
DSGAsia

**Macro (In)Stability and
Markets**

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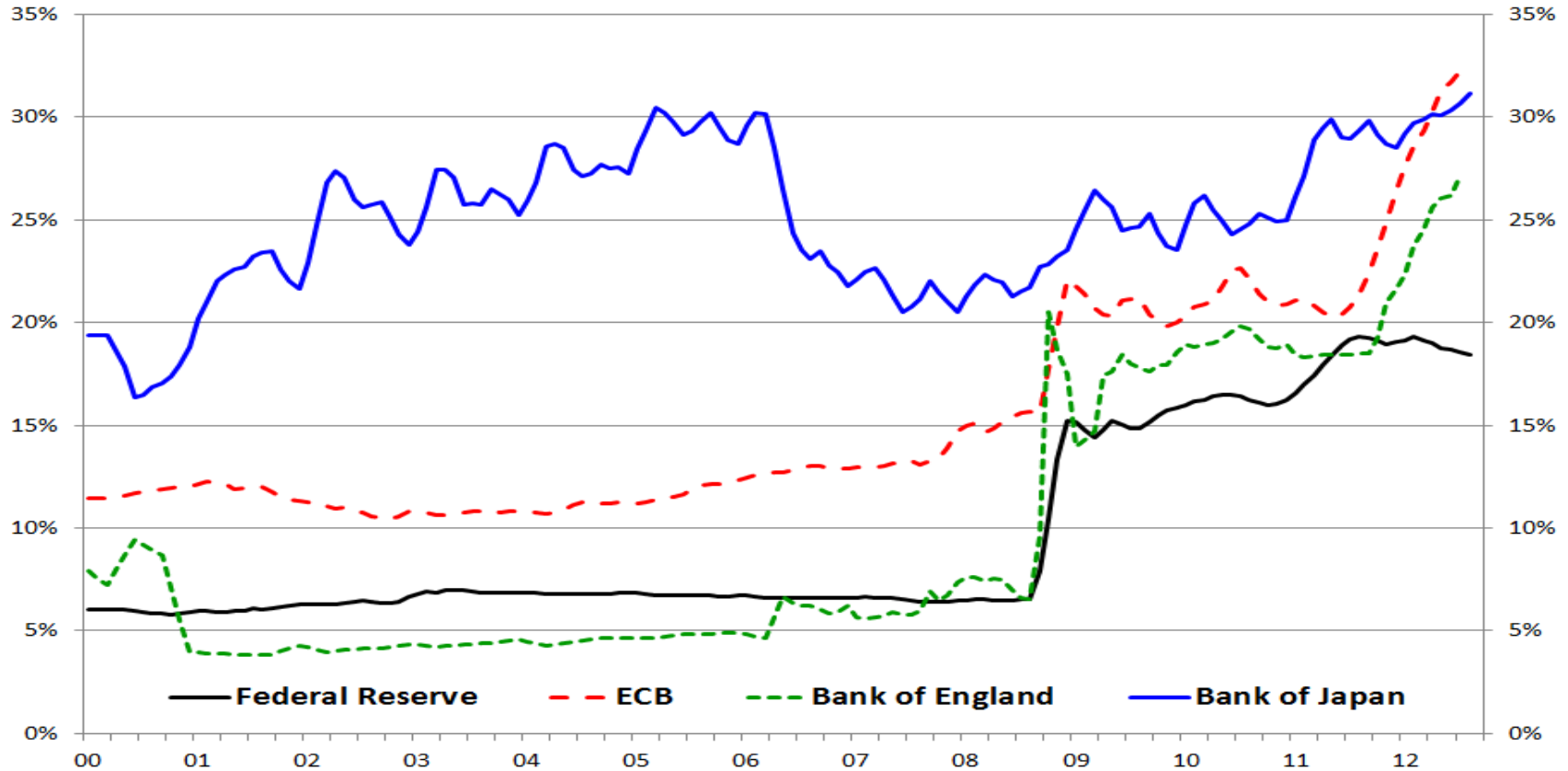


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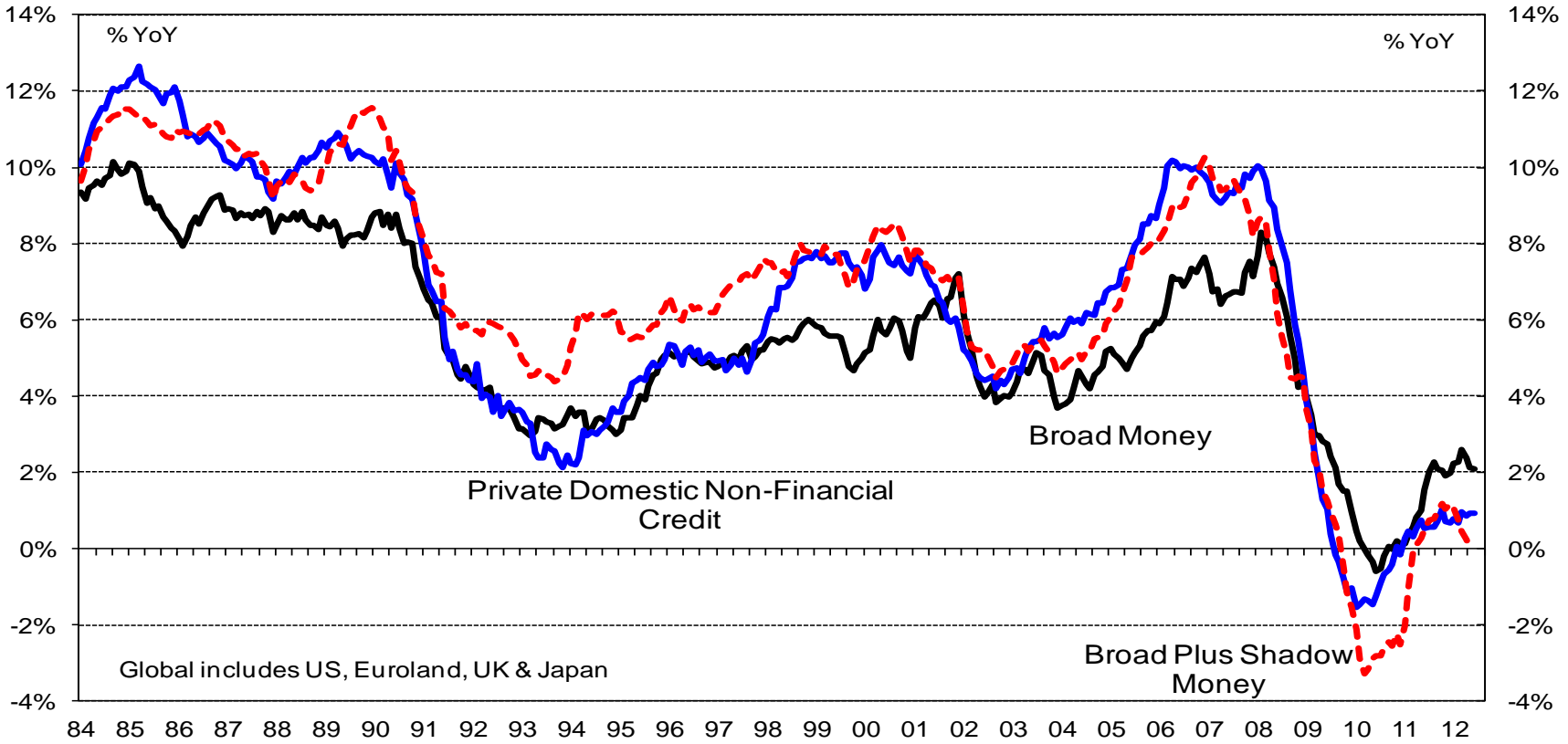
The race to debase central bank balance sheets continues apace

Central Bank Balance Sheets as a Percentage of GDP



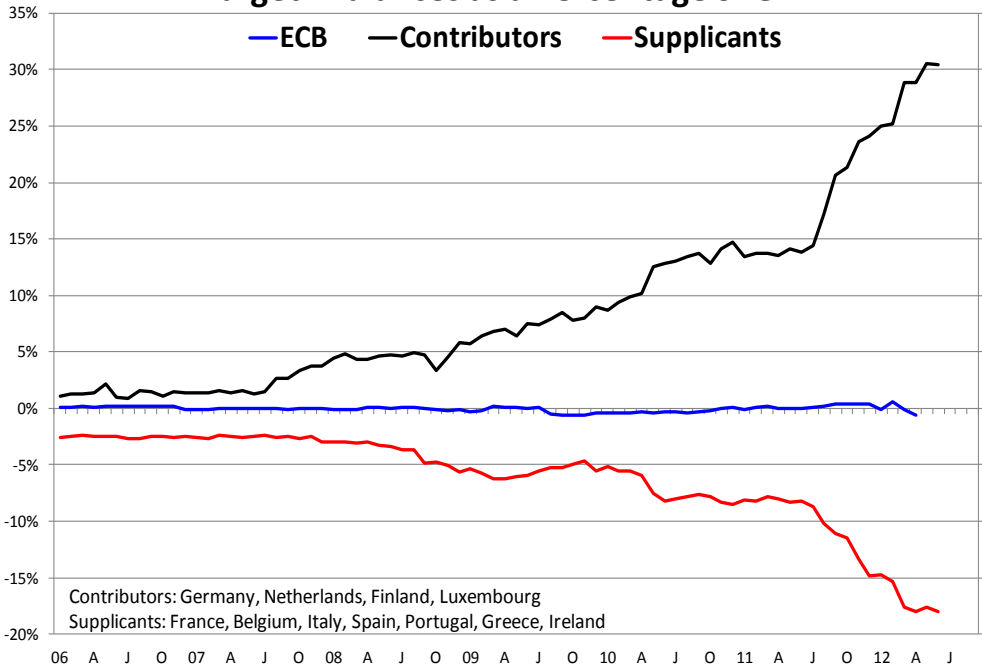
This is using a bicycle pump to reflate a soufflé. Deleveraging following the greatest credit Ponzi scheme of all time will remain a multi-year process

Global Nominal Money and Credit Growth

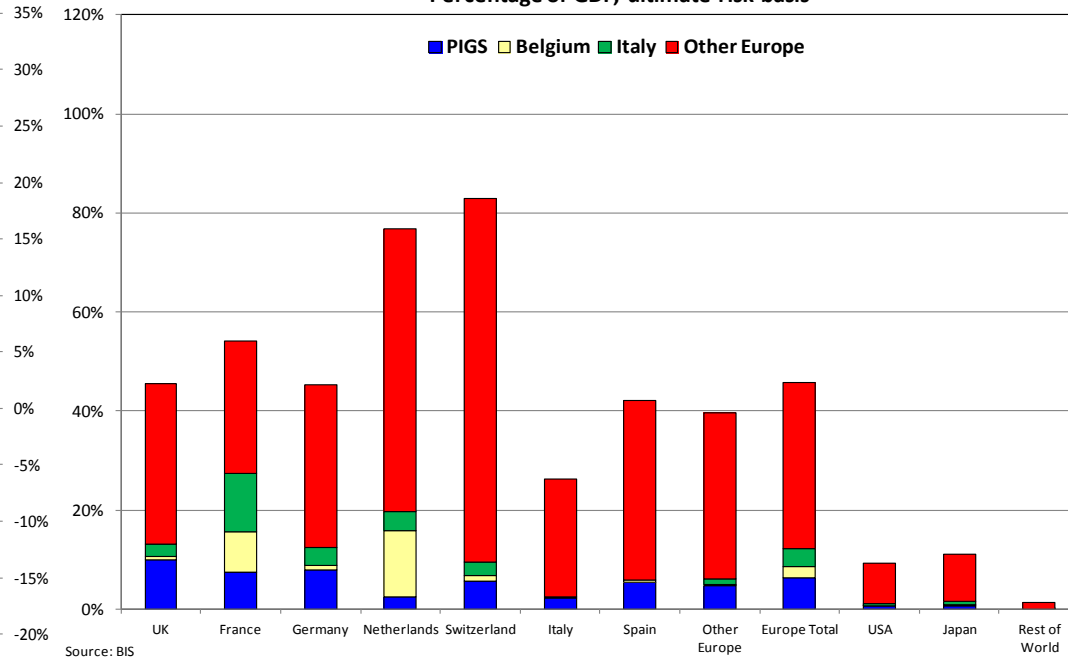


The euro remains the biggest Ponzi scheme of them all. This is principally a European problem but how can it be cauterised?

Target2 Balances as a Percentage of GDP



Banking System Exposures to European Debt, December 2011
Percentage of GDP, ultimate risk basis



A 2009 Rogoff-Reinhart study notes that if public debt exceeds 90%, median growth rates fall by 1% and average growth rates by more

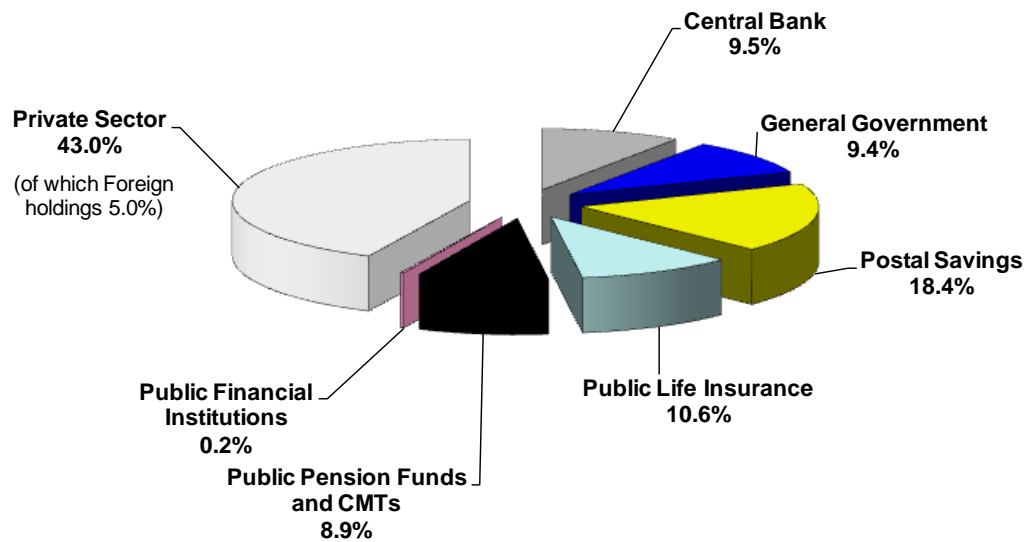


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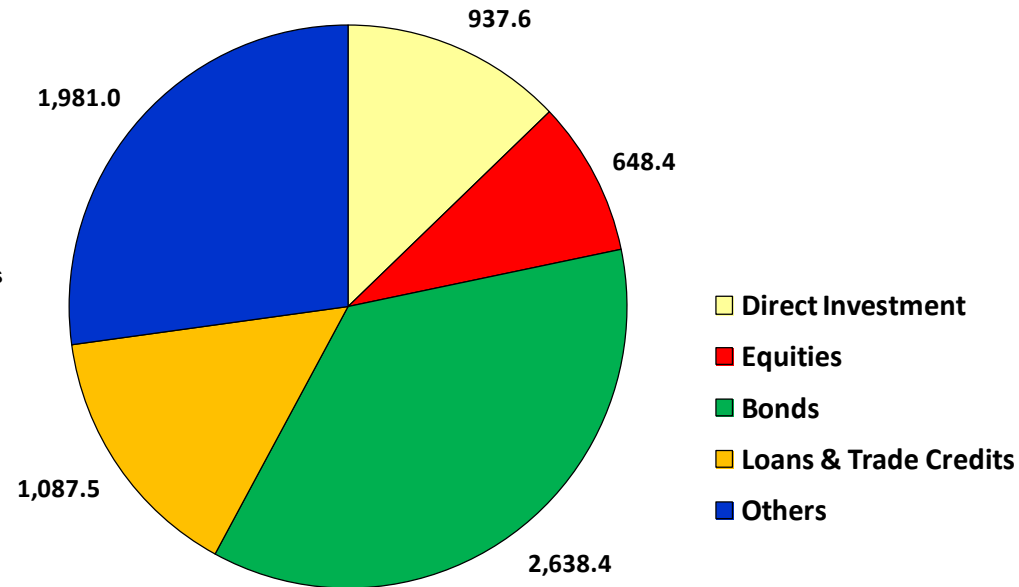
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Japan is the champion government debtor but JGBs have a unique ownership pattern. It also has plenty of foreign assets to sell should the locals abandon ship

Sectoral Holdings of Central Government Debt (March 2012)



Japan International Assets 2011 (USD7,293 billion)

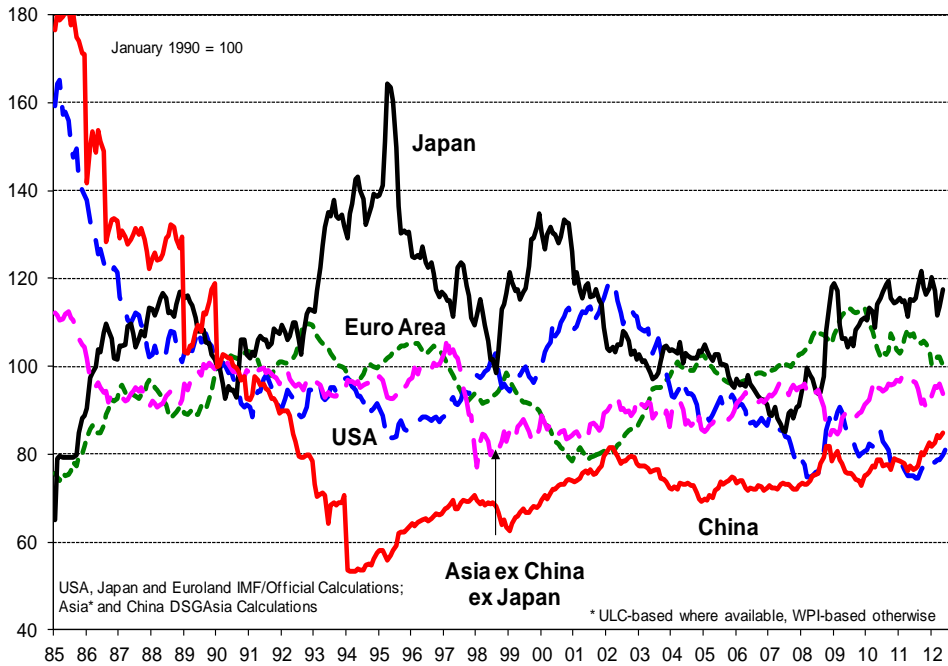


Source: Japanese Government Flow of Funds Data

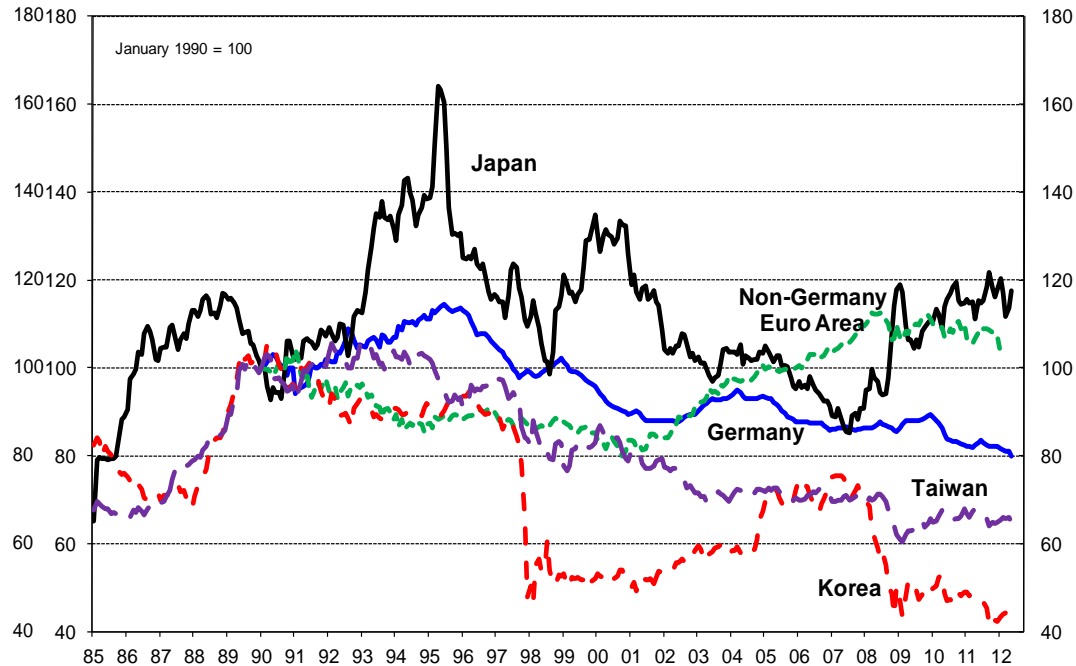


The real FX divergences remain within continents

Real Unit Labour Cost-Based Trade-Weighted Exchange Rates



Real Unit Labour Cost-Based Trade-Weighted Exchange Rates

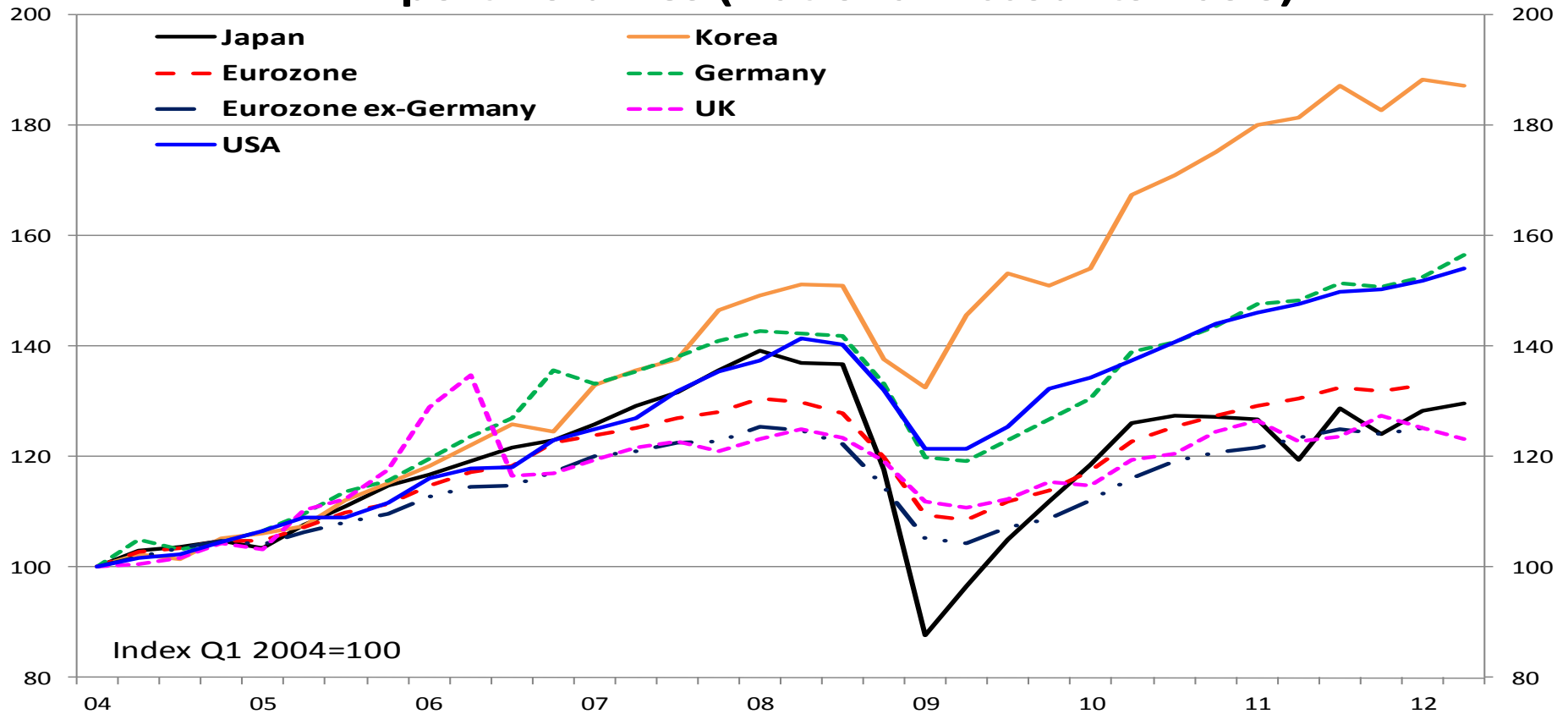


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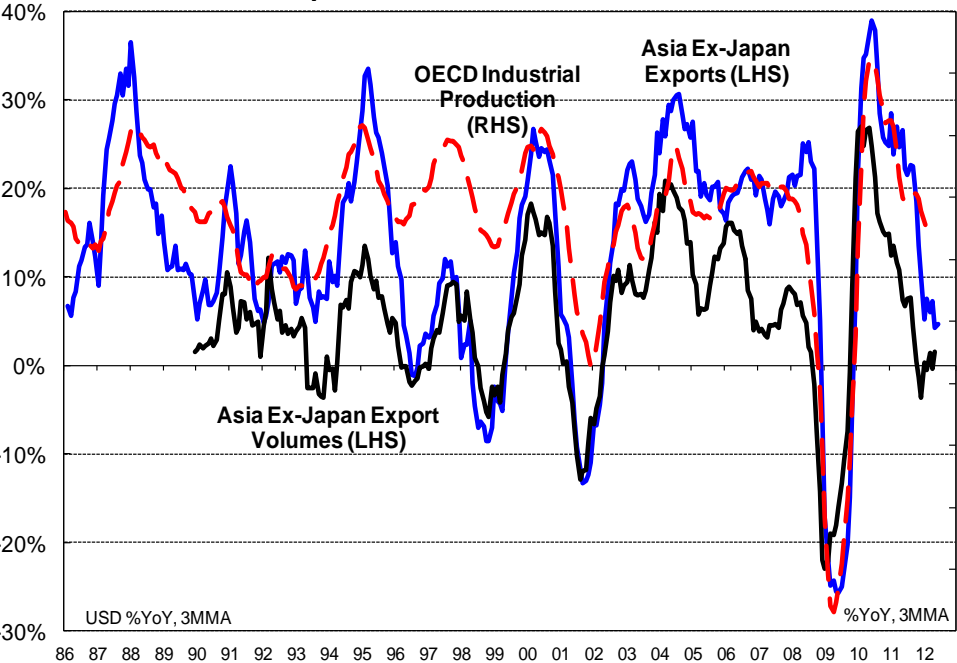
Divergent exports are the result

Export Volumes (National Accounts Basis)

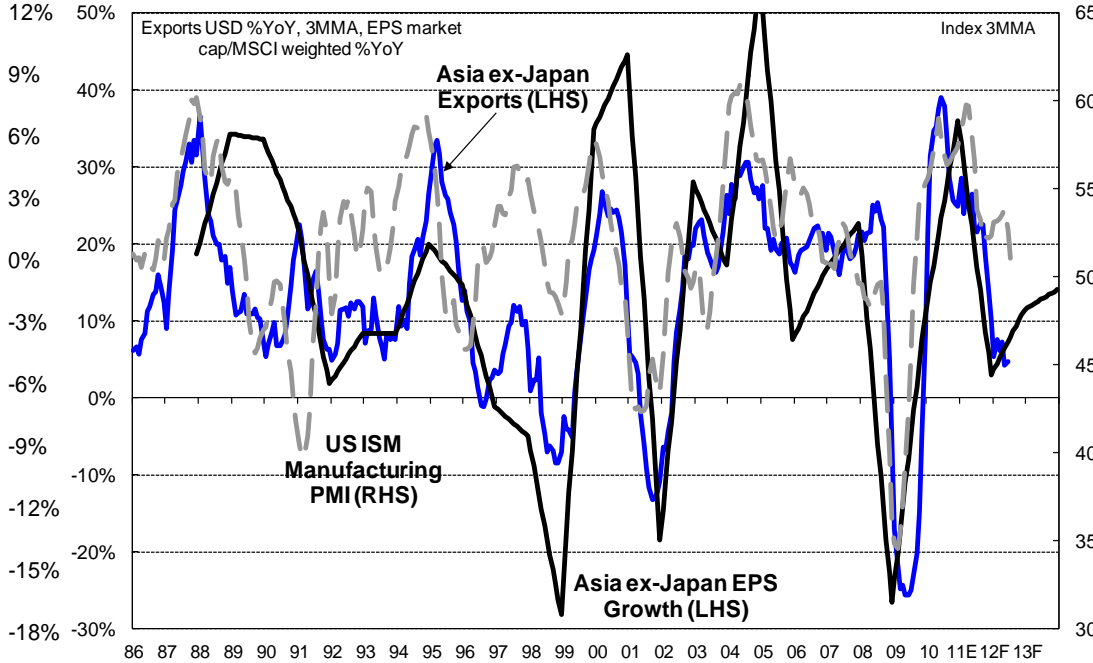


Where was the decoupling? An early 1990s earnings trajectory, at best, seems likely though this may not preclude market re-ratings at times of global calm

Asia Exports and OECD Industrial Production

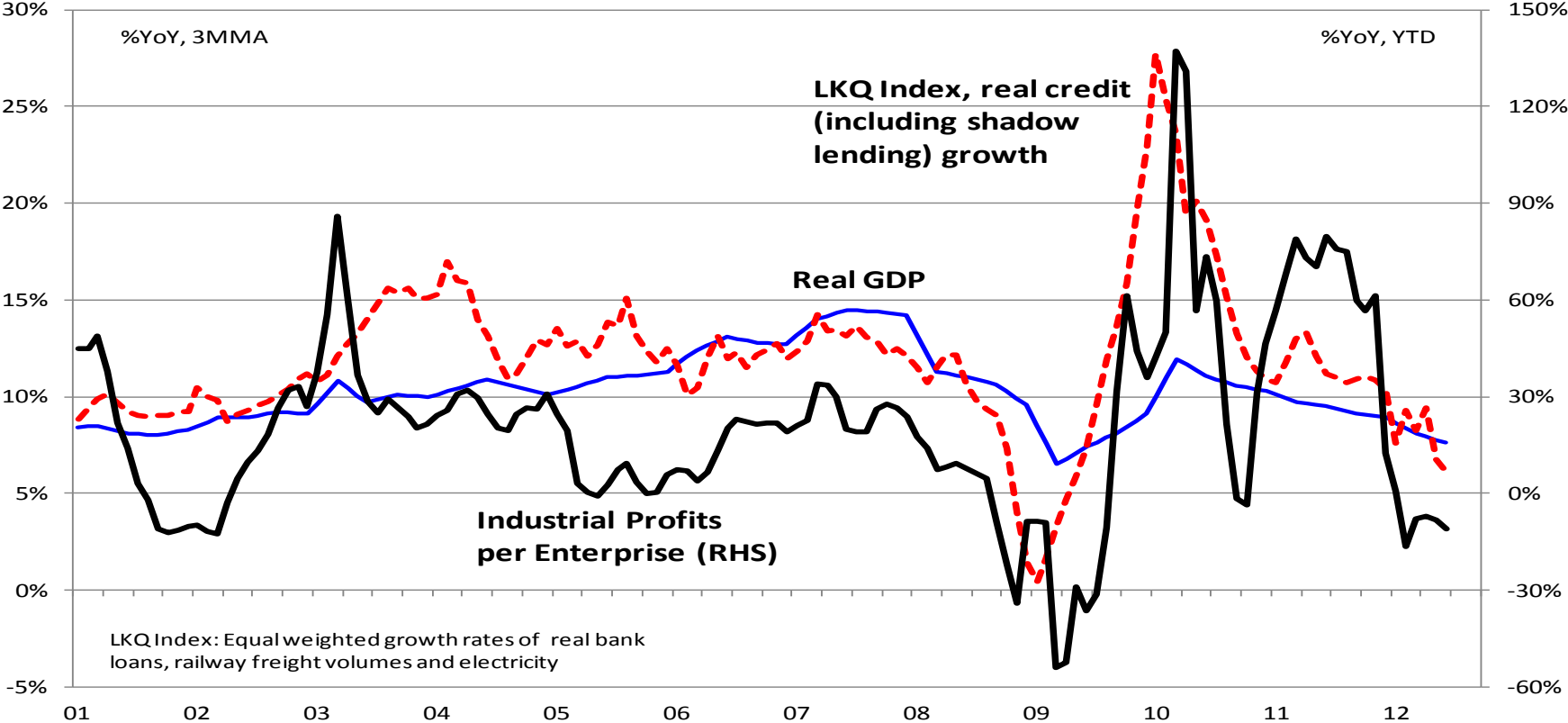


Asia ex Japan Exports & EPS Growth and the US ISM Manufacturing PMI



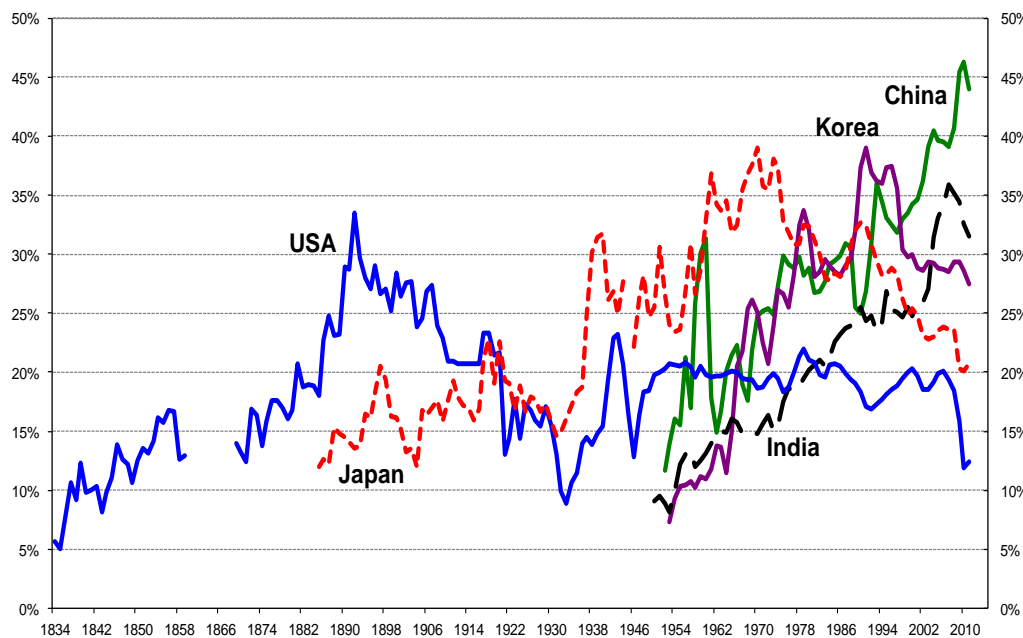
China's desire to shift from an investment-led to a consumption-led economy implies a profits recession. The A-share has market recognised this at least

China Real GDP Growth, Profits and the Li Keqiang Index



China may well be cyclically over-invested but it remains structurally under-invested. India even more so....

Fixed Investment as a % of GDP



USD Capital Stock Per Capita, 2010 Prices

