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Year End Global Economic Report – Running Out of Runway

WRITTEN BY: ASHOK DHILLON

Ashok Dhillon has 40 years of front-line business experience in Canada and International markets. He incorporated his first construction company in 1974, and since then has founded and led companies in construction and international power development.

Over the last 20 years Mr. Dhillon, has led and worked with top Canadian talent in the legal, engineering and accounting firms, such as Fasken Martineau, Russell & DuMullen, Stikeman Elliott; Hatch, Moneco Agra, New Brunswick Power, SNC Lavalin; and Ernst & Young, Arthur Anderson, and Grant Thornton. And in London, worked with Perkins Couie and Morgan Grenfell. Mr. Dhillon's companies have partnered and worked with Pan Canadian Oil & Gas, WestCoast Energy, TransCanada Pipelines, and international companies such as AES, Enron Power, Hyundai Heavy Industries.

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".

For the last five years the Federal Reserve has given it all, going to extraordinary lengths to try and lift the damaged U.S. economy and make it fly once again. It is not happening. Additionally, the crash of 2008 did not only damage the U.S. economy but it had also damaged all the other major global economies. And each major damaged economy became a drag on the other economies in this semi-integrated economic world of ours. So unless there is a serious coordinated effort by all governments, to move in tandem to fix the basic structural flaws that are hampering the recovery, there is not going to be a general lift-off, - instead everyone is running out of runway.

However, listening to governments, central banks and their economists, their policies are working fine, and it is just a matter of time before everyone is flying along.

Economists are the first to claim that 'Economics' is an imperfect science. Perhaps it is because they are wrong so often when they attempt to put their theories into practice, in attempting to steer national economies in the right direction. Or, when they indulge in prognostications of where the economies currently are, or where they are heading. The greater percentage of economist look like weather forecasters of old, that never seemed to get it right. Immersed in their academic theories and complicated computer models, at times they simply forget to look out the window at the weather. We are being facetious of course, but most of the times it would seem to be just about that silly an explanation, for the inexplicable difference between stated economic policies and assessments, and just plain reality outside the window.

We on the other hand, try and look out the window, and while parsing diverse, far-flung and at times conflicting data, our analysis is based primarily on a lifetime of personal front-line local and international business experience, healthy suspicion of disseminated government information, financial market and special interest group data, and the consistent nature of human behavior regardless of race, religion, culture and political persuasion. But it is really looking out the window at the reality and discounting the propaganda that has allowed us to be a tad more 'accurate' in our assessment and prognostications, than most standard economists and analysts.

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It was last September (*2012*), at the start of QE3 (*Quantitative Easing 3*), or some form of it in all countries, when we first wrote about the unlikelihood of sustainable global economic recovery regardless of the amount of money that was going to be spent. And we gave detailed reasons for our firm prognosis. All our subsequent 'Economic Analysis Reports', ignored all official data to the contrary, and remained consistent in our assessment that no real economic recovery was underway in-spite of the additional Trillions spent, and the odd flashes of 'green shoots' that materialized every now and then, only to weaken or entirely disappear next month or next quarter.

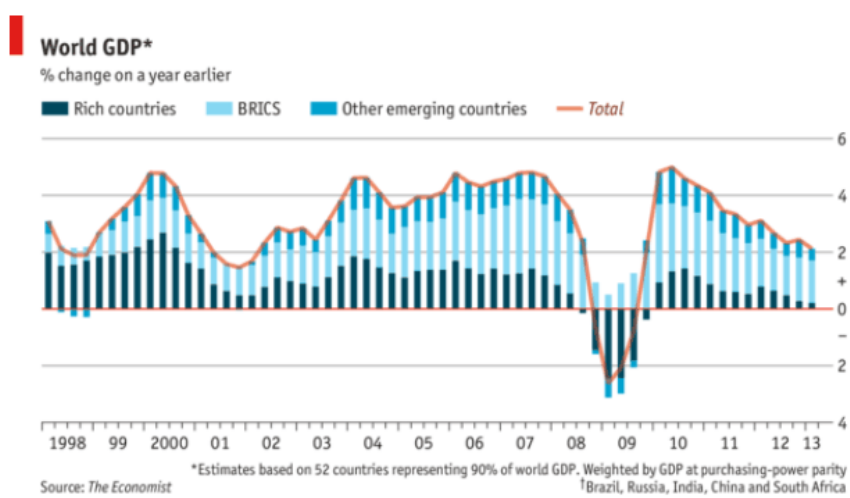
Wall-E finds the "Green-shoot"

So far, it seems that we were absolutely right. As we had said, sustainable global economic recovery was not possible under the recent and current policies of most governments, regardless of the additional stimulus. The current reality seems to prove it. At the end of 2013, the global economies are far from healthy, and the global financial system is unstable, and may not be sustainable under the current conditions.

The following charts graphically confirm what we had stated previously, that the strong economic rebound from the bottom, at the end of 2008 and early 2009 to its high in 2010 was a "dead-cat bounce". And, that the GDP growth rate and general global economic activity would decline from that point on regardless of the extent and duration of the stimulus funding deployed, as the changed dynamics and the structural imbalances in the global economies were just not being addressed.

Chart 1 below shows the steady decline of the global GDP growth rate to 2013. It also shows that the decline is across the board - in the Developed Countries, the BRICS and the smaller Emerging Markets - some of which are growing at relatively healthy rates, but still lower than the highs in 2009-2010.

CHART I:



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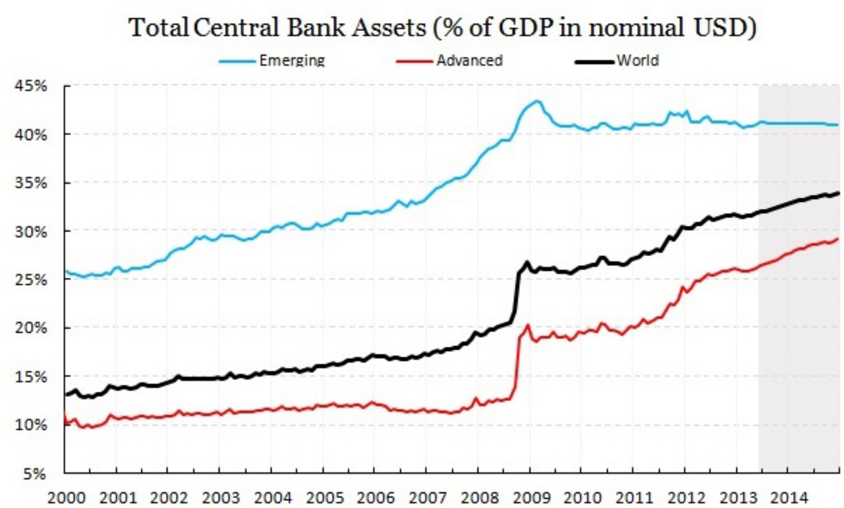
Right now, at the dictate of governments, almost the entire global economic and financial system is being held up by the prodigious effort of Central Bankers relentlessly pumping liquidity into their respective economies, in the hope that recovery takes hold. Secondly, interest rates have been held at record low levels in the advanced economies (to near zero percent), with the same hope of engendering and boosting economic activity. We make this observation that almost all the economies are being held up by the Central Banks, because after almost five years of ***record low interest rates***, and ***record high financial stimulus***, any talk whatsoever of withdrawing the liquidity or raising of the interest rates, send deep shudders through the economies, and violent spasms of panic through the World Financial Markets (*that have been gorging on the excessive liquidity*). Any semblance of real economic and financial stability would not engender such violent tremors of anxiety. Therefore, apart from the data, we know from the reactions, that there is no real recovery or stability in the global economies, or the global financial markets.

The chart below shows the steep rise in the balance sheets of global Central Banks, as they print vast amounts of stimulus money for asset purchases. The monetary stimulus is having less and less impact on stimulating economic activity globally. (*Source IMF, National Data, Haver Analytics & Fulcrum Asset Management*)

CHART II:



If the extraordinary monetary stimulus (*shown by the steady and dramatic rise in assets on Central Banks balance sheets in Chart II above*) was abruptly removed by all governments, and interest rates globally were allowed to find market levels, **today**, the global economies and the financial markets would collapse, **today**.

We cannot call such global conditions any type of recovery, let alone a sustainable one. At this time, with no ability to survive on their own, the global economies and the financial markets are living (*in the case of financial markets, thriving*) strictly because of the continuous and exceptional support, through the extraordinary monetary stimulus, and record low interest rates.

The above stated reality then begs the most crucial of all questions. How long can this extraordinarily supportive but highly unusual, and eventually unsustainable, financial and low interest rate environment be sustained by today's beleaguered governments and their Central Banks?

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While the answer is: Perhaps for years. Yet, we should consider that five years have already passed, over $20 Trillion spent, governments are extraordinarily indebted, and their strategies are increasingly ineffective (*as shown by the steadily declining global economic growth rates since 2010, in Chart I*). Additionally, imbalances and bubbles are being fed globally by the ongoing stimulus, more than the economies.

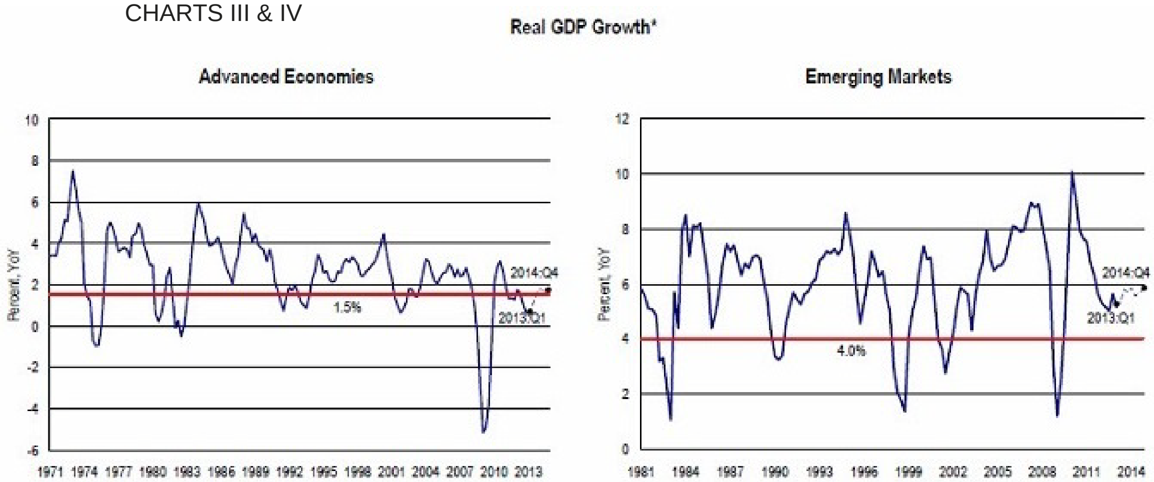
In the latest 'World Economic Outlook, October 2013' by the IMF, the second line in the opening paragraph of the FOREWORD states, "Advanced economies are gradually strengthening." *http://www.imf.org/external/pubs/ft/weo/2013/02/pdf/text.pdf*. On the face of it, and by the most technical of approaches and indicators, it may be argued that the above statement is correct. But in reality, knowing as we all do that the most anemic positive growth numbers in "Advanced Economies" are only being eked out by the most prolonged and unprecedented financial stimulus undertaken in history, and that without it there would be an almost immediate regression, the above statement by the IMF is, in our opinion, 'optimistic', to say the least. [*This year the IMF has had to make a number of embarrassing 'U Turns' as it seemed to get its assessments of global economies and their direction wrong. It's not so much that their data is wrong; it's just that they seem to get the interpretation of it wrong, frequently.*]

Most large public and private institutions, influenced by the very nature of their 'raison d'être', are handicapped. There is enormous pressure on them to produce the 'right numbers and conclusions for their sponsors, be they private or public, or to satisfy their own internal agenda. That natural compulsion makes their numbers and statements a bit suspect to us, and we try and weed out the possible bias from them.

But a clear picture emerges of the current state of global economies in the Charts below (*Sources: IMF, Stock Charts.com, Citi Research*). The first two Charts show unequivocally that the GDP (*economic*) growth rates of Global Economies (*both - Advanced and Emerging Economies*) are in a steep decline since 2010 in spite of strong and continuous stimulus and record low interest rates.

These declining growth rates include China and India, both of which continued to slow visibly in 2013. China from an estimated 8.5% to 7.5%, and India from an estimated 6.5% to 4.6%, *(we feel both numbers are still optimistic)*). Nevertheless, both the Advanced Economies and the major Emerging Markets have been steadily declining over the last three years, putting additional downward pressure on global economic output.

CHARTS III & IV



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The declining global economic expansion is reflected in the prolonged and steep decline in the Baltic Dry Index (*the Chart below*), which shows the continuing diminishing demand for dry bulk carriers in the past 3 years. The 'Baltic Dry Index' is indicative of the increasing, or in this case decreasing volume of dry bulk cargo shipments in the World at any given time. It is considered a leading economic indicator as it shows raw materials needed for economic activity, being shipped in either increasing or decreasing volume. Steadily decreasing volumes over years (*as below*), speak of the potential of further declining economic activity in the near future.

CHART V

In today's world where exports are crucial to most economies for sustained growth and prosperity, the rising or falling export activity, is a good indicator of the general health of the global economies. As Chart VI below shows the world export activity has diminished significantly from pre 2008 levels, and continues to remain depressed.

CHART VI – World Export Volume

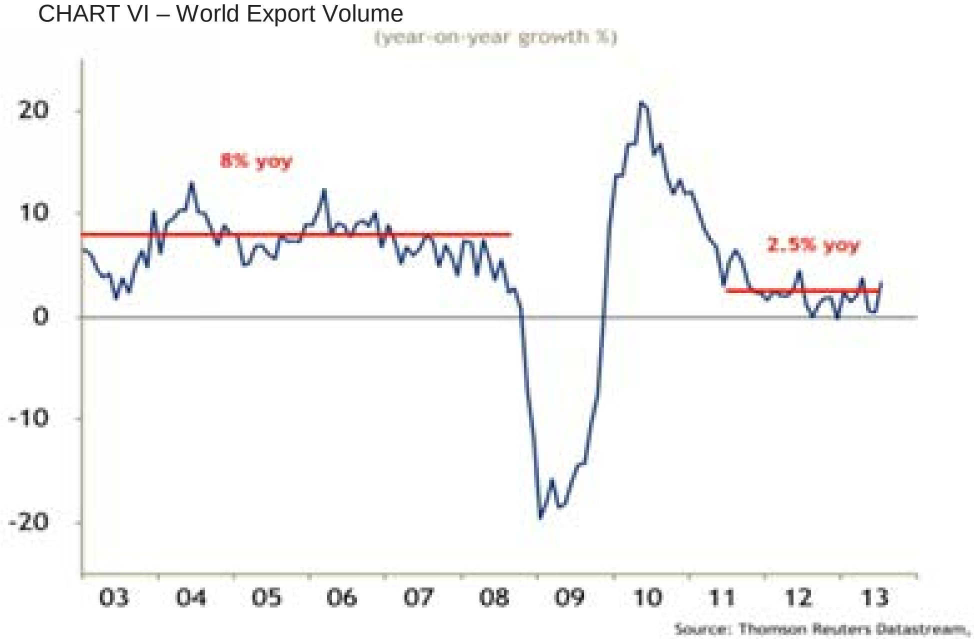

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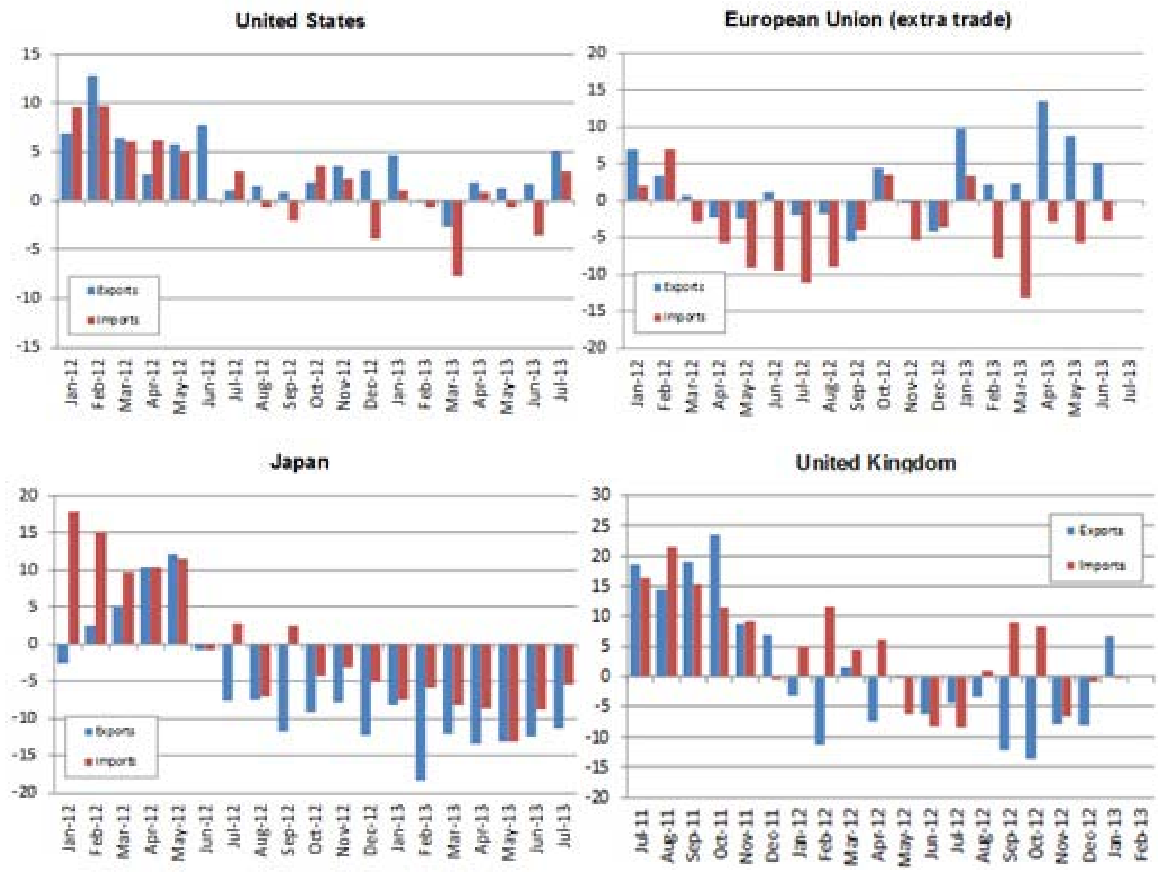
Chart VI above, and the ones that follow, speak to our assertion that global exports are going to remain challenged going forward, as no country is economically robust enough to 'buy' boldly and with abandon, as in the past, but in-fact most countries will try and curb imports, while trying to boost exports, leaving a paucity of buyers (*importers*), and an overabundance of sellers (*exporters*).

CHARTS VII Advanced Countries



It is also important to note that the continuing and dramatic curtailing of 'imports' by the United States, Europe and most other economically Advanced Countries (*with the most buying power*), bodes ill for the heavily export dependent countries like China, Japan and South Korea, because of their overall dependence on exports for their growth trajectory and prosperity. Their relatively smaller internal (*consumption*) markets cannot make up for the loss of consumption by the West. This curtailed import reality by the West has already manifested itself through the declining GDP growth rates in these countries, although Japan has had other longstanding internal structural problems (*some cultural*) that have exacerbated the problem. These are internal structural problems that usually develop after a decade or more of extraordinary development and growth (*Japan in the 1980s – China in the 2000s*). To a great degree China is now facing similar issues, and more, due to their politics.

Conversely, the diminished 'export' volumes of all the countries shown, bodes ill for their economies, significantly and negatively impacting internal economic activity. It is a conundrum that we had highlighted in the past as our reason for believing that

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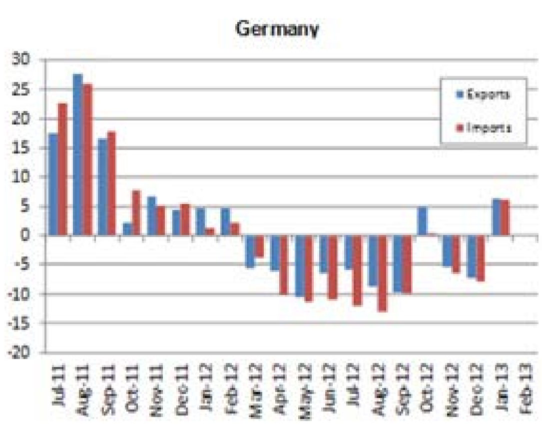
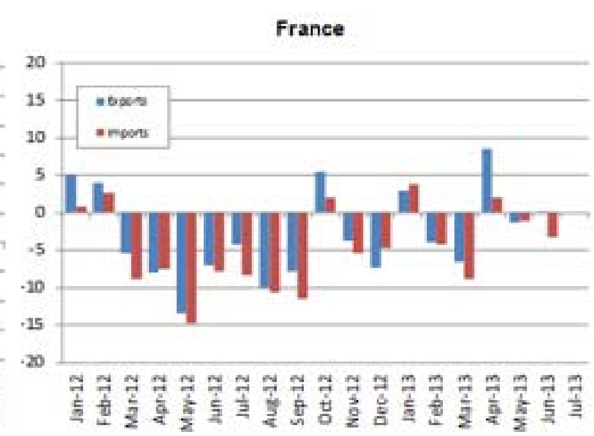
global economic activity cannot be sustainably increased under the current policies because if every major economy needs to ‘export’ - to spur economic internal activity, (*as indebted and weakened consumers, especially in the Advanced Economies, consume less than prior to 2008 crash*), then who is going to ‘import’ - for exports to increase in **all** countries?

This reality will bring further deflationary pressures to the Advanced Economies of North America, Europe and Japan, having exactly the opposite effect of what the Central Banks and Governments of these countries are trying to achieve, with their massive stimulus spending, as they try desperately to boost inflation and avoid a prolonged deflationary cycle, like Japan’s last two ‘lost decades’. And this is the reason why in the West and Japan, in spite of their enormous stimulus spending, the Central Banks are having such a difficult time reaching and sustaining their target inflation numbers. In an environment of greatly diminished demand, and increasingly competitive global ‘export’ markets, and in spite of massive stimulus (*affecting only certain asset classes*), the prices of goods and services are, in general and in the near term, going to continue to soften. India and China, and most other developing countries with large populations, are in a different situation because of their massive internal demand for basic consumables. While they also need to increase their exports desperately, to regain their lost economic growth momentum, which isn’t returning anytime soon, particularly for China, they are battling serious and stubborn inflationary pressures in basic consumables such as food and energy. This conundrum of needing to boost economic activity through stimulus, while at the same time trying to fight inflation in certain sectors through high interest rates, makes for a difficult high-wire act for those governments to perform.

CHARTS VIII – Europe

Economic activity in two of the strongest economies in the Euro Zone has been less than robust and is in fact diminishing.





The other four economies shown below, Italy, Spain, Greece and Portugal - are and have been an actual threat to Euro Zone integrity. While the European Union and the European Central Bank struggle to keep these countries afloat, and in the Union, and so far with enormous political and financial commitment they have managed to, their combined economic drag and ultimate financial cost of recovery may still end up fracturing the Euro Zone.

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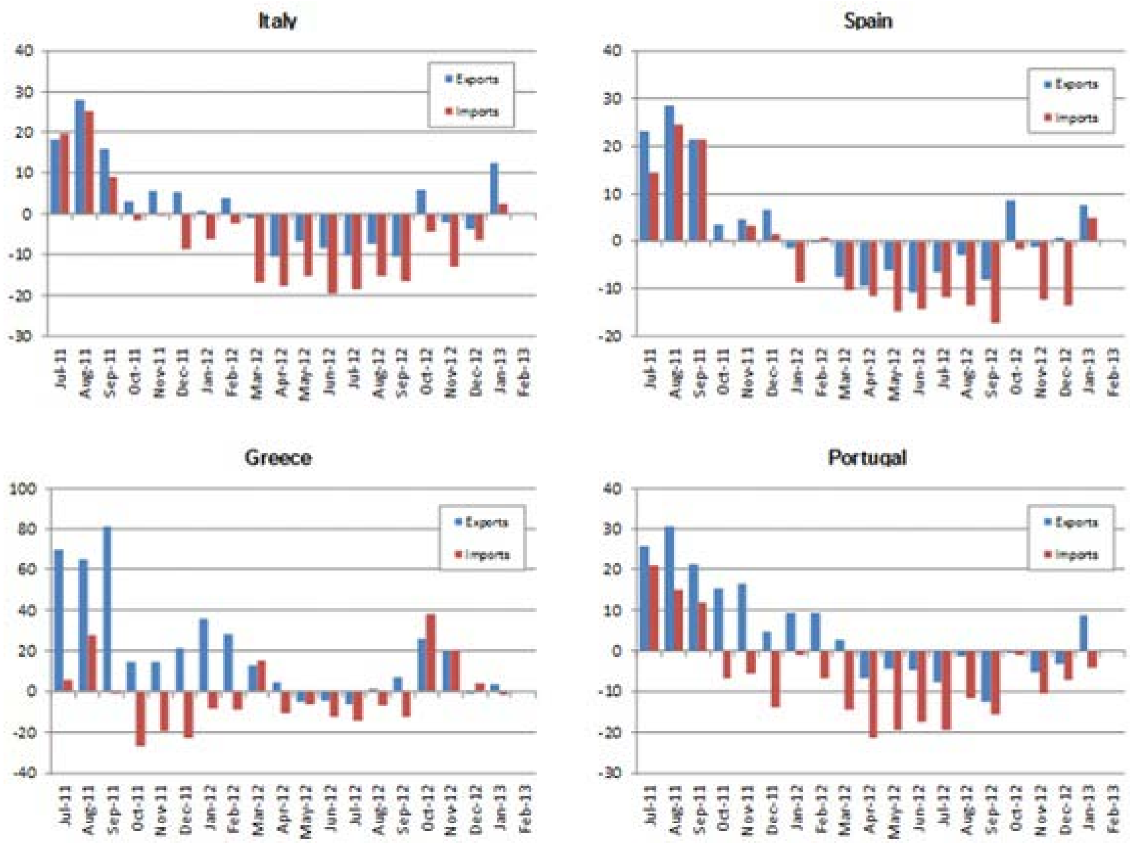
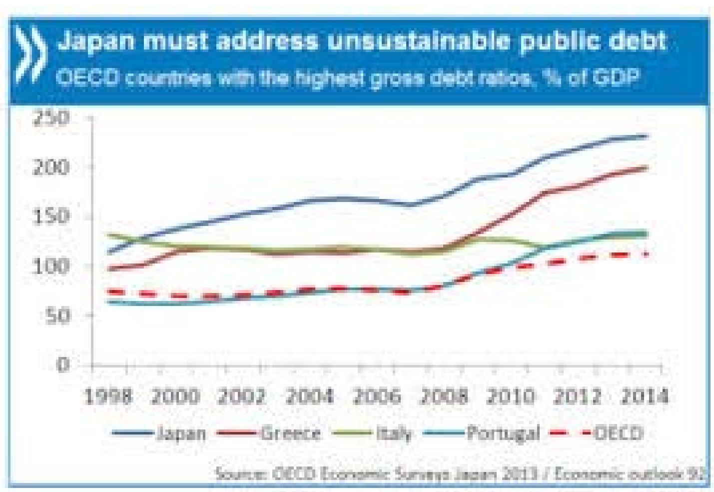
CHARTS VIII – Europe (*cont.*)



Japan's Prime Minister, Shinzō Abe has undertaken desperate measures to try and break Japan out of its decades long economic malaise. His economic strategy, now called "Abenomics", is to print and spend enough Yens (no limit set) to significantly devalue the Yen to make Japan's exports more competitive, and deliberately create inflation to break the economy out of its prolonged slump. The end result is uncertain, but Japan now exceeds Greece, Italy and other OECD countries in government debt.

CHART IX



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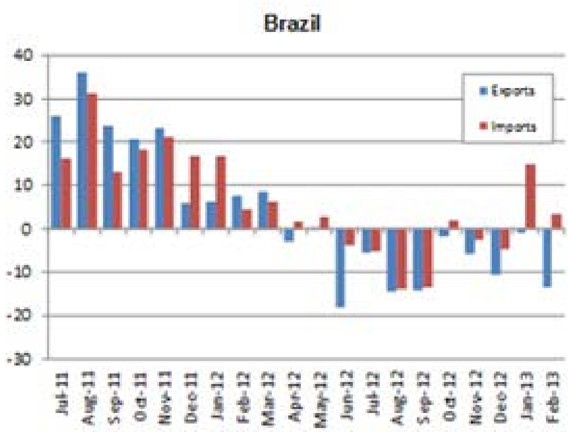
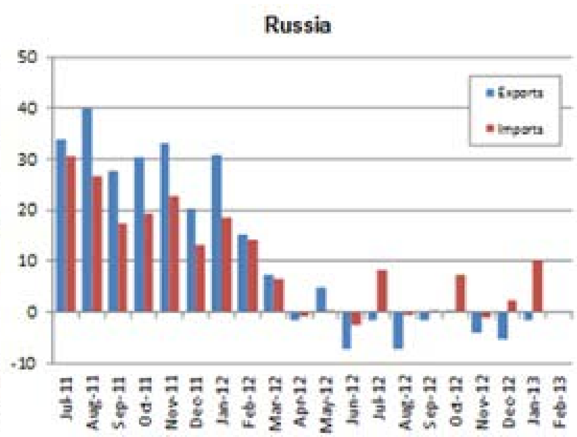
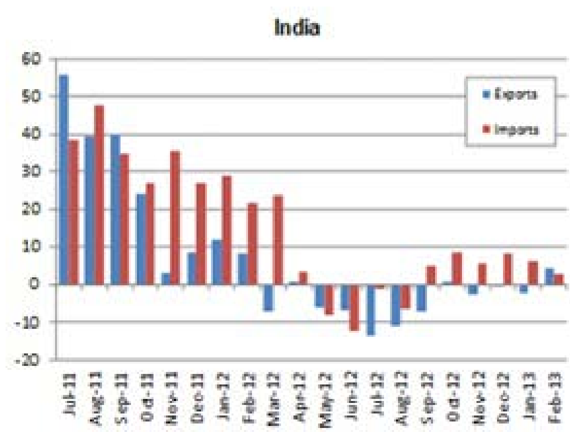
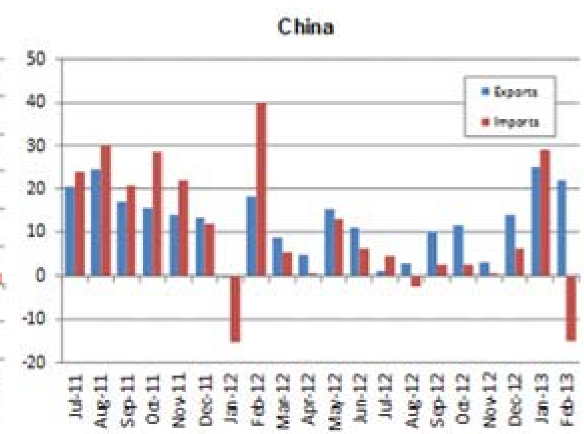
CHARTS X – BRICS

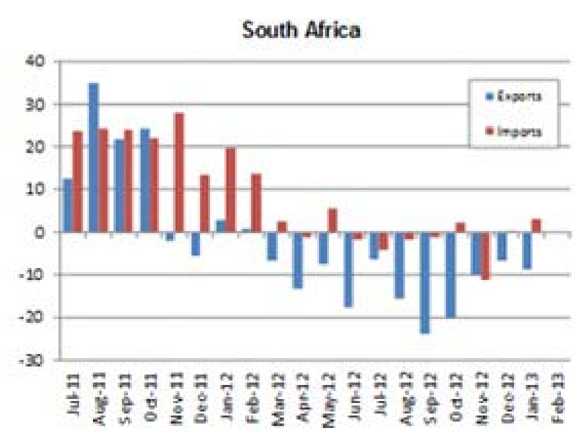
The rapidly developing and emerging economies of "BRICS", Brazil, Russia, India, China and South Africa, were supposed to pull the rest of the global economies out of the prolonged 2008 recession. We had doubted that conventional prognosis as we had stated that the rapid development of BRICS, previously, had been in a large part due to the investment from the West and the unprecedented spending binge of the Western consumer, which had triggered and sustained a couple of decades of export induced riches for the emerging economies. Once the West slumped and the 'dollars' and 'buy' orders dried up, the BRICS stalled and started to rapidly decline. The following charts show the damage (*We have included the Chart for South Korea as it is also a dynamic Asian exporter/importer*).

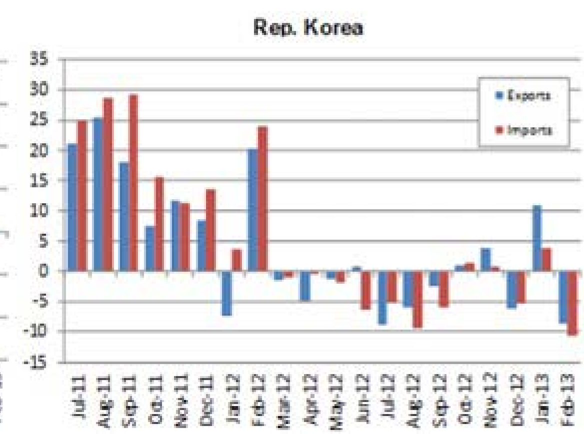












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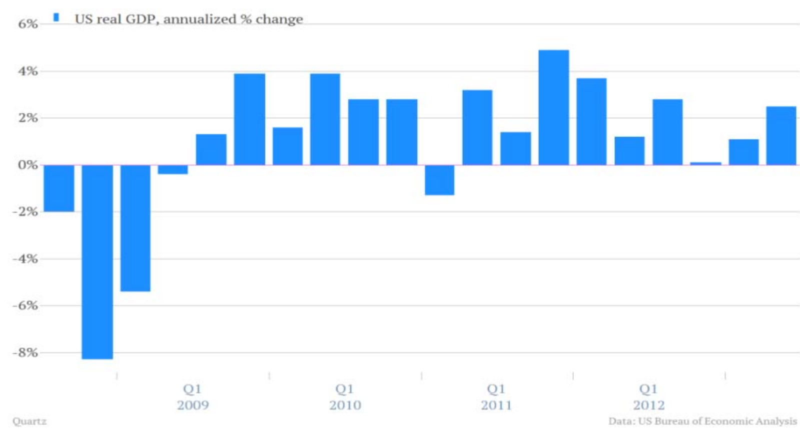
AMERICA

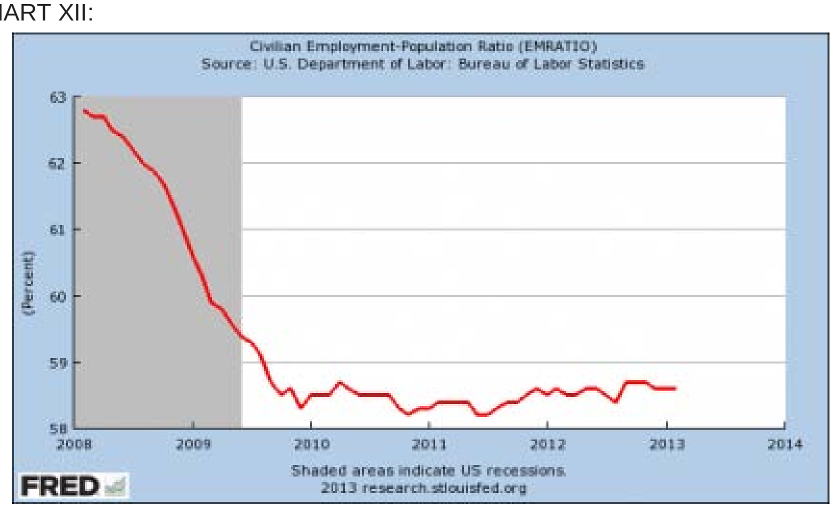
The American economy is still the most powerful economy in the World, even in its current weakened state. And, in spite of the many grave injuries it suffered in the crash of 2008, its insane partisan politics, and the crushing debt that it is piling on, it is probably still the most resilient out of all the other major economies. The reason for this resilience is its sheer economic size, its wealth generating capacity, its aggressive culture of individualism and entrepreneurship, cutting edge innovation, global trend setting cultural icons and multinational brands. But more than anything else, America has a huge wealthy captive consumer base that has more buying power, even in their diminished state, than any other single block of consumers in the World today. But, regardless of its strengths, America is failing to recover in a sustainable manner and the aggressive monetary policies of the Federal Reserve are becoming counterproductive after five years of extraordinary stimulus. The recovery is questionable while asset and financial market bubbles are growing.

CHART XI



Post the 2008 crash, the percentage of the civilian population, fully employed, has declined significantly, and in spite of all efforts by the Government and the Federal Reserve to create jobs, the recovery in employment is poor and flat at best.

CHART XII:



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What did come back fully after the crash were the equity markets. The Dow and the S&P 500 have unrelentingly climbed over the past five years, setting new records. The Chart below shows the record breaking run of the Dow (*breaking 16,000 in November 2013*).

Chart XIII:

The following Chart shows the three major runs that the Dow has had since the Tech crash of 2000. The formation of the 'Triple Top' is a warning sign in technical analysis, forewarning of an impending deep correction, as in the past two runs, at the least.

Chart XIV:

In our view, what has been particularly worrying for the past three years has been the long and significant bull runs in the equity and the bond markets, without the economic fundamentals to support the run-up. As the GDP growth started its slow and steady decline, in spite of the escalating monetary stimulus, from its post crash high in 2010, the asset markets have just kept going, based on the liquidity pouring into the markets. So much so that any talk of reducing the stimulus rocks the markets. But, as the gulf widens between the S&P 500's record bursting performance, and the falling underlying economic growth rate (*GDP growth rate*), as depicted in the following Chart, the risk of a serious correction mounts daily. In our view the current situation as shown in the Chart below, is unstable and unsustainable. If the correction is significant and deep it will affect global financial markets, which have been similarly buoyant due to excessive liquidity.

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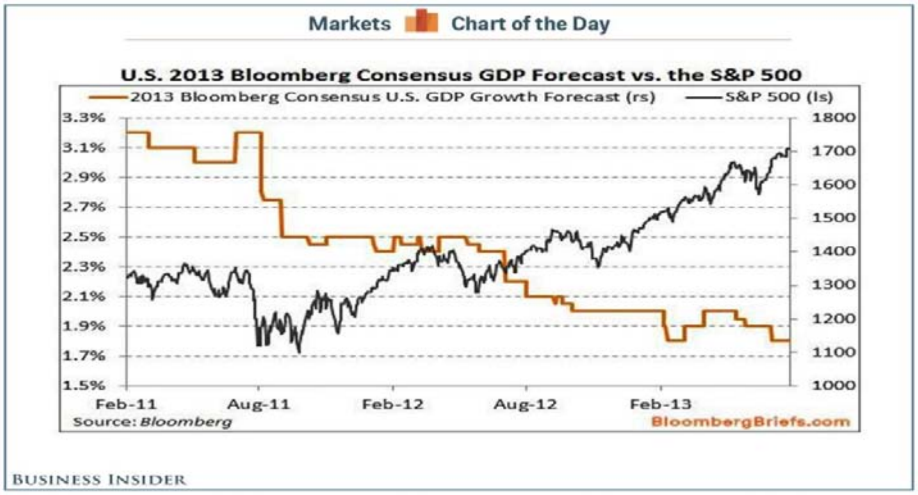
The Chart below shows the growing disconnect between the negative economic growth rates, and the inverse record setting rise in the stock market.

CHART XV:

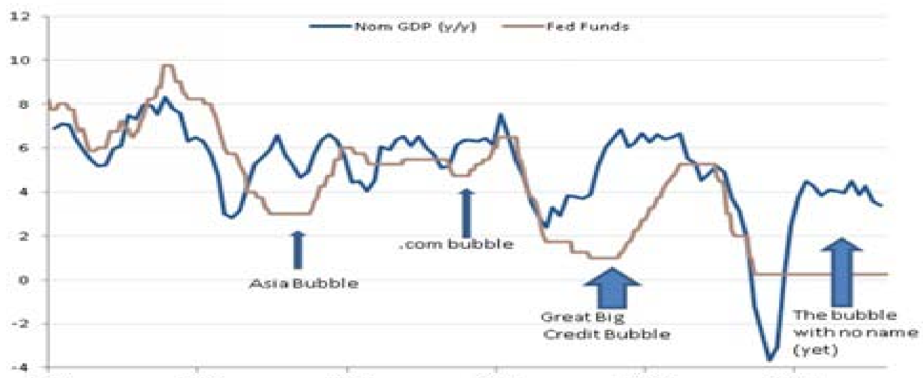


The next Chart shows the importance of Quantitative Easing(s) for the stock market run-ups. It also clearly shows the inevitable result of such run-ups when QE ends.

CHART XVI:

The following Chart (*CHART XVII*) shows the consequences of the Federal Reserve holding interests - too low - for too long, in relationship to economic (GDP) growth rate, and the bubbles that form and inevitably collapse.

Chart XVII:



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CHINA

China is now the second largest economy, having surpassed Japan a few years ago, and if there are no severe setbacks in the near future China may surpass America as the World's largest, most powerful economy. In some respects it is already the most influential economy. It punches far above its weight in contrast to its current economic size, which is approximately half of the U.S.

China's many strengths are: its sheer overall size (*economic, population and geographical*); and as a command and control economy, over the last two decades, it has proven stunningly effective in implementing its vision and policies, and in transforming itself; its irresistible lure as a market to do business with for foreign governments, investors and international conglomerates; the sheer speed of its change; its wealth generating potential; its growing military power; and its softer attributes, its culture and history.

China's many weaknesses at this time are equally as numerous and compelling: its sheer size and diversity are unwieldy; it is not quite homogeneous (*something like the former Soviet Union*); as an economy it is currently very unstable; it has too much public sector participation and control in its economy, making it increasingly inefficient; it is too dependent on exports, has huge over capacity and redundancy. It is currently wrestling a dangerous banking, credit and property bubble; it is riddled with corruption and extreme social imbalance; and it has a calculatedly belligerent foreign policy to whip up national sentiments when needed, but which then surround it with less than trusting neighbours. So far, China has been able to control its many weaknesses and exploit its strengths, rather commendably. But the current global economic situation and its internal flaws, will surely test its capabilities to the extreme.

The Government of China knows, and increasingly and more openly acknowledges its weaknesses and challenges. And, the new leadership is wasting no time in trying to address and correct, to some degree, its most dangerous imbalances. And given enough time, it may be able to effectively deal with the transformations needed in rebalancing its economy and its social inequalities. But, there may not be enough time. Its own unwieldy financial and business structure may not be manageable given all the negative forces currently working on it, and it is vulnerable to external financial shocks. China realizes this and lately its leadership has rolled out an ambitious agenda of potential reforms. Additionally, it has called upon the U.S. to have discussions on coordinating policies. This unprecedented move in-of-of-itself speaks to the gravity of the situation. But the danger to China also comes from the U.S. It is heavily dependent on the U.S. market for its exports, it holds too many U.S. dollars (*over $3Trillion*), and it is heavily invested in the U.S. debt (*over $1Trillion*), and increasingly, directly and indirectly, is invested in the U.S. market. So, whether it is the U.S. financial markets that further bring it down or whether it is its own credit and banking system, or some other event, suffice it to say that China currently is highly vulnerable to internal and external disruptive events.

In the following Chart (*CHART XVIII*), the steady decline in its GDP over the past three years is quite apparent. Only, in China's case we would venture to guess that the actual numbers are worse than the Chart suggests (*Sources: Quartz, data FactSet*).

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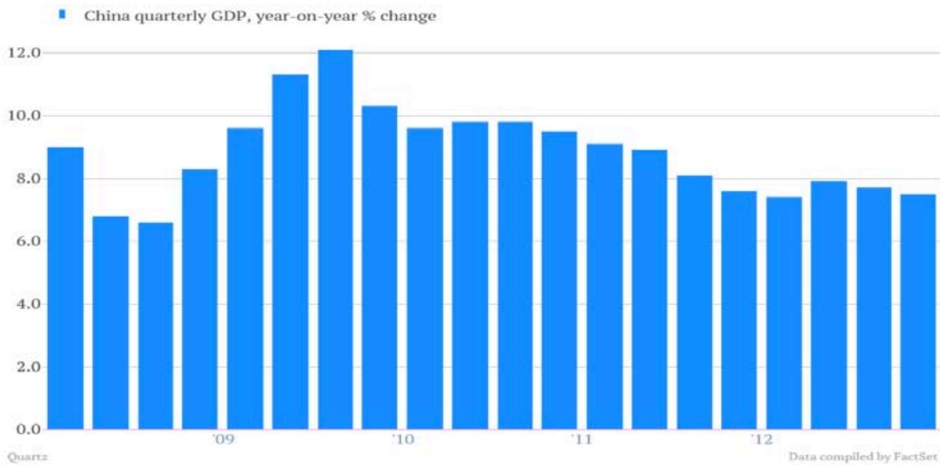
CHART XVIII:



The primary problem that China faces today is its credit boom, both official and non-official (*known as shadow banking*). The following Charts pictorially show the problem. Not only is the credit/debt growing to record levels (*Chart XIX*), since the later part of 2012 it is growing inversely to the GDP growth (*Chart XX*).

CHART XIX:

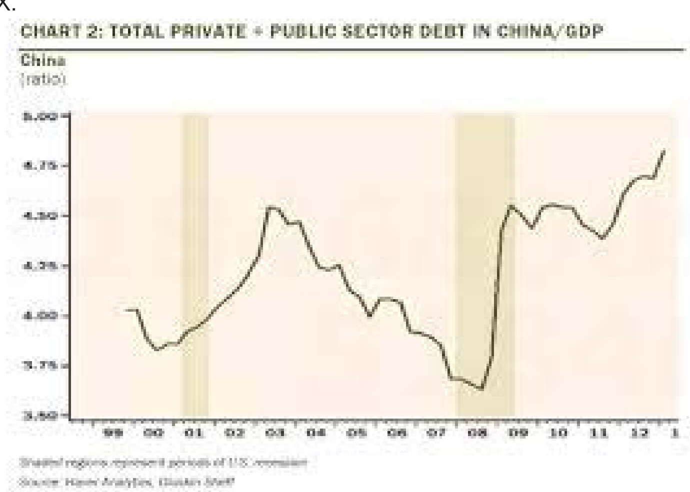
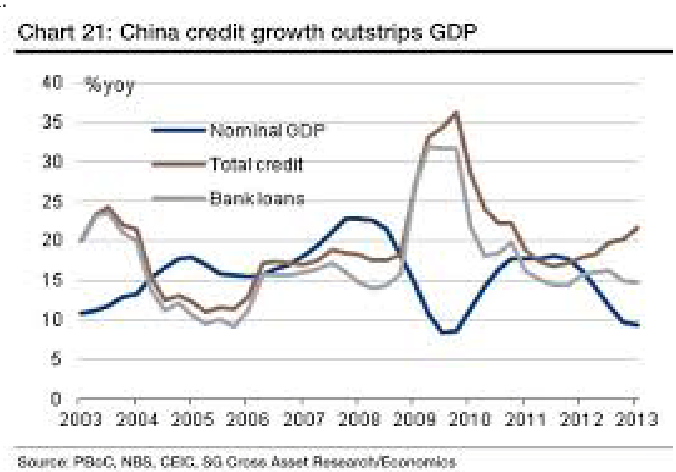


CHART XX:



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Since 2003, as investment speculation took hold in China, the various government bodies and the much smaller private sector started to make silly money. Shadow banking became an increasingly popular financing alternative to circumvent the official banking regulations. Chart XXI shows the dramatic rise in shadow banking since 2003 to 2013. Chart XXII shows the growth of shadow banking now surpassing total conventional lending. This is why, for China watchers the dramatic growth in official and particularly unofficial credit, poses a very clear and present danger.

CHART XXI:

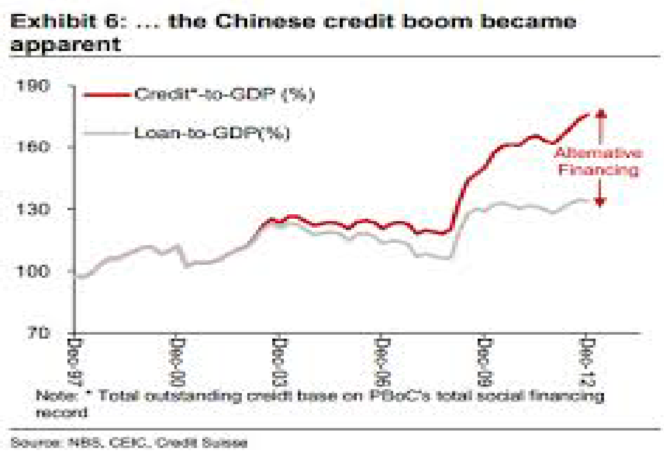
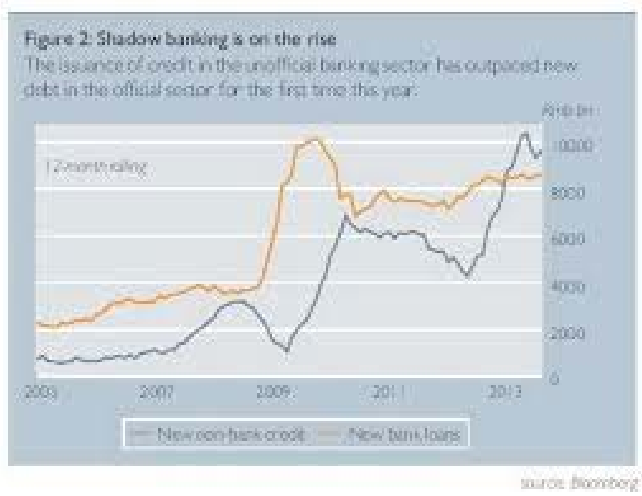


CHART XXII



While credit is growing at an alarming rate, capacity utilization is plunging. The next Chart (CHART XXIII) is from an IMF study released towards the end of 2012 that estimates China's average rate of capacity utilization to be 60%, by the end of 2011, dropping from 80% in 2007. Given the Authority's penchant for massaging such numbers, one could fairly safely conjecture that China's capacity utilization currently is probably at 50% or less.

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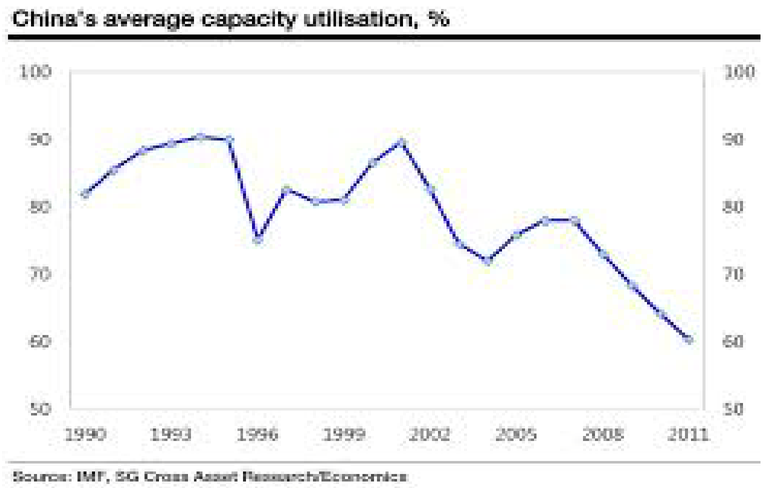
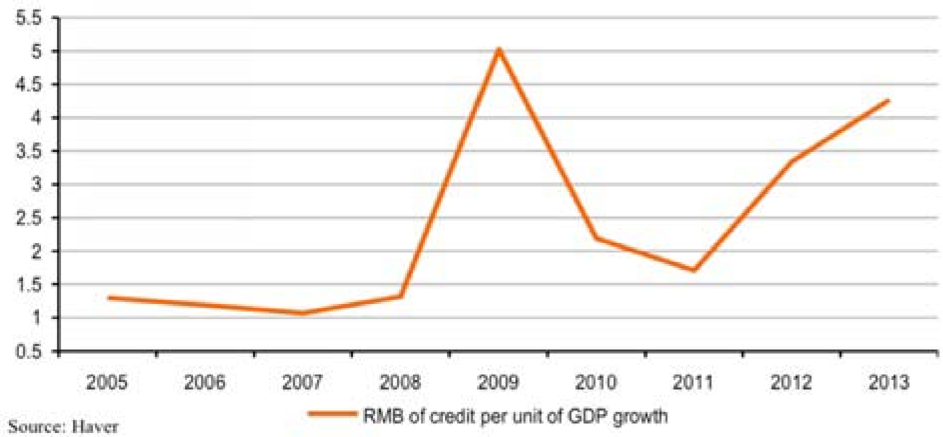
CHART XXIII



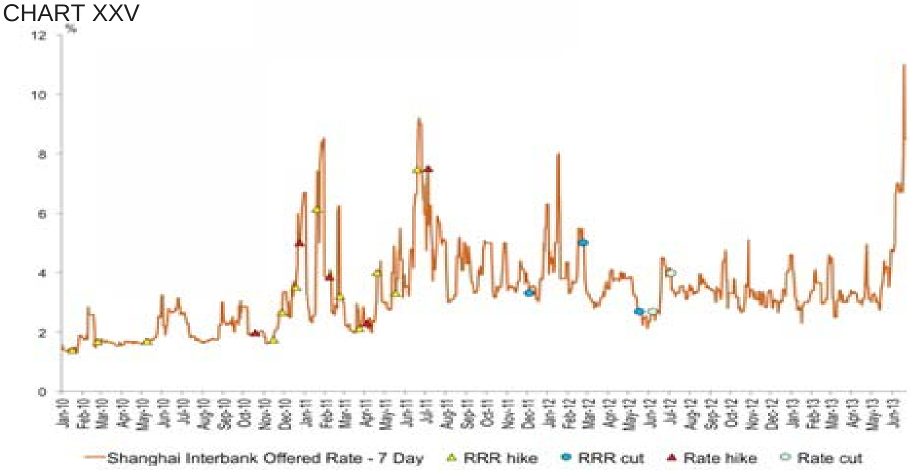
The Chart below shows the dramatically rising cost of new credit in Renminbi required (over 4 Renminbi) to produce one Renminbi worth of GDP growth. This is to illustrate the rapidly growing inefficiency in the Chinese economy.

CHART XXIV



The following Chart shows the sharp spikes in the Chinese overnight interbank rate, as the Bank of China tried to tighten credit to suppress the rampant speculation in the banking and non banking markets.

CHART XXV



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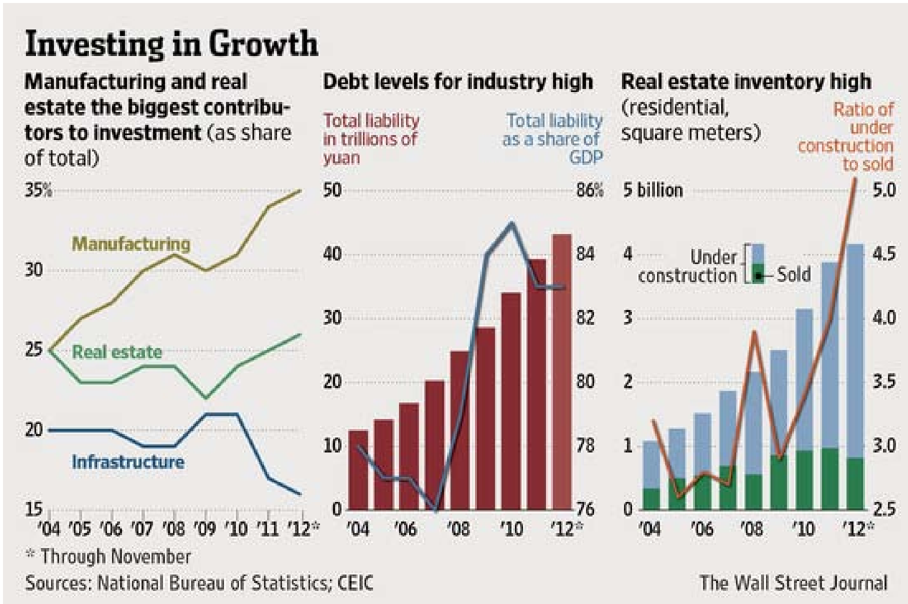
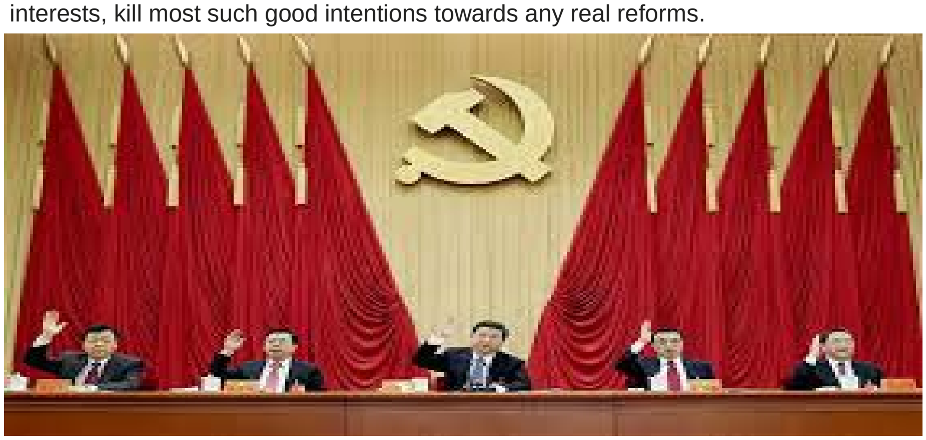
In the past two decades, the Chinese Government chose the path of extraordinary capital investment to achieve and maintain stunning GDP growth rates. That led to the now infamous highways and bridges to nowhere, entire empty cities, empty malls and apartment buildings etc. The following Chart shows the thrust of investment shifting in 2009, from infrastructure building, to real estate and manufacturing.

But keeping in mind the previous Chart XXV, showing serious, growing and across the board under-utilization of capacity, we are not sure that greater investment into manufacturing or the rising investment in real estate is such a good idea either. The ratio of real estate under construction to units sold is climbing dramatically (*below*).

CHART XXVI



The Chinese leadership completed its 'Third Plenum' meeting on November 9th, 2013. Coming out of this meeting the Leadership has announced sweeping reforms to try and restructure China's many critical imbalances. It is a good start, but we fear as in the past, the Communist Party's absolute political control, and its pervasive vested interests, kill most such good intentions towards any real reforms.



China is significant in today's global affairs as much for what it potentially contributes to the World economy, as the danger it poses to it. For if it comes off the rails, a very possible likelihood in the current global economic scenario, from an adverse internal or external event(s), China poses a great risk to the global economies.

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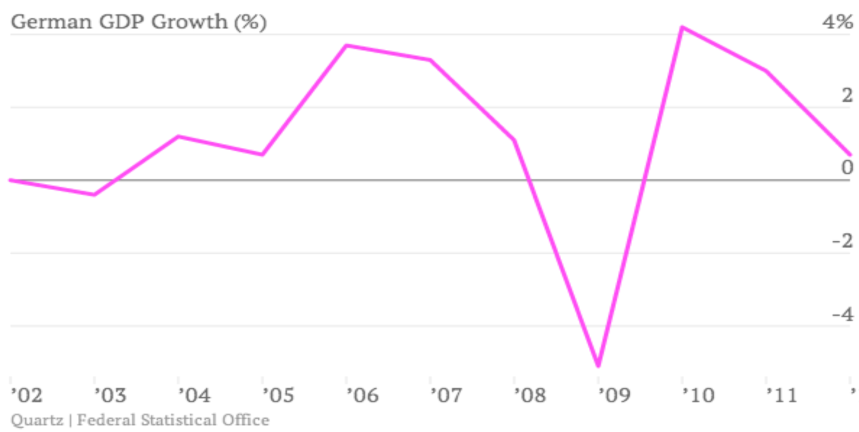
EUROPE

In our view, Europe is in deep economic and political trouble at this time. Many of its members are teetering on the edge of economic depression and political instability, threatening the very sustainability of the Union. Its two strongest economies, Germany and France are now also starting to lose ground (France slowed to 0.1% and Germany from 0.7% to 0.3%. in the third quarter of 2013). We are showing Germany's GDP growth Chart first because it was the engine are showing Germany's GDP growth Chart first, because it was the engine that was almost single handedly pulling Europe. Now it is practically at 0.0% growth which pushes the entire Euro zone deeper under water, which is basically where it's been.

CHART XXVII



The Chart below shows Euro Zone's GDP diving deeper, with an optimistic 2014.

CHART XXVIII

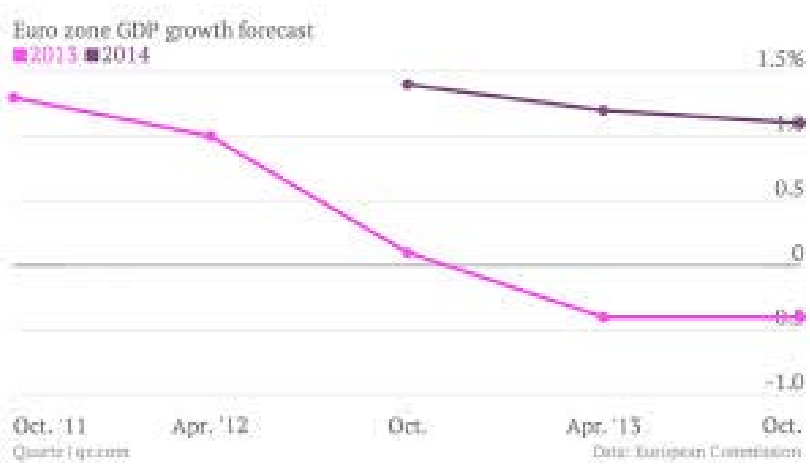


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CHART XXIX

It hurts to look at Europe's unemployment rates. Notice Euro Youth rate at almost 25%! And Spain and Greece Youth unemployment rate almost at 55%!!

CHART XXX

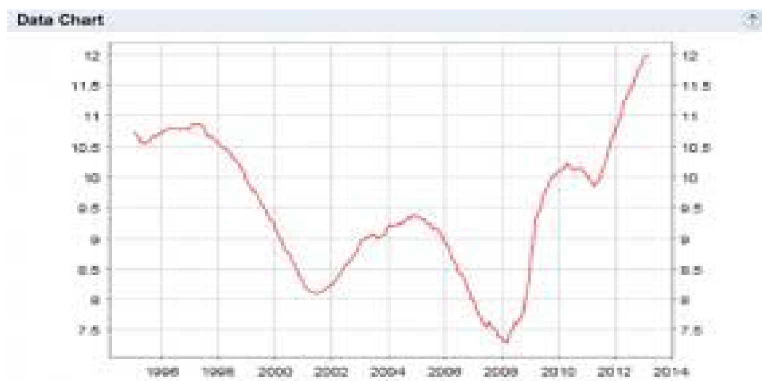
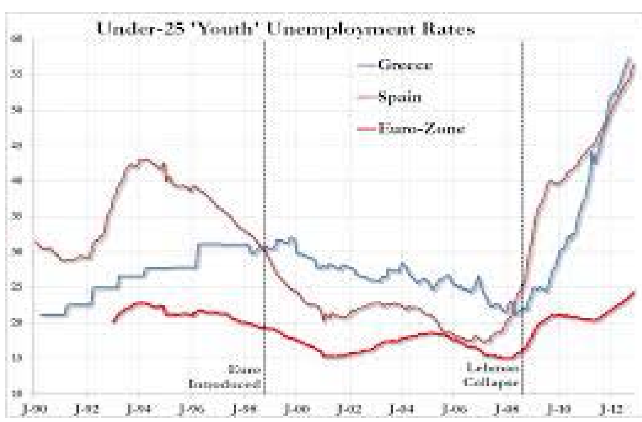


CHART XXXI



By any sensible measure Europe is in a depression. Definition of 'Depression': A severe and prolonged downturn in economic activity. In economics, a depression is commonly defined as an extreme recession that lasts two or more years. A depression is characterized by economic factors such as substantial increases in unemployment, a drop in available credit, diminishing output, bankruptcies and sovereign debt defaults, reduced trade and commerce, and sustained volatility in currency values. In times of depression, consumer confidence and investments decrease, causing the economy to shut down (*Well, almost all of it applies to Europe*).

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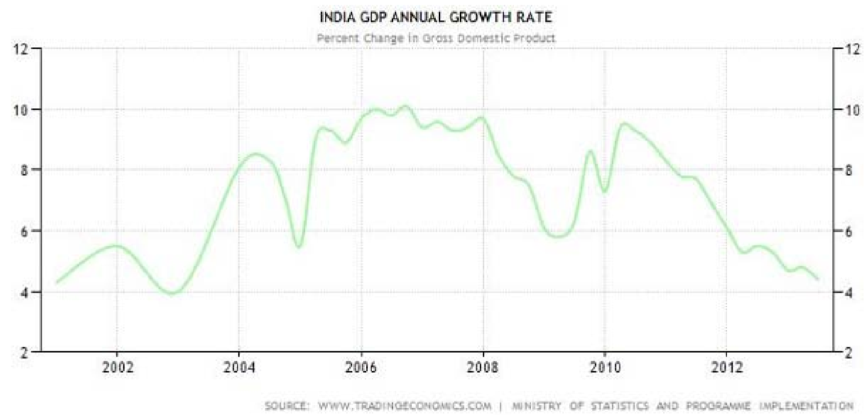
INDIA

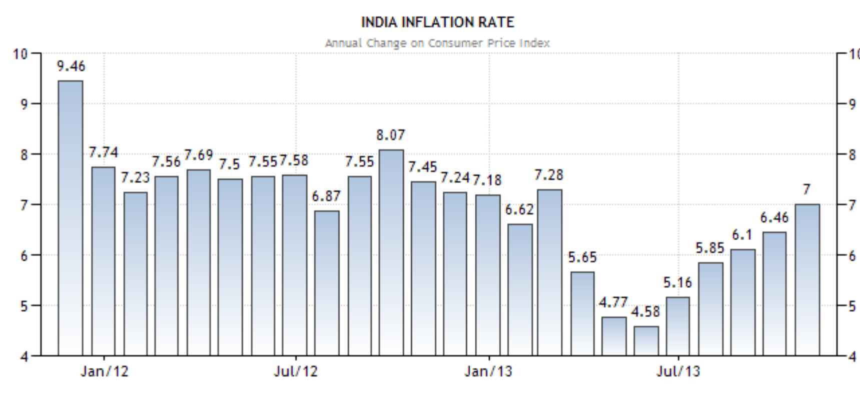
The story of India is no different than all the other major economies today. Economic growth (GDP) has been steadily declining and is now at approximately 4.4% (*less than half of its 2010 peak*). Rampant corruption leading to years of a severely handicapped Government, stalled key reforms, poor infrastructure, dramatically reduced Foreign Direct Investment, and lately a currency in free fall, all of this and more have led to India's current bleak outlook. The Charts below illustrate the problems.

CHART XXXII



Recurring and persistently high inflation, particularly in foods and energy, is causing the Government of India serious problems, and forcing it to keep interest rates high at a time of slowing GDP growth, thereby further exacerbating the problem.

CHART XXXIII



The ruling coalition led by the Congress Party, is facing its general election, early next year (*2014*). Which means that the Government's populist policies, that result in tremendous waste and inefficiencies, are going to continue, and therefore by default the troublesome Current Account deficit is not going to be meaningfully curtailed any time soon. Handicapped by its weak political position, fractious politics, resource and energy sapping corrupt bureaucracy, highly inefficient public sector corporations and institutions and a socialist vote buying bent, India's Government lurches from crisis to crisis, wasting the Country's potential, its talent and its advantageous demography. The following Charts highlight some of its present day primary problems.

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CHART XXXIV

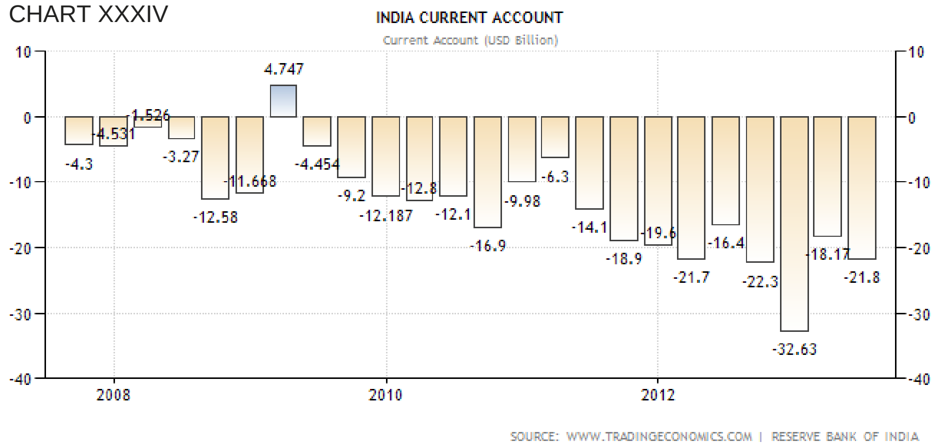


CHART XXXV

India's exports have been falling in relation to its imports.

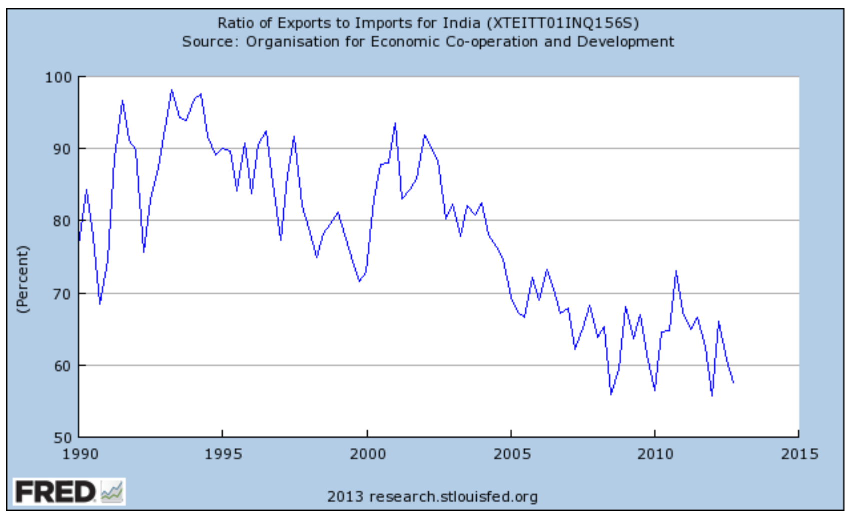
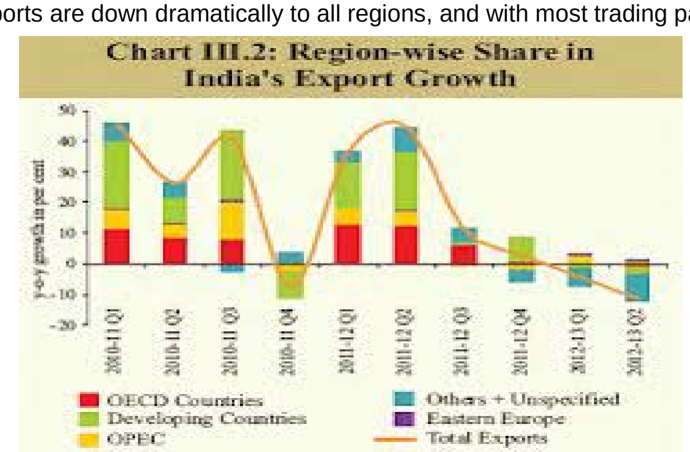


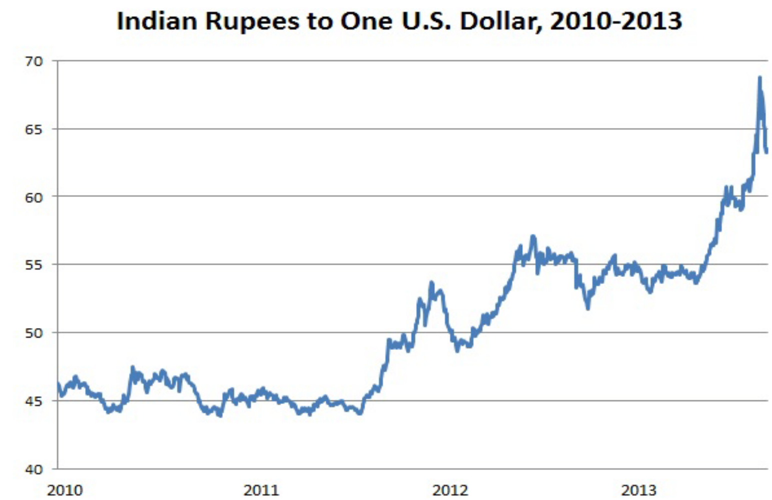
CHART XXXVI

India's exports are down dramatically to all regions, and with most trading partners.



The deteriorating economic outlook coupled with the general flight of Foreign Institutional Investment out of emerging markets back to the United States, triggered a freefall of the Indian Rupee to its lowest level against the U.S. dollar. The Reserve Bank of India had to intervene very aggressively to slow and reverse the trend.

CHART XXXVII



India, burdened with a messy democracy that is increasingly dysfunctional, in terms of good clean effective governance, is heading into a general election next year. The consensus is that the elections will result in an even more fractured coalition government led by the incumbent Congress Party. While India’s economic potential is tremendous, it’s extremely inefficient governance at all levels, is going to continue to make it perform well below its potential in the coming years. Although, it’s well developed internal demand will give it greater stability, at a lower output, than most countries, particularly China.

In conclusion, our view is, the global economies are in deep trouble and we expect it all to get worse before it gets better. There are simply too many financial, structural, economic, and possibly political, ticking time bombs, in too many countries, for us to feel that recovery and stability are imminent. In fact we feel the opposite.

Collectively the dropping growth rates of the global economies are, in our opinion, too much of a burden for the Central Banks to be able to support indefinitely. So as we said earlier, ‘something’s gotta to give’ sooner than later. Therefore our prognosis going forward is: an underperforming and deeply troubled global economy that faces impending threats of a severe correction in the unsustainable American financial markets, a possible collapsing Euro Zone, and a dangerously inflated credit and real estate bubble in China. We anticipate greater deflationary pressures Worldwide as economic growth slows further in the near term, and therefore we expect the Central Banks to continue their expansionist policies of ultra low interest rates and uber-stimulus. We maintain that the good done by the Central Bank’s intervention post 2008 crash has been extended way beyond any reasonable requirement, and is now stoking dangerous asset bubbles, and ironically, creating a similar leveraged environment that led to the 2008 crash. This time, there is a worldwide tsunami of government debt building that threatens global financial and economic stability, and sustainable growth. We advise extreme caution going forward, until the other shoe drops.