C.F. WHITTELSEY HOLDINGS

Weekly Market Review

November 17, 2014 — November 21 2014

"There cannot be a crisis next week. My schedule is already full" - Henry Kissinger

Some Demographics and Debt of Mature Countries

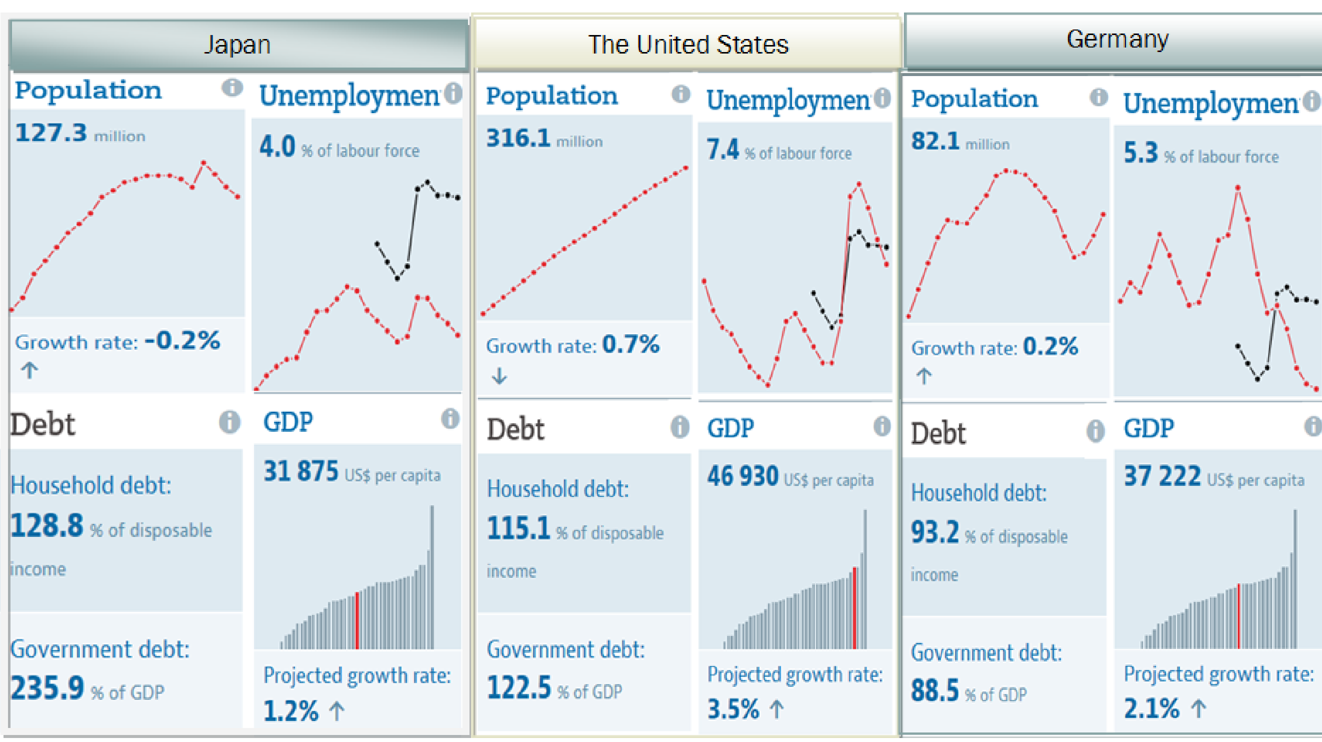
The PBOC, BOJ, and the ECB all had a thing or two to say about the state of monetary policy within their own countries. Each move is different, as were the motivations for those moves. The impacts on the world will vary, the degree to which is anything but certain.

Not since 2012 has the Peoples Bank of China (PBOC) pulled on a major monetary policy lever. Given China is on track to post the weakest growth since 1990—suffering slowing inflation, elevated funding costs, and risking undershooting their official 7.5% growth target– the country announced measures will be taken to defend near term growth and lower funding costs to the corporate sector. They cut the primary lending rate by .4% to 5.6% and lowering the 1Yr deposit rate .25% to 2.75%. The goal of the cuts is to make it easier for firms to service debts and improve cash flows. Ning Zhang, an economist at UBS, suspects that lending rate may fall another 50 bps in 2015. Haibin Zhu, Chief China Economist from JPM agrees that the rate will continue to fall. The PBOC painted this move as neutral, stating "has no need to take strong stimulus measures, and the direction of prudent monetary policy will not change".

In response to the recent moves in China (amongst many other considerations of course), Mario Draghi from the ECB said "we will do what we must to raise inflation and inflation expectations as fast as possible, as our price-stability mandate requires… shorter term inflation expectations have been declining to levels that I would deem excessively low". The ECB is attempting to boost the size of its balance sheet by increasing it as much as 1 trillion euros to help revive the stagnant European economy.

The BOJ canceled (or postponed perhaps) its tax hike. This of course allows consumers more cash in their pocket while simultaneously forcing the government to fund that gap with issuing more bonds. Given the BOJ is the majority buyer/holder of government debt, its not hard to keep the rouse going, perpetuating Abenomics, and doing whatever is possible to attempt to spur growth in the most stagnant developed economy in the world.

Ultimately, the easing in China and Japan—as well as planned easing in Europe– will have a significant effect on world trade. Regarding China– to the extent that these rate cuts have a meaningful impact on Chinese aggregate demand, they will soak up more imports form the rest of the world, especially commodities, but also manufactured goods. Lets see if this rising tide lifts all the world boats, or just those in the southern Pacific / Indian Ocean (did you see what I just did there?). The degree of significance that the moves in China may have depends on the degree to which it inspires more investment in countries abroad. Hopefully this doesn't turn into a game of currency debasement as central banks and country treasuries work to keep their currencies competitive. The already strong dollar will likely become stronger which will continue to put pressure on exports but increase US buying power. I couldn't be sure what the rate impact of this whole thing will be, but all else constant, greater appetite for European and Japanese bonds may result in lower yields abroad while possibly less demand here in the US (the Fed is no longer buying new US debt) which could lead to a little lift on the treasury curve. All speculation of course, we should watch for the externalities of these monetary policy moves, especially as they impact export centric countries (Brazil and Australia are likely happy).



All information is from the OECD and is based on 1993—2013 data. The data for China isn't strong and the OECD website doesn't present what they do have in a graphical manner. As a result, I choose to show Japan, German, and the US to gauge where these countries are, where they may be going, and the different dynamics that may influence the success of monetary policy initiatives.