much more commonly accepted that the Chinese economy is in a hard landing. In our view, in China, there are greater dangers to come, such as the possible implosion of its over indebted financial system.

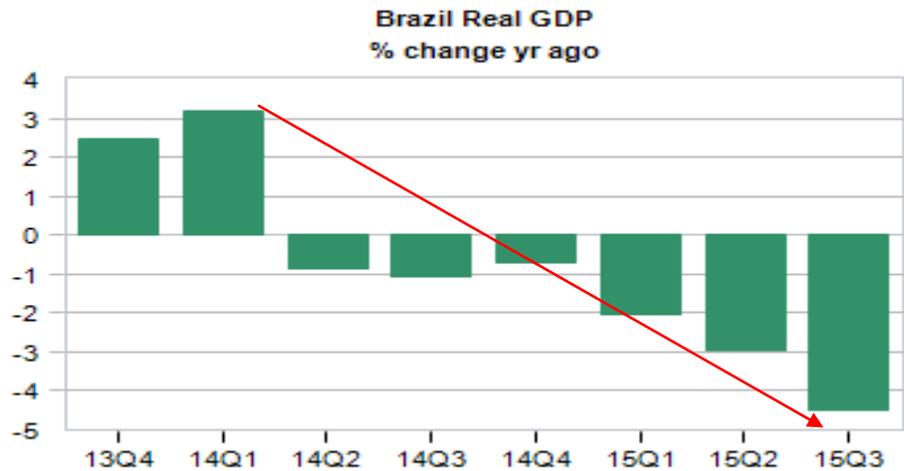
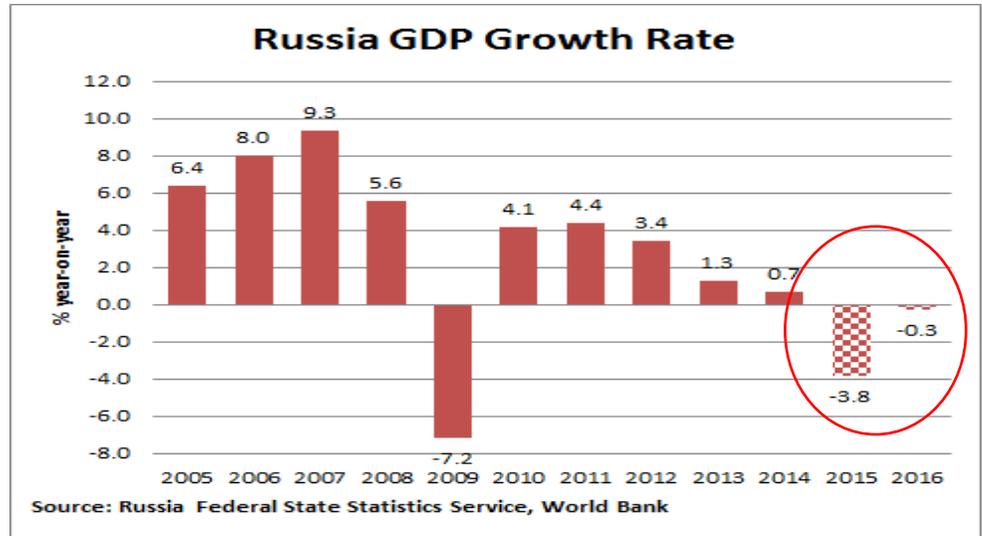
We at GETAnalysis.ca saw it early and called it, and now as other major economies crash, it is playing out just as we had anticipated it, and warned our readers against. This widening global deflationary vortex is sucking in economy after economy, and is going to spare no one. The following Charts of contracting economies show the growing problem and its severity, as each contracting economy becomes a drag on the global economy, triggering further contraction. The severe contraction of these major emerging economies is going to negatively impact the growth rates of the developed economies in the coming months.

**Chinese GDP growth widely acknowledged to be well below new 7% GDP target already!**



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Source: BofA Merrill Lynch

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As the economies contract, so are their currencies. Normally, a depreciating currency is favourable to the country's exports, and the above highlighted countries are all exporting countries. But when all the competing currencies lose ground at the same time, the favourable development turns into a negative, as it morphs into currency wars, as each country tries to gain advantage by depreciating their currency ever further, to try and hold onto its advantage. Of course none can.

Each depreciating currency is forced further downward by the others losing additional value. This collective downward spiral of currencies creates and feeds a deflationary vortex which, in the current economic environment, is further exacerbated by the significant global overcapacity, nowhere near rationalized yet, amid the shrinking global demand in goods and services.

The depreciating emerging market currencies create further serious problems for their respective countries. In an era of excessive debt overload, a lot of it in U.S. Dollars, as the Dollar climbs against these currencies, the debt burden of the countries gets larger, and heavier, as more and more of the shrinking local currency is needed to pay back the same amount of U.S. dollars. And a lot of debt was taken on in the past years as governments and large corporations binged on readily available cheap debt. Globally, total debt, which is now at record levels, is now estimated at well over \$200 Trillion, and as a percentage of Global GDP, at over 300% (McKinsey).

In a deflationary economic environment, with steadily depreciating currencies (*Charts below*), these record debt levels are going to be harder to deal with, and could, in-of-themselves, become triggers for new financial crises as the countries get swamped by multiple negative forces.

## Emerging market currencies take a beating



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## ...and the renminbi may have further to fall

Renminbi against the dollar (rmb per \$)



Source: Thomson Reuters Datastream

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Some of the rest of the emerging economies are also in deep trouble, such as oil rich Venezuela and resource rich Argentina. Others such as India and South Korea are feeling the impact of the slowing markets around them and are heading downward. The developed economies of Europe and North America are going to follow, including the United States. In the same May 12, 2015 Report we had said, "In the meantime, we foresee inflation starting to re-emerge in the U.S., and the U.S. heading towards a recession;". That seemingly outlandish statement by us at that time - that the U.S. is heading for a recession - is now being echoed by most experts and analysts. And except for energy prices, most other prices have been steadily edging up, particularly food and rents, which were up substantially, and are two of the major cost items to an average family which has been struggling since the 2008 meltdown.

Already the disparity between the have and the have-nots has been growing dramatically in these past years of Central Bank led 'non-Recovery' that has fed Trillions of dollars into the top end of all economies, on the supposition that eventually the extraordinary flood of near free cash will somehow 'trickle down' to the beleaguered public. Obviously that never took place. In its place what has occurred is the distortion of asset prices, financial markets, and the economies, as the Central Bankers in their wisdom took the only economic system that worked in the World, the free market system, and distorted and destroyed it through constant interventions and manipulations. All true price discovery was destroyed, market forces were consistently thwarted, and an interventionist, dangerous, biased to the top 10%, rigged system was constructed and maintained, to this day, creating globally, extreme wealth inequality.

The end result of manipulating market forces as consistently and blatantly as has been done in these past years by global governments and their Central Banks, is obviously going to create the probability of an equally prolonged

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and extreme rebalancing of financial markets and economies (*which has already started*), and will be the catastrophic consequences of the most shameful transfer of wealth from the public to the elite, the most favoured top 10% of the World, because as in the past when the final bill comes due of this unprecedented manipulation, it will be handed as usual to the ordinary tax payers of the World. (*News Headline for January 18<sup>th</sup>, 2016: Oxfam study indicates the 62 people, most of them men, now control over half the world's wealth.*)

Yet all this past manipulation, and the additional interventions to come, cannot forever forestall the gut wrenching rebalancing that must take place before the global economies and global financial markets can be restored to any semblance of normality. That day is still far into the future as we now begin to go through the very painful period of widespread and prolonged adjustments and corrections.



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