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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, Monoco 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".

Coming Full Circle – To Crash II ?



It is a well known phenomenon, that when people lose their bearings in unfamiliar terrain, they start walking in circles till they drop from confusion, despair and exhaustion. In a similar manner, it seems to us, the current global economic conditions are coming full circle, and heading towards the pre 2008 conditions.

Let's begin first by remembering what led to the 2008 crash.

The 2008 financial crash was made possible by years of excess liquidity, creating globally conditions of 'irrational exuberance' in government and consumer spending, asset bubbles of real estate and equity markets.

Easy money fueled excesses of spending amongst Western consumers. Borrowing and spending was actively indulged in, and encouraged by governments, banks and investment banks, who went on a spending spree themselves, of wars, deals, extraordinary profits, bonuses and fees. All sense of prudent self-restraint was set aside as the feeling took hold that easy money and good times were endless. A decade and a half of collective 'irrational exuberance' indulged in globally,

entrenched irrational greed, and an irrational sense of euphoria that 'unlimited economic expansion' was a rational economic model.

When the realization set in that it was all quite unsustainable, liquidity tightened, credit froze, and the inflated balloons of endless consumption, real estate and stock markets, burst, imploding the global financial system. Emergency air in the form of unlimited stimulus has been pumped in since (last 4 years) to try and re-inflate the global economic balloon, rather than let the severe ensuing retrenchment rid the excesses.

Governments and Central Banks of all major economies have been re-inflating consumer spending, real estate and equity markets. To a degree they have been succeeding as auto sales and real estate have rebounded, and equity markets in places are at previous highs. But, with the developed economies continuing to retrench in spite of the historic, unprecedented and unlimited stimulus, are we now in unfamiliar territory, **coming full circle** to pre-2008 crash conditions of excessive liquidity, record low borrowing costs, inflating asset bubbles and unsustainable debt levels on almost all national balance sheets. The multi-Trillion dollar question (the amount of stimulus already spent) then really is: how sustainable is this severely leaking artificially induced recovery balloon?

To us it seems eerily like 2007-8, only now the 'sub-prime' borrowers are governments!

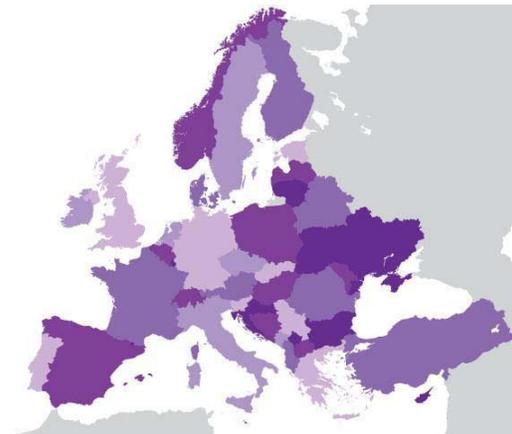
The Global GDP slowed quite significantly from growth rate of 5.2% in 2007, to 3.0% in 2008. And then, post September 2008 financial crash, global economic growth had a severe and alarming contraction in 2009 to -0.5%. With the governments reacting almost immediately with massive financial stimulus, the World GDP spiked dramatically in 2010 to 5.3%, surpassing the pre-crash high of 2007. We called it the classic 'dead cat bounce' in our September 20th, 2012 report.

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The current situation is, that the Global GDP has been declining steadily year on year in spite of the consistent and massive ongoing stimulus, from the high of 5.3% in 2010, to 3.9% in 2011, and estimated 3.5% in 2012 (EGR¹ [%], IMF). That would make for two straight years of declining global GDP in spite of relentless stimulus. It is already obvious that growth rates are going to be lower in 2013, down to the 2008 low of 3.0% or lower. That brings the global macro-economic global numbers full circle.

The deflation in developed economies, in the early part of 2013, is significant which will put a drag on the emerging markets, and on any hopes of sustained global recovery for the rest of the year.



Europe is heading into a possible depression, as practically all its major economies are posting negative growth rates. Even unsinkable Germany is being dragged down, with France succumbing from 0.0% into negative growth territory. Portugal, Italy, Greece and Spain are stuck in depression like conditions, with negative economic growth, very high unemployment, and political trends that may lead them into deeper waters.

Italy, the third largest economy in Europe, with its chaotic politics and unstable economic policies, and its acrimonious relationship with Germany, the stabilizer of Europe so far, may be the domino that tips the rest of the teetering dominos over. Our prognosis for Europe is very bleak indeed, and given the latest economic

figures and political developments, we feel the Euro-zone could be mired in a protracted near-depression like condition for years to come.



The United States economy, under the \$85 Billion per month stimulus injections, for 'however long it takes to bring the unemployment rate to below 7%', is struggling mightily to revive, and showing some faint signs of doing so. But, at this moment in time, the U.S. is its own worst enemy. Just as the rest of the World breathed a sigh of relief over Barack Obama winning a second term, and managing to win support from the Republicans to pass the first major financial and political hurdle (the 'Fiscal Cliff'), the irrational, self-destructive and bitter divisiveness of partisan politics in America today, forced the President to sign \$85 Billion in arbitrary budget cuts called 'Sequestration', on Friday, March 1st 2013.

If 'Sequestration' is allowed to play out in its entirety, the U.S. economy could shed thousands of jobs and by some estimations contract by at least half a point in GDP growth in 2013. An already weak economic recovery is being forced to deal with a hit when it least needs it. Apart from 'Sequestration', we are concerned that the excessive liquidity of the QE² III is inflating the equity market to unsustainable levels, and boosting real estate and auto markets with no real fundamental change in the economic structure to justify and support sustainable growth. The U.S. economy has steadily retreated from the 2010 GDP spike, despite QE I, II, and III and near 0.0% interest rates.

1. EGR – Economic Growth Rates
2. QE – Quantitative Easing

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China has seemingly avoided a hard landing and is growing again at above 7%, and in 2014 is expected to accelerate that growth rate to above 8%. But, as John Donne's poem starts – 'No man is an island, Entire of itself' – that sentiment applies equally to countries in today's economic World. China *cannot* prosper on its own. It needs the consumptive power and wealth of the developed economies to drive its export oriented economy, from whence comes the bulk of its wealth generating capacity. A dramatically slowing global economy is going to once again slow China's growth rate, which in turn will negatively impact commodities markets and foreign imports, thus further slowing those economies that export to China.



India has slowed more than China, being a big inefficient, messy democracy, and not an efficient command economy like China. Its

growth currently is estimated at about 4.5% and is targeted to grow at 6% next year (2014). But as in China's case the slowing global recovery will negatively impact India's economy and put in question its growth forecasts. The Indian Government just came out with its latest budget, which is expansionist in tone and has the distinct sound of an electioneering platform. In spite of the serious twin current account and budget deficits, the incumbent Government, battered and discredited by massive corruption scandals in recent years, tries to regain its appeal by a populist budget as it approaches general elections in early 2014. India is facing some serious challenges in the coming years. Its distressing ultra-pluralistic political makeup, resulting in 17 party coalition governments and its democratic nature assuring constant electioneering at some political level, makes for a complex, convoluted, populist, short-sighted and at times irrational decision making process, that confounds efficient economic, social and infrastructure development.

Yet India's strength lies in it being different from most other major economies. Another major global retrenchment, might favour India. While its exports will suffer as with other major economies, but India's huge and consistent internal demand is unique amongst global economies, and will continue to drive its economy in the face of a severe contraction. One of India's largest expense and impediment to higher rates of growth is critically needed, imported energy - oil, diesel, natural gas, coal, kerosene, naphtha etc. A serious global contraction dramatically lowers energy prices thereby assisting India. Additionally India's importation of other necessary raw materials, such as fertilizer, grains, edible oils, seeds, plus high technology materials, metals and minerals, all add to its significant import bill, which declines in the event of global crisis. So India's importation of energy and other raw materials may remain consistent or increase some in a sharp global downturn, but at significantly lower prices, which neutralizes its effects somewhat on commodity exporting countries.

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The third global and Asian economic giant, Japan, has been firmly stuck in a zero growth scenario for over two decades, in spite of every effort of its many governments to-date, that have tried to break its economy free from the deflationary black hole that seems to have a permanent grip on it.

The current government of Prime Minister Shinzo Abe has ordered its newly appointed Central Bank governor Haruhiko Kuroda, to use whatever means necessary to achieve the set target of 2% inflation rate in an effort to break the deflationary strangle hold. It sounds reasonable enough until one reads the statements made by Mr. Kuroda as to how he proposes to achieve what till now has proven unachievable. In January Mr. Kuroda was quoted in the Wall Street Journal as saying, 'the Central Bank must commit itself to do **anything and everything** to achieve the target objective, in an **unlimited** way,' and consider, '**anything and in any amount**'. Talk about the sounds of desperation. The printing presses are now printing yen and devaluing it. That is helpful for Japan but not so much for all the other countries competing for the same export markets. The currency trade wars are on, even though it was unanimously denied by the G20 in their last meeting in Moscow, but there is the tacit understanding from all countries that it is inevitable in these extraordinary deflationary times. So another impetus has been added to the currency wars that we had anticipated and flagged in our report of October 25th, 2012. The printing of Trillions of American dollars by the Federal Reserve will devalue it, long-term, and 'create a downward spiral of competing trade currencies'.

Meanwhile in the business World, corporations are posting record profits, hoarding unprecedented amounts of cash (called by some – 'dead money'), while continuing to

downsize by shedding thousands of jobs. Which means profitability is being wrung from efficiency and perhaps offshore operations, rather than any top line revenue growth at home. In the West, real wages are lagging and consumer savings and debt numbers are slightly better since the crash, but not particularly inspiring. Job growth is stagnant in North America, at best, while dizzyingly high in some countries of Europe, Middle East and Asia. Banks are getting Billions a month to lend, but credit remains very tight, and lending is only to those with an excellent credit profile. In other words the stimulus money is not reaching the street level, which is where true economic recovery will need to start. Cheap money, through banks, financial institutions and wealthy individuals is flowing into equity, debt and real estate markets. These markets are rising from Billions in cash flowing from stimulus funding, and on expectations of that infinite supply being available indefinitely. Equity markets globally seem to be willfully ignoring and resistant to the fact that the geo-political macro-economic fundamentals are fast deteriorating.

At the time of this writing, stock market are rising in the face of dire news, the Dow Jones Industrial Average broke through to a new all time high, beating the previous 2007 level, and the S&P 500 is following close behind. Oil price (Brent Crude) has climbed back up to US\$110/bbl, since its fall to US\$40/bbl after the 2008 crash, in spite of steadily weakening global growth over the past 2 years. Real estate markets in the U.S. are strengthening and new car and truck sales are beating previous sales records. Record prices (in the tens of millions) are being paid for the priciest Manhattan condos, by the richest of the World, seeking 'safety' from an increasingly unsafe global economic environment.

We feel the old 'irrational exuberance' in equity markets is back with a vengeance, while by and large, the governments of all major developed countries are overloaded and sagging under their debt, as are the consumers of these countries.

We feel the stage is about set.