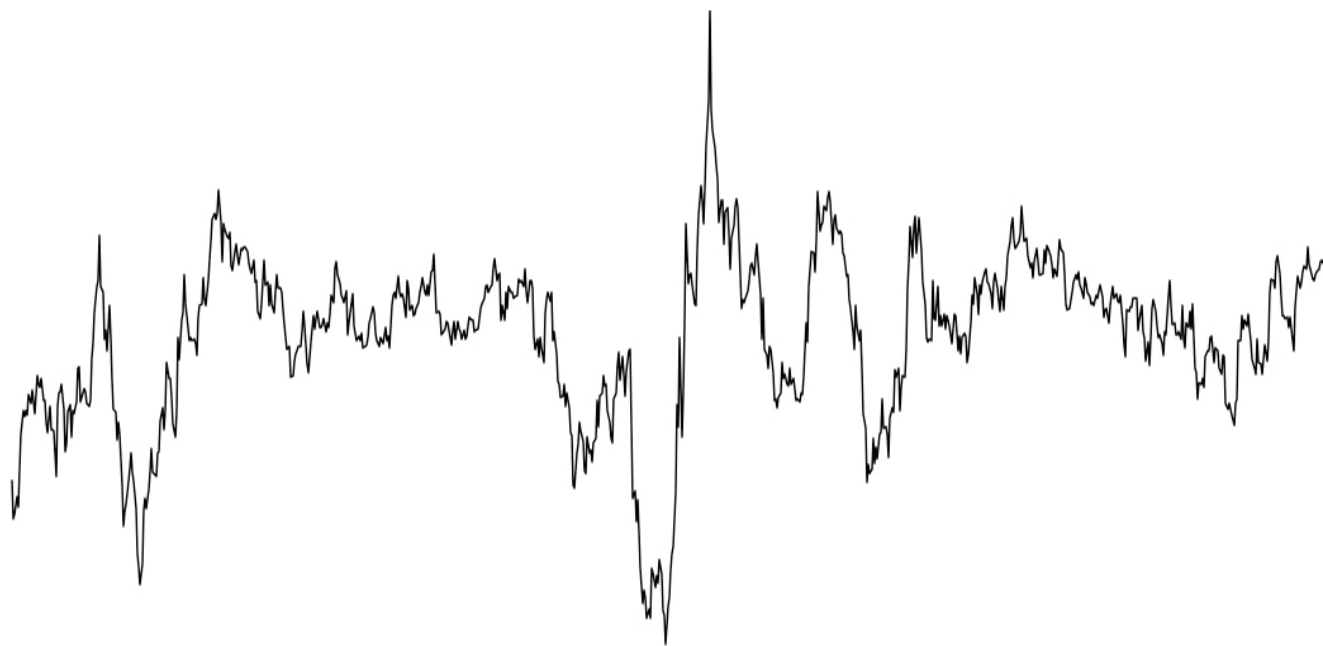


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FEBRUARY 4, 2019



DOVES ON PARADE

My main job on these pages is to distil the market Narrative™ for my readers, and recent events have made this week's missive a layup. The debate on whether to fire, and how to arm, [the fiscal bazooka](#) has continued, and now monetary policymakers have joined the party. For a while, it seemed as if the world's biggest central banks were sleepwalking into coordinated tightening, or in the case of the PBoC, failing altogether in the attempt to counter a sustained cyclical slowdown. **To the extent that the Q4 chaos in equities was investors' vote on this strategy, they should consider their message received.**

In Japan, signs of wage growth briefly alerted markets to the prospect that the JGB market would be un-frozen by further loosening of the yield-curve-control. But the truth is that Kuroda-san is stuck. With global headline inflation pressures now easing, manufacturing and exports struggling, and the looming consumption tax, the BOJ isn't going anywhere fast; zero rates and (modest) balance sheet expansion will continue as far as the eye can see.

In Frankfurt, the ECB recently downgraded its assessment of the economy—the convoluted shift from “broadly balanced” to “downside” risks—and expectations are building that the TL-

* / See additional charts on final page. I am carrying the same charts as last week, though updated, because they provide a counterpoint to this week's main story.

** / Data for charts are sourced from FRED, OECD, Eurostat, IMF, BIS, Market Watch, Yahoo/Google Finance, COT, Bloomberg, Investing.com or Quandl, unless otherwise stated.



TROs will be extended, or even renewed and expanded. The former is a foregone conclusion in my view, but I am not excited about the latter unless the conditions specify that banks can use the proceeds to buy sovereign bonds.

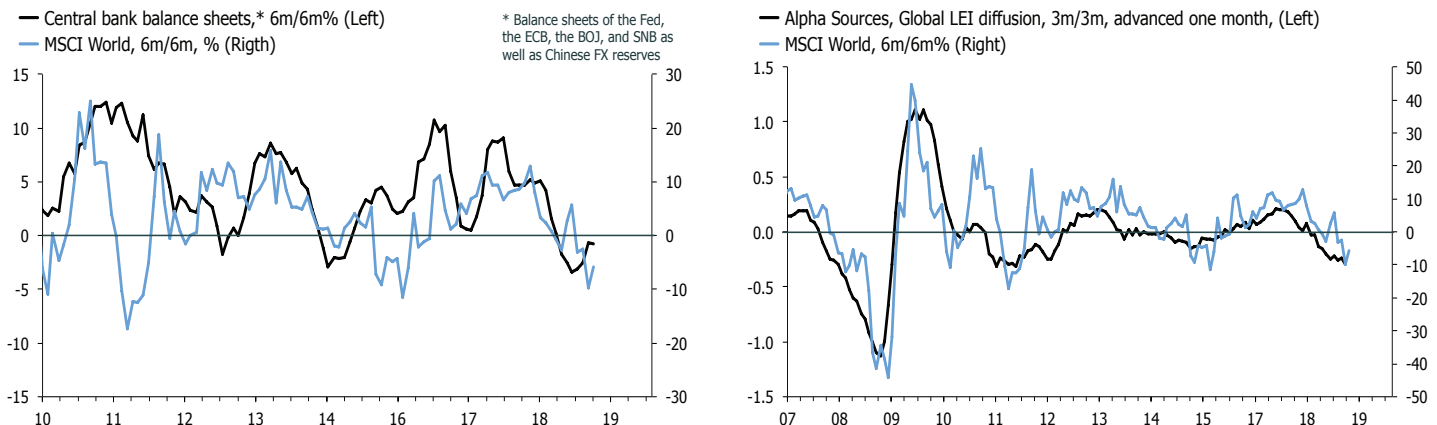
In China, the PBoC recently added a new tool to its already near-infinite list of measures, and it looks an awful lot like QE. In brief, bank A is now able to issue a perpetual debt instrument, bought by bank B, or an insurance company. This bond can then be used as collateral to obtain liquidity in the form of a Central Bank Bill—CBB—from the PBoC’s brand new swaps facility.

The Chinese authorities *claim* that these transactions won’t add *new* liquidity into the system. Most of the informed analysis that I have seen begs to differ. Every time the PBoC accepts one of these perpetuities, an asset, it will create a matching liability which is equivalent to a reserve. In short, this looks a bit like “QE on demand” akin to the unlimited LTROs by the ECB in 2011, which had a big impact on sovereign bond spreads in the periphery.

As per usual, the Fed delivered the grand finale last week with a very dovish FOMC statement. Gone are the days of policy being on “autopilot” via “further gradual increases” in the Fed funds rate. The Federales are now said to be “patient” and even threw in the option to temporarily stop the balance sheet run-off in response to “economic and financial developments,” a signal market participants have been angling for since the beginning of the year.

I will neatly sidestep the issue of whether these shifts in policy across the major central banks is a good idea or not. Suffice to say, however, that they have revived the idea of a *global* central bank put. **I still don’t like the trajectory of excess liquidity indicators, but if the major monetary policy-makers are now pulling in the same dovish direction, it could be a powerful tonic for risk assets, at least for a while.** Investors and analysts will be listening closely for confirmation of such a shift in the coming weeks, but for now, I think we can safely label the Narrative™ as “Doves on Parade.”

fig. 01 / Maybe it was the balance sheet all along? — fig. 02 / Ignore the poor macro data?



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fig. 03 / Global industrial production growth is now slipping and sliding

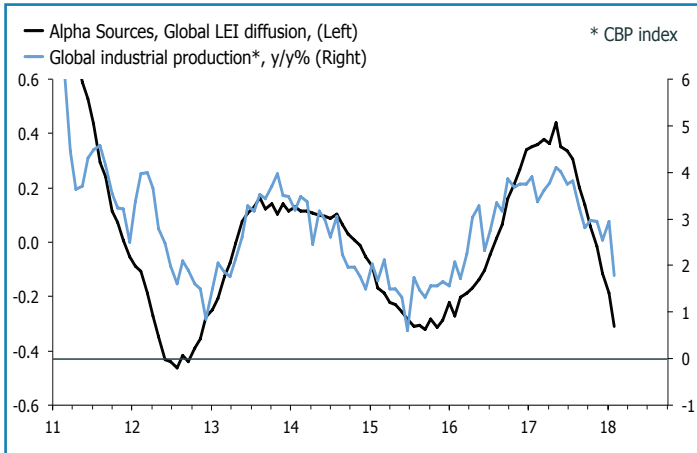
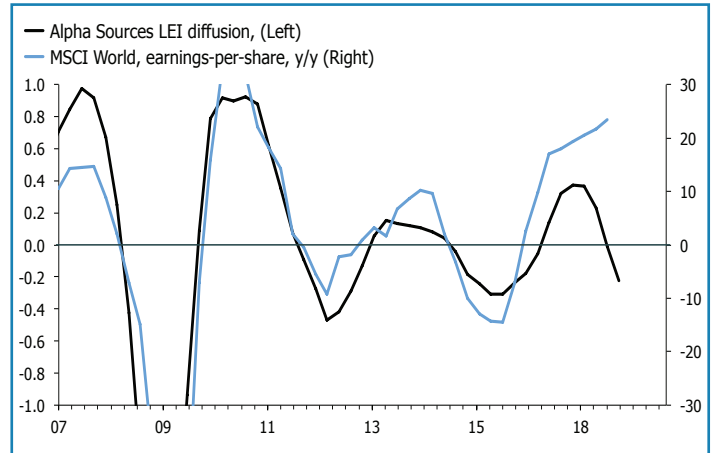


fig. 04 / The next shoe to drop in the global equity market?

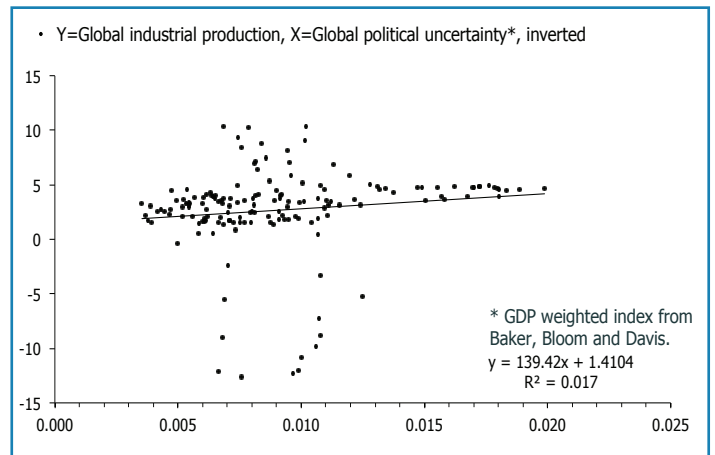


Source: <https://www.cpb.nl/en/worldtrademonitor>

fig. 05 / The increase in measured political uncertainty is looking grim...



fig. 06 / ...But we probably shouldn't be too worried



Source: <http://www.policyuncertainty.com> and <https://www.cpb.nl/en/worldtrademonitor>

fig. 07 / My real M1 indicator is not improving...

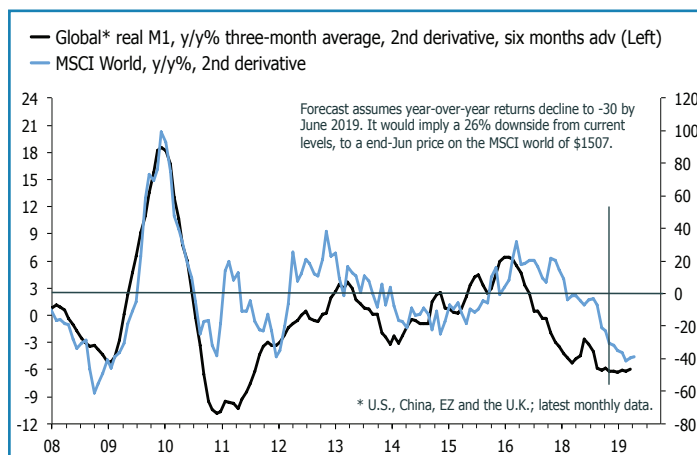


fig. 08 / ...and I am not the only one flagging this risk



Source: <https://e-markets.nordea.com/#!/article/47366/nordea-view-high-bull-trap-risk>