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Things that make you go hmmm

Peak Optimism (Part 1)

"It's snowing still," said Eeyore gloomily.
"So it is."
"And freezing."
"Is it?"
"Yes," said Eeyore. "However," he said, brightening up a little, "we haven't had an earthquake lately.""

– A. A. Milne

"The optimist thinks this is the best of all possible worlds. The pessimist fears it is true."

– J. Robert Oppenheimer

"The basis of optimism is sheer terror."

– Oscar Wilde, *The Portrait of Dorian Gray*

"We'll never survive!"
"Nonsense. You're only saying that because no one ever has."

– William Goldman, *The Princess Bride*

"Tell people there's an invisible man in the sky who created the universe, and the vast majority will believe you. Tell them the paint is wet, and they have to touch it to be sure.."

– George Carlin

"There's no harm in hoping for the best as long as you're prepared for the worst."

– Stephen King, *Different Seasons*

"So everything lets us down, including curiosity and honesty and what we love best. Yes, said the voice, but cheer up, it's fun in the end."

– Roberto Bolaño, *2666*

"Thou hast seen nothing yet."

– Miguel de Cervantes Saavedra, *Don Quixote*

"Optimism," said Cacambo, "What is that?" "Alas!" replied Candide, "It is the obstinacy of maintaining that everything is best when it is worst."

– Voltaire, *Candide*

"The man who is a pessimist before 48 knows too much; if he is an optimist after it he knows too little."

– Mark Twain

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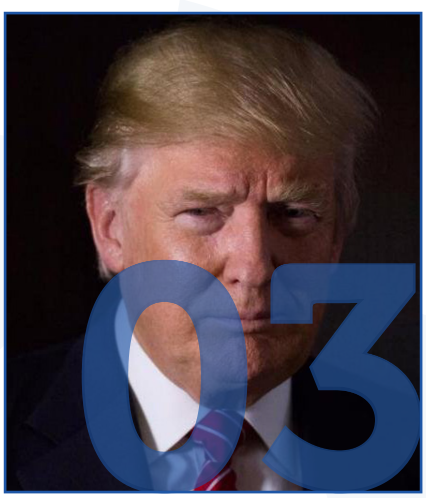
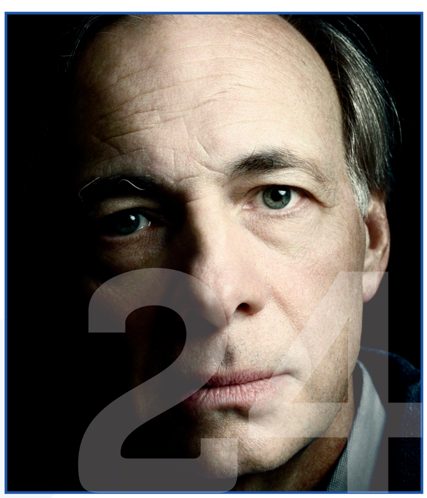




THINGS THAT MAKE YOU GO HMMM...

PEAK OPTIMISM (PART 1)

A couple of years ago, my friend John Mauldin posed a simple question to me as I sat on a panel at the Strategic Investment Conference in San Diego;

"What is the biggest bubble in the world right now?"

Such a simple question deserved an equally straightforward answer and, fortunately, without having to think too hard, I was able to offer one;

"Confidence"

At the time, the confidence I spoke of was that which I felt was being placed by market participants in the abilities of central bankers to maintain the status quo against a backdrop of seemingly endless potential problems. I felt at the time that this confidence would be proven to be misplaced and that the strength of conviction that markets had developed in the people Jim Grant so beautifully calls 'our monetary mandarins' would spell disaster.

How wrong I was.

Not necessarily in my belief that confidence was exaggerated, misplaced and certainly not reflective of the reality facing investors, but in my assumptions about how important that reality would be to investors going forward when making decisions around the prudent allocation of capital.

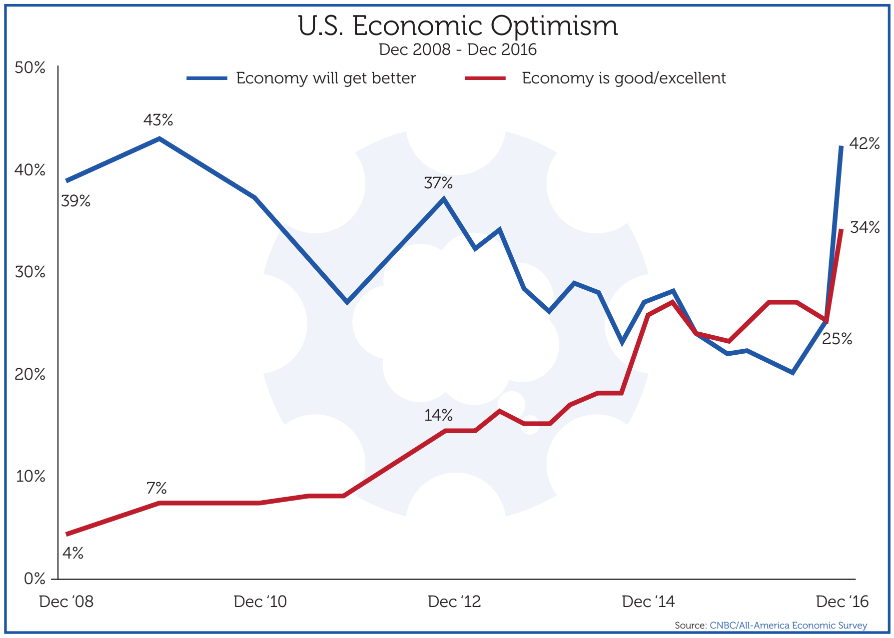
That bubble in confidence waned a little post the first fed hike in December of 2015 but, 'luckily' the fed decided not to go through with the other three hikes they had promised us for that year and confidence was restored, only by now it had morphed from confidence that everything was under control to confidence that the fed would blink at the first sign of trouble.

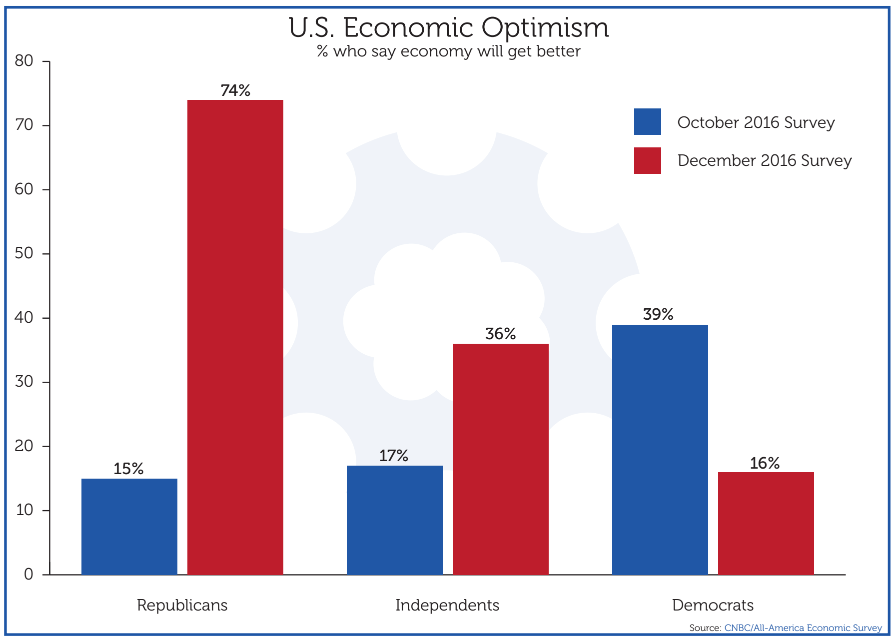
As we neared the middle of 2016, Brexit shook markets and confidence began to wane again at the thought of *either* candidate winning the U.S. election, not to mention renewed talk from the fed that those four hikes would *definitely* be happening this time, beginning immediately post the election.

Of course, the events of November 8th are well-documented at this stage (*including in the pages of TTMYGH Vol 3, issue 22 Mad About The Boy in case you missed it)* but, once the smoke of the election had cleared—and I mean immediately the smoke had cleared—a new phenomenon asserted itself in the shape of what appears, at this stage at least, to be blind optimism.

(CNBC): The election of Donald Trump has brought with it a surge in optimism in the United States over the economy and stocks not seen in years.

The CNBC All-America Economic Survey for the fourth quarter found that the percentage of Americans who believe the economy will get better in the next year jumped an unprecedented 17 points to 42 percent, compared with before the election.





Amazing.

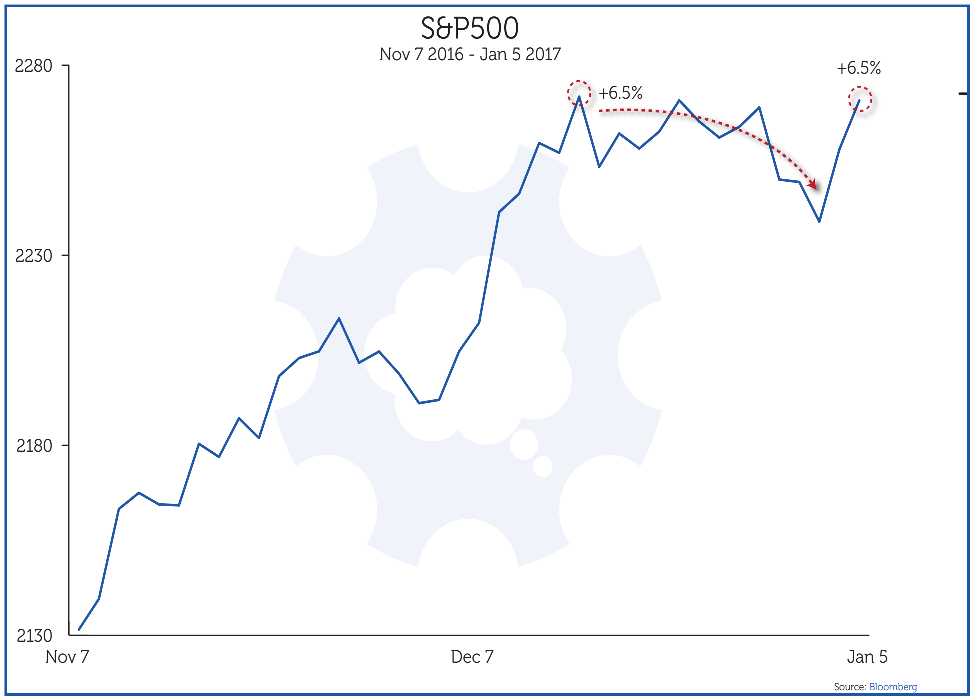
Not necessarily the dramatic surge in those feeling the economy will get better from 25% to 42%—that is an understandable, though, as the second chart shows, partisan phenomenon—but rather the move from 25% to 34% on the part of those who believe the economy to already *be* 'good or excellent.'

The feelgood factor is not only alive and well in America, but is quantifiable it would seem.

However, as the always brilliant Fred Hickey noted in the January edition of The High-Tech Strategist (required reading for any serious investor), the optimism about the economy was leaking (as it inevitably does) into the stock market and, as Fred pointed out, the people who should have known better were leading the way:

(High-Tech Strategist): I had hoped it wouldn't happen this time, but once again, the dumb retail money is pouring their life savings (and borrowings) into the market at the worst possible moment. A recent Wells Fargo/Gallup Investor and Retirement Optimism survey found investors at their most optimistic point in nine years (since the last market top).

The saddest statistic in that survey was that retired investors - 27% of respondents - were off-the-charts bullish with an optimism index of 117, while non-retirees were at 89. I can't imagine what's going to happen to retirees when this bubble inevitably busts.



As a direct result of that optimism, the stock market saw a year-end surge, the likes of which nobody could have expected on November 7th—no matter who had won The Great American Flake-Off.

The 6.5% rally helped the S&P500 to close the year up 8.5%, even though said rally had already started to peter out a little before finding new urgency as 2017 began.

But is the optimism on display justified as we head into another new year? And, if it isn't, what might upset the apple-cart?

I recently received a LinkedIn request from a fellow Brit whose description of his current employment struck a chord with me:

> **"Retired Fund Manager (no point expending rational effort in a totally irrational world!)"**

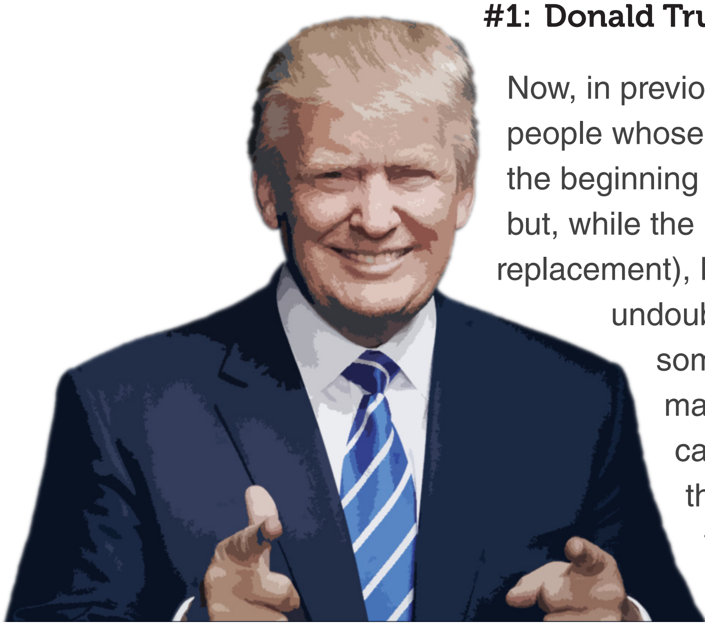
Such is the situation in which we find ourselves as we enter 2017.

The past twelve months have made some of the brightest financial minds in the world look somewhat foolish and they have changed the way both professional investors and their retail counterparts are forced to invest.

The next twelve months are shaping up to be equally confounding so before we roll up our sleeves and begin our battle with them in earnest, I thought it would make sense to try and isolate those situations upon which I think it may be crucial for us to focus as we try to navigate another year. This will undoubtedly be a two-edition process so let's get started, shall we?

We begin 2017—and I don't think this will come as any surprise to anybody—precisely where we ended 2016:

#1: Donald Trump (of course)



Now, in previous years (of recent vintage at least), the only specific people whose likely actions we would have needed to zero in on at the beginning of a particular year were central bankers, not politicians, but, while the likes of Mario Draghi, Janet Yellen (and her possible replacement), Mark Carney and, of course, Haruhiko Kuroda will undoubtedly cause all of us to either adjust our positioning at some point in 2017 (or double-down, perhaps), this year marks a shift in that the possible decisions of a true wild card are likely to be a bigger influence on outcomes than the ~~desperate steps taken~~ considered choices made by those monetary mandarins we spoke of earlier.

We will analyze the potential positives of a Trump presidency which drove that rally a little later, but it makes sense, given the euphoria of recent weeks, to focus first on what could go wrong rather than what could go right.

After securing his election victory on November 8th Donald Trump had two tasks to accomplish—one fairly complex, one fairly straightforward: select a cabinet and negotiate a period of precisely 73 days in as controversy-free a manner as possible.

The first thing he did was answer the phone.

That simple, reflexive action, was enough for both Trump to realize that he wasn't in Kansas anymore and for the rest of us to discover that we were going to have to tear up everything we thought we understood about how 'diplomacy' at the very highest level works.

In taking the congratulatory call from Taiwan's premier, Tsai Ing-wen, Trump did one of two things; either he demonstrated a naiveté that will confirm the fears of many that he is a man ill-equipped for the position of the most powerful man on Earth, or, worse still, he was setting out his stall and making a highly antagonistic statement of intent as to how he saw relations between the world's two undisputed superpowers developing under his watch.

Let's assume that this wasn't naiveté (defensibly a big assumption to be sure given that Trump's very first day on the job as a politician will be as President of the United States) and that Trump has enough people in place round him that the call in question had to be routed through at least one person with a little understanding of such things. Once you do that, you realize just how big a statement this innocuous little phone call made.

China's relationship with The Republic of China ('Taiwan' to you and me or 'Taiwan, Province of China' as the burghers of Beijing would prefer you call it, if you'd be so kind) is fractious to say the least and, as China's power has risen over the last quarter century, the influence it has been able to exert with regards ensuring other countries fall in line with their own policy has grown steadily.

America's own current policy towards China dates back to the Carter administration when, on January 1st 1979, the United States broke off diplomatic relations with the Republic of China (ROC) in order to establish relations with the People's Republic of China (PRC) and passed the Taiwan Relations Act which essentially maintained relations between the two nations but stopped short of fully recognizing the renegade province.

Thirteen years later, in July 1982, President Ronald Reagan adopted the 'Six Assurances' which set out a series of (somewhat ambiguous) guidelines which were to define the relationship between the United States and the ROC. Amongst those six assurances was the stipulation that the United States would not formally recognize Chinese sovereignty over Taiwan, but rather the dispute was to be decided peacefully between the two 'countries'.

Put in non-diplomatic language, the US would maintain a healthy distance and not publicly engage in relations with Taiwan, nor would it try to mediate between the two BUT it would continue to sell arms to the tiny island and, should the PRC get 'heavy', despite having officially terminated the Mutual Defense Treaty between them in 1980, the US would be forced to step in on behalf of the ROC.

Ain't diplomacy grand?

Anyway, when Trump picked up that phone call on December 2nd, he became the first U.S. President (elect or otherwise) to have had any direct contact with a leader of Taiwan since the 1970s and, in so doing, set the cat firmly amongst the pigeons.

In the past, even the slightest sign of a U.S. move closer to Taiwan has provoked the strongest possible protest from China but this time, despite the hyperbole being generated in the U.S. mainstream media, the response from the Chinese was somewhat muted.

Princeton professor, Aaron Friedberg, a former Asian affairs adviser to vice president Cheney, offered his thoughts on the call, beginning with a little reminder of the extreme nature of responses from days gone by:

(NPR): Going back, for example, to 1996 during the election campaign in Taiwan when the Chinese perceived that one of the candidates was a proponent of independence, they conducted military maneuvers and launched unarmed missiles into the waters off Taiwan. The U.S. responded by sending a couple of carrier battle groups to the region, so that was quite significant...

However, much to the chagrin of the likes of CNN, MSNBC et al, I'm sure, the Chinese leadership demonstrated the kind of restraint we in the West are used to pleading for as opposed to being offered and Friedberg then offered a few suggestions as to what this unexpected response from China might signify:

(NPR): ... Usually instances in which the Chinese perceive that the United States is getting closer to Taiwan or Taiwan is doing things that suggests some inclination to pull further away from the mainland have provoked pretty loud and substantial reactions. I think the Chinese have made a calculated decision not to react strongly, to wait and see how the relationship develops. I think they've - they're uncertain as to which way Mr. Trump is going to go, whether he'll adopt a truly tougher and more confrontational policy or whether they might be able to cut deals with him on various issues. And I think they're holding open that second possibility.

The sight of China adopting something of a wait-and-see attitude towards what, had it been carried out by any previous Administration, would have been considered a highly inflammatory gesture is a strong signal that things are going to be different and, at face value, one would have to make the assumption that the difference in question looks to be for the better.

However, that would be far too easy.

Trump's picks for his cabinet so far have been surrounded with controversy as one would expect given the acrimony in Washington D.C., but two stand out from the pack when it comes to trying to understand the President-elect's likely agenda as far as China goes; his pick for U.S. Trade Representative, Robert Lighthizer and his Director of Trade & Industrial Policy, Peter Navarro.

Here is the closing paragraph from an op-ed Lighthizer penned in the Washington Times in 2011:

(Washington Times): Given the current financial crisis and the widespread belief that the 21st century will belong to China, is free trade really making global markets more efficient? Is it promoting our values and making America stronger? Or is it simply strengthening our adversaries and creating a world where countries who abuse the system — such as China — are on the road to economic and military dominance? If Mr. Trump's potential campaign does nothing more than force a real debate on those questions, it will have done a service to both the Republican Party and the country.

Lighthizer's appointment will require Senate approval but Navarro's does not and so, ladies and gentlemen, meet the newly-appointed Director of Trade & Industrial Policy:

> ***(NY Times): Mr. Navarro, 67, a professor at the University of California, Irvine, who holds a doctorate from Harvard, is the only credentialed economist in Mr. Trump's inner circle. He is the author of a series of jeremiads, including a 2012 documentary film, "Death by China," in which an animation of a Chinese knife stabs a map of the United States and causes blood to run freely.***
>
> ***Mr. Navarro has said that China is effectively waging an economic war by subsidizing exports to the United States and impeding imports from it. Mr. Trump, influenced by Mr. Navarro's work, described this on the campaign trail as "the greatest theft in the history of the world."***
>
> ***Mr. Trump has said he will persuade Beijing to change its policies by applying pressure, including designating China a currency manipulator; enforcing existing trade laws more vigorously; and, if necessary, imposing a 45 percent tariff on Chinese imports. In a statement, Mr. Trump described Mr. Navarro as "a visionary economist" and said he would "develop trade policies that shrink our trade deficit, expand our growth and help stop the exodus of jobs from our shores."***

Among Navarro's works are the following titles (in case any of you want a reading list for that winter vacation):

The Coming China Wars

Death by China: One Lost Job at a Time

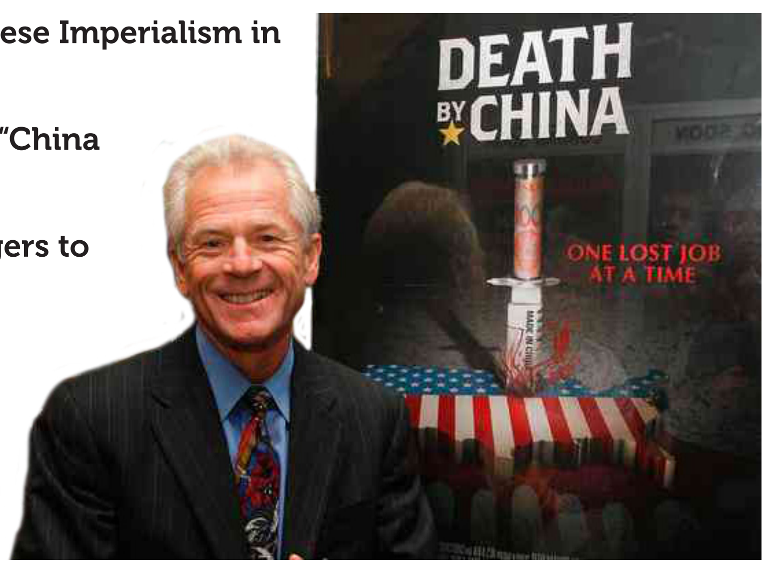
Made in China: The Ultimate Warning Label

The New Heart of Darkness: The Yoke of Chinese Imperialism in the Third World

China and Weapons of Mass Production: The "China Price" is the "Cheating Price"

Chinese Counterfeiting and Piracy: Real Dangers to Your Health and Our Economy

China: Those M*******ing M**********rs**



OK, so perhaps one of those titles wasn't *actually* the work of Peter Navarro, but this is the age of fake news so who cares?

Anyway, aside from the vast majority of his cabinet picks (some of whom are controversial, but all of which fit with his stated agenda), Trump's positioning around China is clearly highly antagonistic and suggests strongly that he will push them hard on trade deals using tactics which he laid out in his 1987 book ***The Art of the Deal*** (the best-selling business book of all time*):

> ***(The Art of the Deal): My style of deal-making is quite simple and straightforward. I aim very high, and then I just keep pushing and pushing and pushing to get what I'm after. Sometimes I settle for less than I sought, but in most cases I still end up with what I want.***

Trump has, it seems, also done a little reading over the years and that reading, he feels, gives him a distinct advantage:

> ***(The Art of the Deal): I've read hundreds of books about China over the decades. I know the Chinese. I've made a lot of money with the Chinese. I understand the Chinese mind.***

The problem comes with the fact that Trump is used to dealing with Chinese businessmen in the world of real estate and not Chinese politicians in the world of politics and he is about to find out that the two worlds operate under completely different rules. What works in one, does not necessarily work in the other.

The restraint shown on the part of Xi Jinping and the Chinese leadership to Trump's blatant anti-China stance has been both remarkable and admirable.

It has also been unnerving.

In the Autumn of this year, the 19th National Congress of the Communist Party of China will take place in Beijing and it is likely to be hugely important as Xi looks to reshape the future of China in the image of his own, highly nationalistic ideals.

This is a year in which he cannot appear to be anything but strong as the Party's ~~devilishly ambitious~~ great and good meet in a series of secret gatherings and merrily plunge knives into each other's backs in order to get positioned for another transfer of power.

Trump had better read a few more books on China and, I suspect, confining himself to The Complete Works of Peter Navarro would be a gigantic mistake.

The chances of Trump starting a trade war with China cannot and should not be underestimated if for no other reason than the fact that there are two ways such a devastating conflict could begin which essentially cover all possible bases:

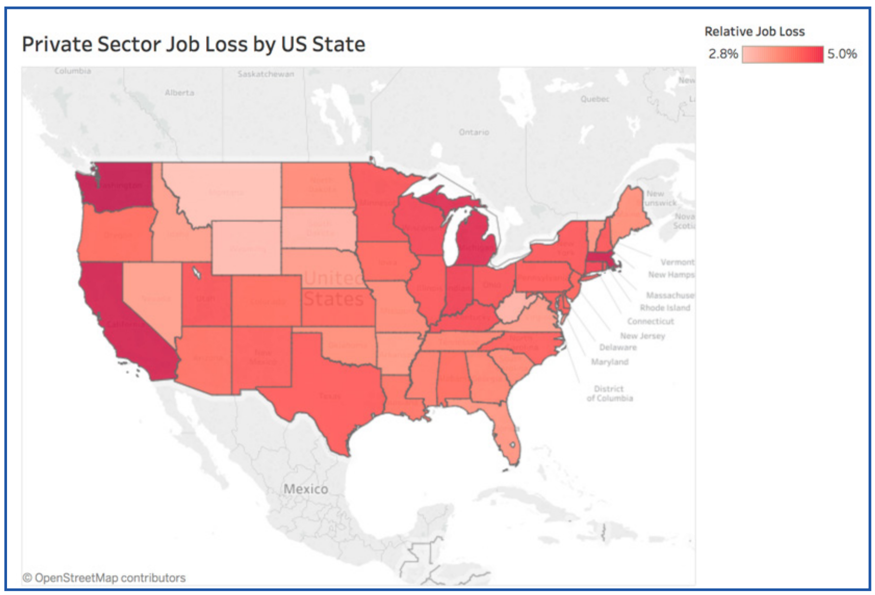
* according to Donald Trump / not remotely true

a) Accidentally and;

b) Deliberately

However it were to start, a trade war between the U.S. and China would, according to the Peterson Institute for International Economics, be anything but a means for Trump to Make America Great Again and bring back jobs:

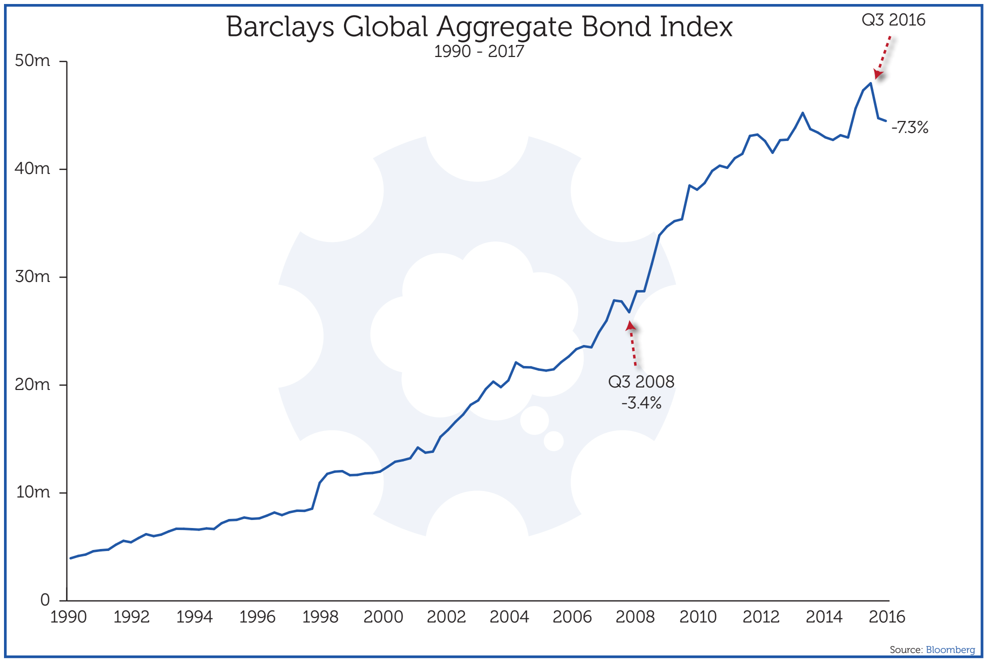
> ***(PIIE): Republican candidate Donald J. Trump's sweeping proposals on international trade, if implemented, could unleash a trade war that would plunge the US economy into recession and cost more than 4 million private sector American jobs, according to an empirical analysis of the two candidates' trade agendas by the Peterson Institute for International Economics. Trump has proclaimed that he would "rip up" existing trade agreements, renegotiate the North American Free Trade Agreement (NAFTA), and impose a 35 percent tariff on imports from Mexico and a 45 percent tariff on imports from China. Hillary Clinton, the Democratic candidate, has expressed skepticism about trade but in effect represents stasis. Both candidates have come out against the Trans-Pacific Partnership (TPP) between the United States and 11 Pacific Rim countries, which President Barack Obama signed earlier in 2016.***



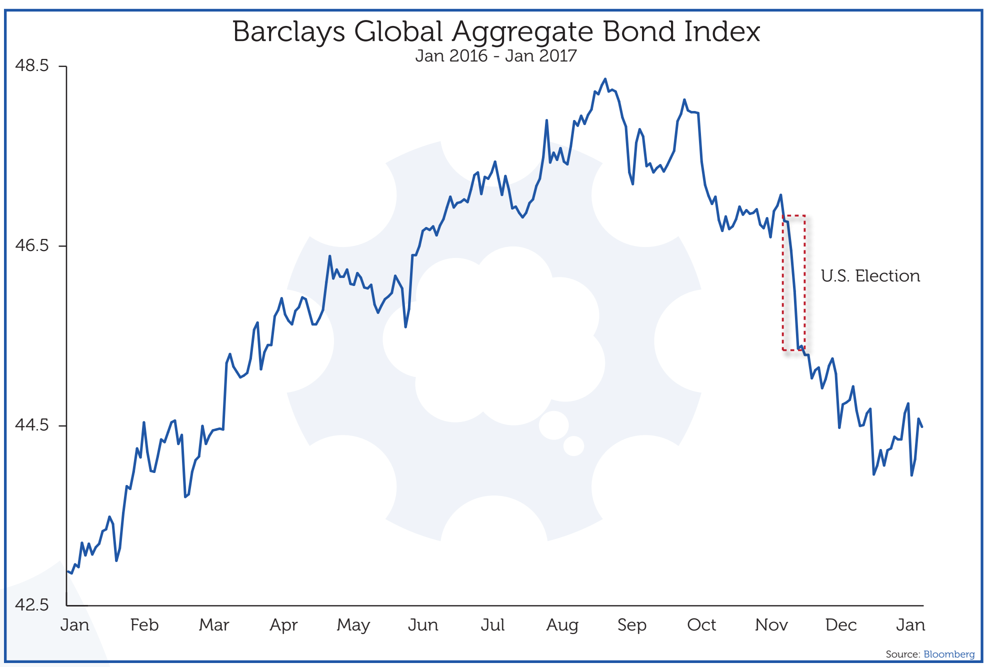
> ***The authors of the empirical assessment, Marcus Noland, Tyler Moran, and Sherman Robinson, extend a macroeconomic model from Moody's Analytics and find that if Trump raises tariffs sharply on China, Mexico, and other trading partners, export-dependent US industries that manufacture machinery used to create capital goods in the information technology, aerospace, and engineering sectors would be the most severely affected. But the shock resulting from Trump's proposed trade sanctions would also damage sectors not engaged directly in trade, such as wholesale and retail distribution, restaurants, and temporary employment agencies, particularly in regions where the most heavily affected goods are produced. Millions of American jobs that appear unconnected to international trade—disproportionately lower-skilled and lower-wage jobs—would be at risk, according to the empirical study.***

We will be back to China's possible role in shaping 2017 shortly, but it would be unfair to focus on just one potential aspect of how Trump might influence the next twelve months.

As we've already seen, the post-election effect of Trump's victory has been yugely positive for the stock market as it discounts a wealth of potential successes the rookie politician might pull off, but, with the firm belief that, should Trump somehow manage to stick the perfect landing which the markets seem to have discounted, the tide will float all boats, I'd rather spend a little more time focusing on what might be worth considering as possible impediments to perfection and we'll start with the bond market.

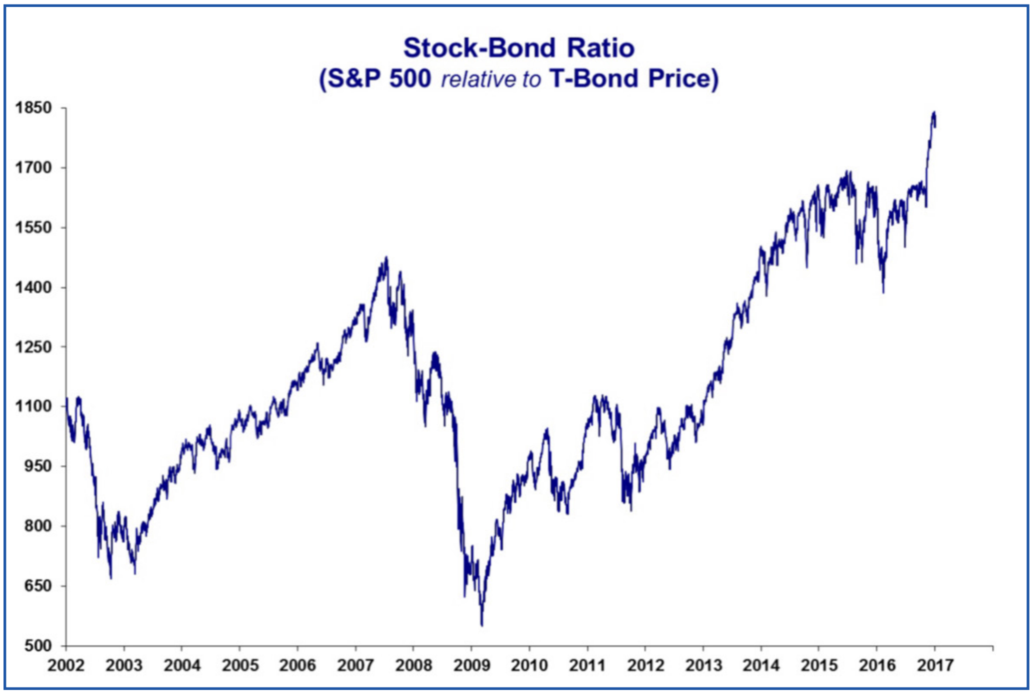


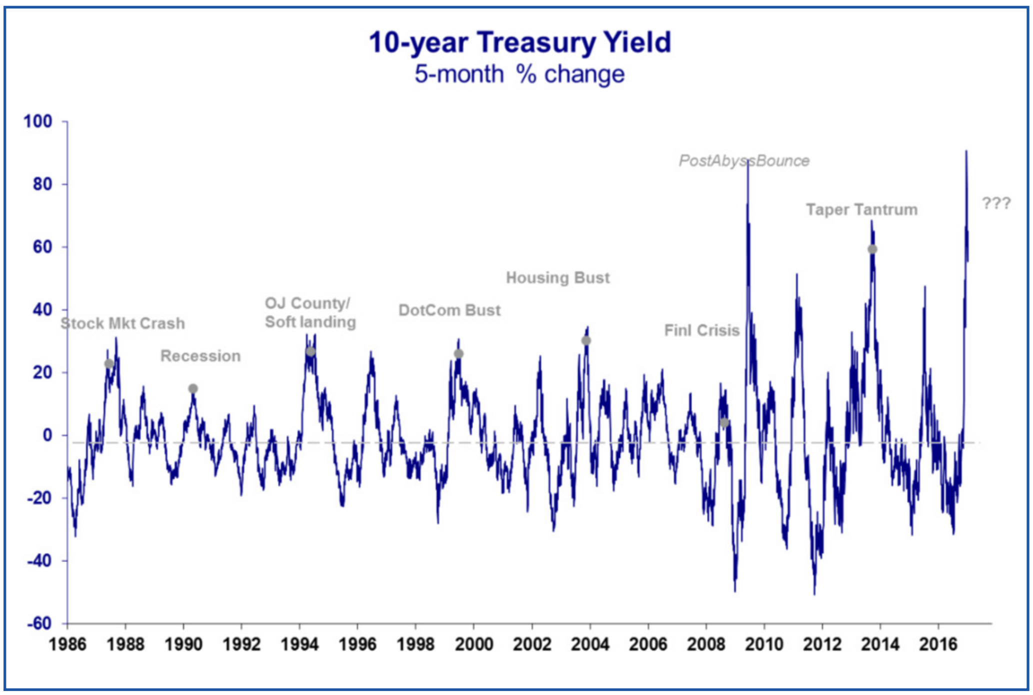
Already we have borne witness to a 7% decline in the Barclays Global Aggregate Bond Index since the end of Q3 and, when we zoom in, the size and severity of the back-up in bonds is readily apparent with the move post-November 8th being truly startling.



Continued weakness in the bond market is going to be a big problem if it starts breaking long-term trend channels and, as you'll see on the next page, courtesy of the reliably brilliant Stephanie Pomboy of MacroMavens, the move since Trump shocked the world has taken us very quickly into uncharted territory with the stock-to-bond ratio spiking to unheard of extremes and the 5-month percentage change in 10-year treasury yields quickly exceeding levels which have, in the past, signaled all kinds of really bad outcomes.

Trump's promise to show the world how deficit-spending SHOULD be done threatens to back up interest rates to unsustainable levels and those levels are reached far quicker than perhaps many believe which makes the euphoria evident in the stock market all the more difficult to fathom.

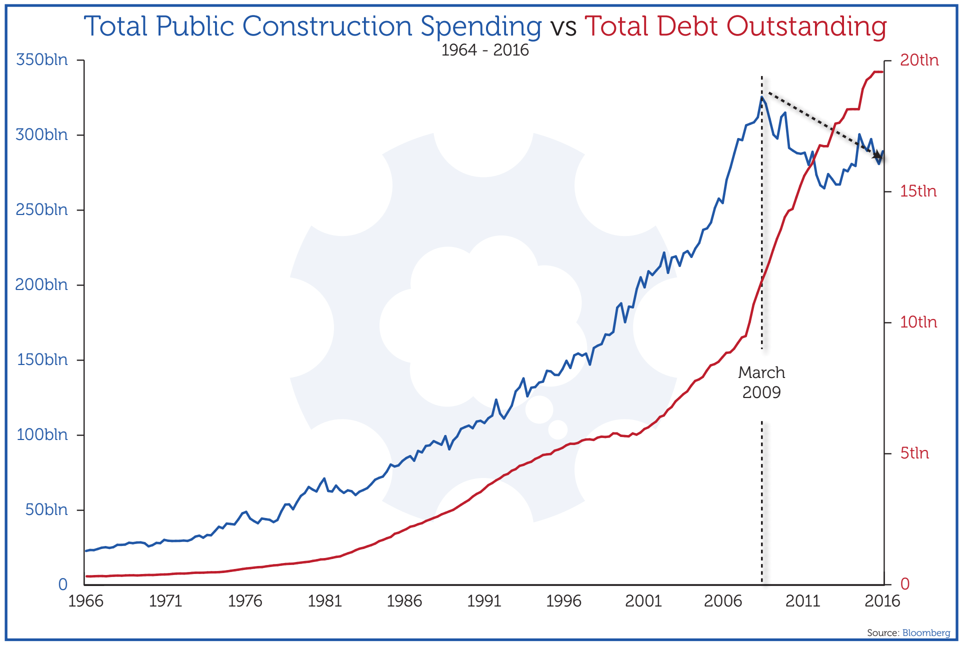




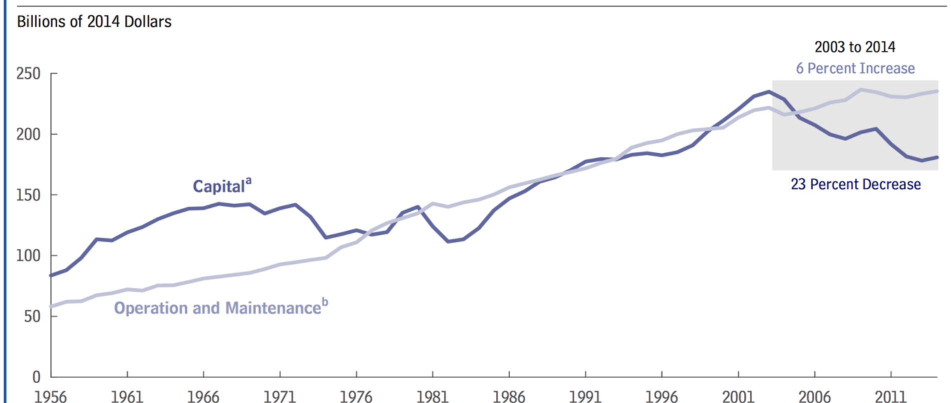
The question of infrastructure spending is one which has been getting more than its fair share of coverage since November 8th and, as the chart on the following page demonstrates, since the nadir of 2009, U.S. total construction spending has tailed off significantly while the total public debt outstanding has not only carried on growing (as it must) but the trajectory of the increase has grown dramatically steeper.

Of course, the reduction in spending on public infrastructure *construction* is a phenomenon which, given Americas crumbling roads, bridges and—as The Donald pointed out during the campaign—airports, one would imagine has been ongoing for decades rather than just over the last eight years, but, as a report from the Congressional Budget Office entitled [Public Spending on Transportation and Water Infrastructure 1956 to 2014] identifies, there are two components to this particular outlay and one of them ain't going down:

(CBO): Since 2003, real purchases of capital (adjusted using indexes specific to the cost of building that capital) have declined by about one-quarter as the prices of materials and other inputs used to build transportation and water infrastructure have rapidly increased. By contrast, real spending for operation and maintenance (adjusted using indexes that measure changes in the cost of providing those specific services) increased by 6 percent from 2003 to 2014. As a result of those divergent trends, the difference between spending for operation and maintenance ($235 billion) and spending for capital ($181 billion) reached $54 billion in 2014.



Public Spending on Transportation and Water Infrastructure, by Category of Spending, 1956 to 2014



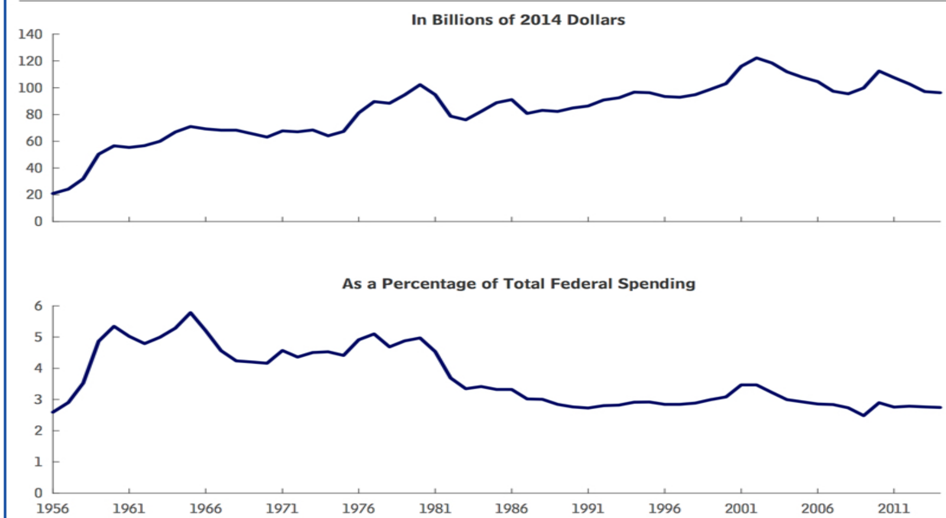
Source: Congressional Budget Office based on data from the Office of Management and Budget, the Census Bureau, and the Bureau of Economic Analysis.

a. Dollar amounts are adjusted to remove the effects of inflation using price indexes for government spending that measure the prices of materials and other inputs used to build transportation and water infrastructure.

b. Dollar amounts are adjusted to remove the effects of inflation using price indexes for government spending that measure the prices of goods and services consumed by governments, including materials and other inputs used to operate and maintain transportation and water infrastructure.

That situation marks a break from past trends in the allocation of public infrastructure spending between capital and operation and maintenance. From the mid-1950s to the mid- 1970s, capital spending exceeded operation and maintenance expenditures, reflecting in part the construction of dams and of the Interstate Highway System in the 1950s and 1960s as well as the increase in federal grants to state and local governments in the 1970s under the Clean Water Act. Spending for capital was then roughly comparable to spending for operation and maintenance from the mid-1970s to 2002, before the rising cost of construction materials, combined with only small increases in nominal capital spending, began to reduce real capital spending.

Whilst total nominal spending in 2014 dollars has essentially flat-lined since the late-1970s, spending as a percentage of total federal outlays has fallen significantly—halving from its peak in 1966.



Federal Spending on Transportation and Water Infrastructure, 1956 to 2014

Source: Congressional Budget Office based on data from the Office of Management and Budget and the Census Bureau.
Note: Dollar amounts are adjusted to remove the effects of inflation using price indexes for government spending that measure the prices of materials and other inputs used to build, operate, and maintain transportation and water infrastructure.

So, Trump's bold plan to spend like a drunken monkey on infrastructure projects (to the tune of $1 trillion over ten years) looks, at face value at least, like a long overdue and potentially transformative idea.

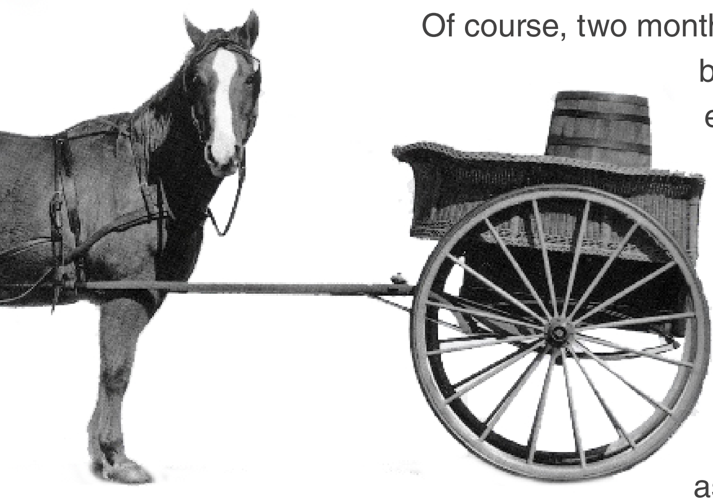
Except... the debt.

Oh, and except Congressional Republicans who hardly waited for the partying to stop before making their own reservations known:

> ***(Politico, November 16, 2016): Trump cheered infrastructure advocates from both parties when he gave the issue a prime mention during his victory speech early Wednesday.***
>
> ***"We are going to fix our inner cities and rebuild our highways, bridges, tunnels, airports, schools, hospitals," Trump said. "We're going to rebuild our infrastructure — which will become, by the way, second to none — and we will put millions of our people to work as we rebuild it."...***
>
> ***Dan Holler, spokesman for the group Heritage Action for America, questioned the job-creation claims for such plans, in the same way that conservatives have scoffed at the benefits of President Barack Obama's $832 billion stimulus.***
>
> ***"Conservatives do not view infrastructure spending as an economic stimulus, and congressional Republicans rightly rejected that approach in 2009," said Holler, whose group is the political arm of The Heritage Foundation.***
>
> ***He said Congress should devote its energies to other items on Trump's wish list.***
>
> ***"It would be a mistake to prioritize Big Government endeavors over important issues like repealing Obamacare, reforming our regulatory system and expanding domestic energy production," Holler said. "Along with confirming a conservative justice to the Supreme Court, these are the type of legislative efforts that will help anxious families and folks struggling all across the country."***

Trump's proposal even drew flak from the Competitive Enterprise Institute, a conservative group that his transition team has turned to for advice on his environmental policies. "There is little evidence that these public works projects promote long-run economic growth," CEI fellow Marc Scribner wrote Thursday in a blog post on "The Great Infrastructure Myth."

It's unclear whether these critiques presage major problems for Trump's plan, which he has yet to put forth in more than skeletal form.



Of course, two months on and 'Trump's plan' still exists in 'purely skeletal form', but that hasn't stopped markets bidding up just about everything equity-related and dumping everything with a fixed income component to it.

One can't help but think that the cart has been put squarely before the horse.

One place Trump will be able to make effective changes is in the realm of regulation and his promise to simplify the U.S. tax code (which, as the graphic, right shows, extends to over 70,000 pages), reduce taxes and allow the repatriation of some $2.5 trillion held offshore by Fortune 500 companies.

Trump's ability to make real headway in this area was highlighted in a report published by a German Think Tank in 2013 which measured the level of tax attractiveness around the world based on 16 different variables.

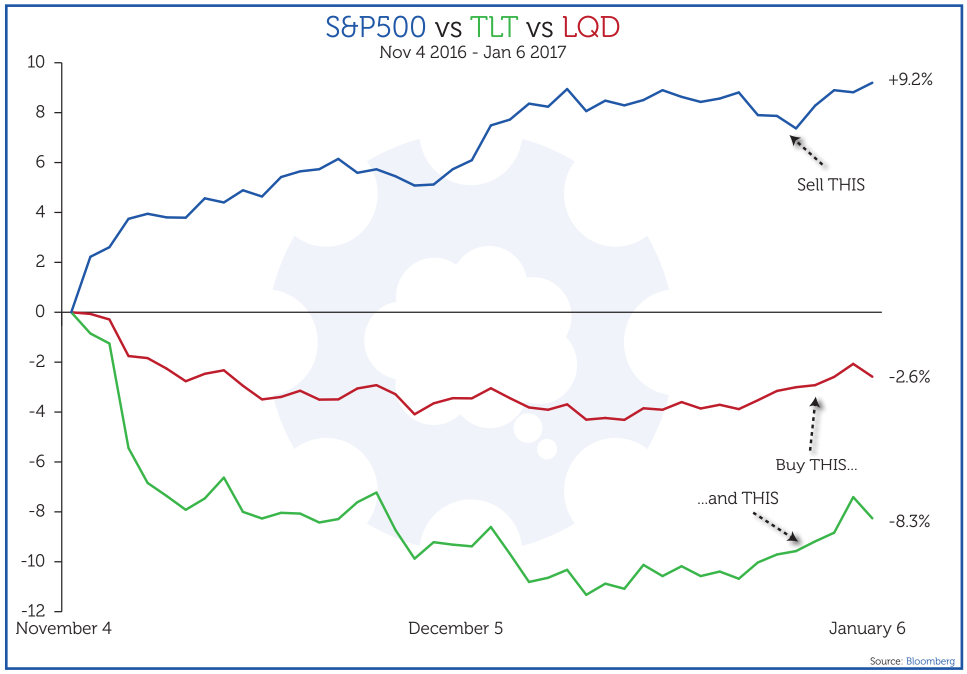
The statutory tax rate is one of the measures, of course, but they also look at policies such as "the taxation of dividends and capital gains, withholding taxes, the existence of a group taxation regime, loss offset provision, the double tax treaty network, thin capitalization rules, and controlled foreign company (CFC) rules."

The good news from this study? Well the United States handily beat out both Venezuela and Argentina as a place to do business—so they've got *that* going for them.

On the downside, the U.S. ranked 94th out of 100—just below Zimbabwe—with a score of .2432.

Changing the tax code is as easy and transformative a 'win' as Trump can hope for and it can pay big dividends for both the President-elect himself and the country's business community.

So, while there are many ways Trump is potentially going to struggle once he takes office on January 20th, the two which seem most likely to upset markets are going to be any potential battles he may encounter with Congressional Republicans as he tries to Make America Great Again and a possible miscalculation in his dealings with China.



I put the chances of both occuring as extremely high and believe that both the year-end rally in equity markets and the concurrent sell-off in bonds to be wildly overdone.

The consensus surrounding them present a wonderful opportunity and I would trade accordingly.

#2: China

We've already touched on some of the ways in which China can upset markets in 2017 via any kind of retaliation towards provocation on the part of either President Trump or one (or both) of his two chief China-facing representatives, Lighthizer and Navarro, and we've made mention of the fact that Chinese leadership will be preoccupied with the 19th National Congress of the Communist Party of China taking place in the fall of this year, but therein lies something which offers a strange sort of potential for trouble.

This year, stability will be *absolutely crucial* in China in order to ensure a smooth transition of power at the National Congress and the status quo will be maintained *at all costs*. That means stability in not only Sino/U.S. relationships, but in relationships throughout Asia. It means stability in markets, stability in prices and stability in the Chinese currency.

“Great!”, I hear you cry. “What’s not to love about stability?”and you’d be absolutely right were it not for two important dynamics;

> **1) If, as Hyman Minsky so presciently observed, stability breeds instability, then the imposition of *artificial* stability by a group of 32 men on 1.2 billion of their citizens is likely to breed a more virulent strain of instability than that which would ordinarily occur within the natural order.**
>
> **2) Artificial ‘stability’ in China’s responses to the foreceful negotiation tactics likely to be employed by representatives of the author of Art of the Deal will potentially embolden the next U.S. President and lead him to believe he is in a position of more strength than is the case.**

As Sun Tzu wrote in The Art of War:

> ***“If your opponent is of choleric temper, seek to irritate him. Pretend to be weak, that he may grow arrogant.”***

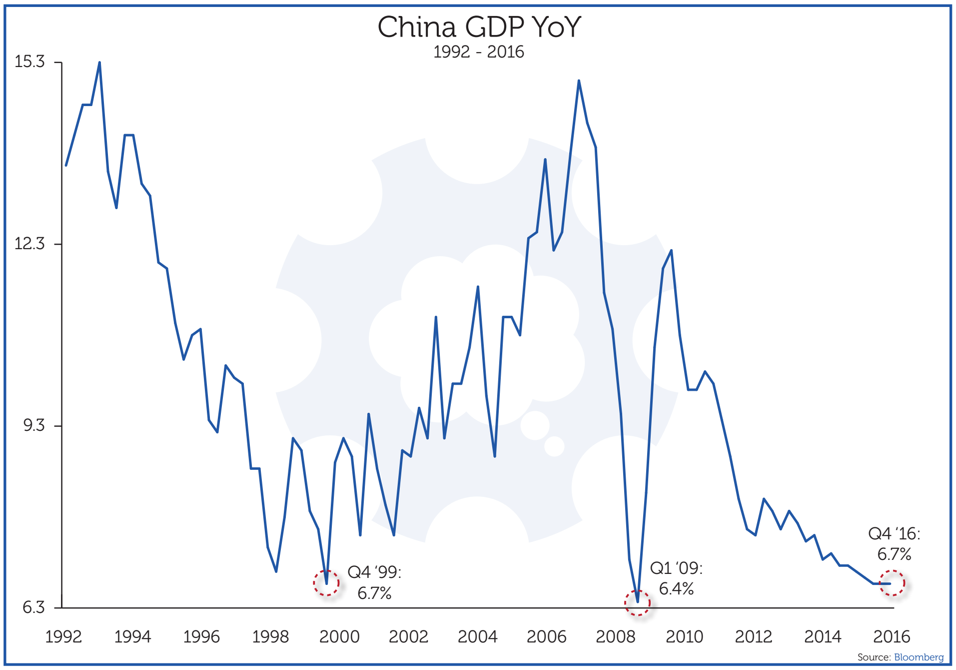
If we’ve learned anything from Trump’s Twitter feed and his reaction to everything from bad press and perceived slights on the part of opponents and allies alike to jibes about the size of his hands, he is most assuredly of ‘choleric temper’ and inaction or passivity on the part of the Chinese leadership may embolden him to a dangerous degree.

The volatility in the Shanghai Composite Index since the 18th National Congress in November 2012 has been extraordinary with rises of 24%, 150% and 23% interspersed with falls of 16%, 32%, 28% and 27%.

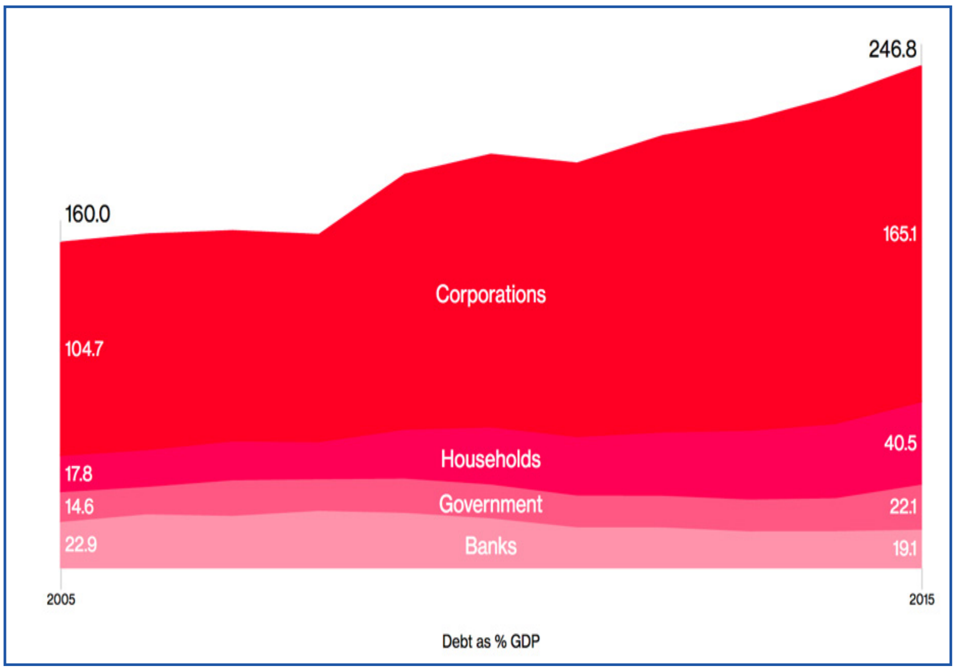
Western-style market stability is not as important to the Chinese in the normal course of things.

During that same period, other significant changes have taken place with the country’s growth rate falling from 8% in December of 2012 to the latest reading of 6.7% (a level last seen in 1999 prior to China’s entry into the WTO and breached only briefly during the depths of the GFC after which it rebounded to 12.2%).

China's total debt-to-GDP ratio has soared from a shade under 200% in November 2012 to 250% today with the chief problem being the speed of the increase rather than its overall size—for now at least.



With growth falling to 6.7%, it takes almost 1/3 of the country's GDP to service the interest payments on borrowings and, while the country has a huge deposit base, is largely domestically-funded (similar to Japan) and, crucially, has stringent capital controls in place, the strains have been showing up recent months with the country's reserves being cut by almost a quarter (see chart, following page) as they try to manage the Renminbi exchange rate effectively in the face of considerable pressure.



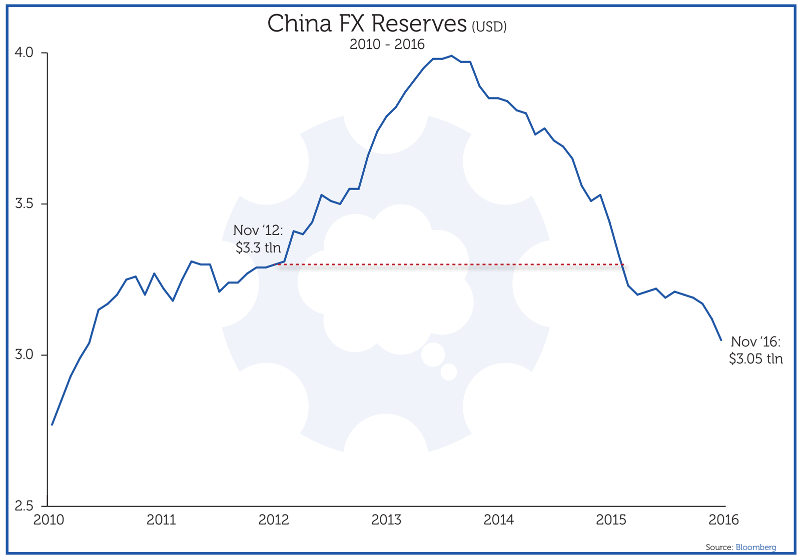
All of which brings us to the next place we need to look to for potential sources of volatility in 2017

#3: The Yuan

After a year of speculation and fluctuation, this past week saw that pressure ratchet up once again as the PBoC tried manfully to defend two key levels; $3 trillion in foreign reserves and 7 Yuan to the dollar.

The Chinese leadership will want to try and either maintain both levels for the next 11 months or (and this is where things could get interesting) get any moves they may need to make out of the way in the next few months in order to try and give themselves a decent runway into the National Congress.

The onshore yuan is knocking on the door of the highly symbolic 7 level and, as the battle rages, last week we saw overnight funding rates for offshore Yuan in Hong Kong spike to an astounding 105% as the PBoC punished short-sellers, strengthening the currency by 2.5% in a two-day period and withholding funds in the interbank market.

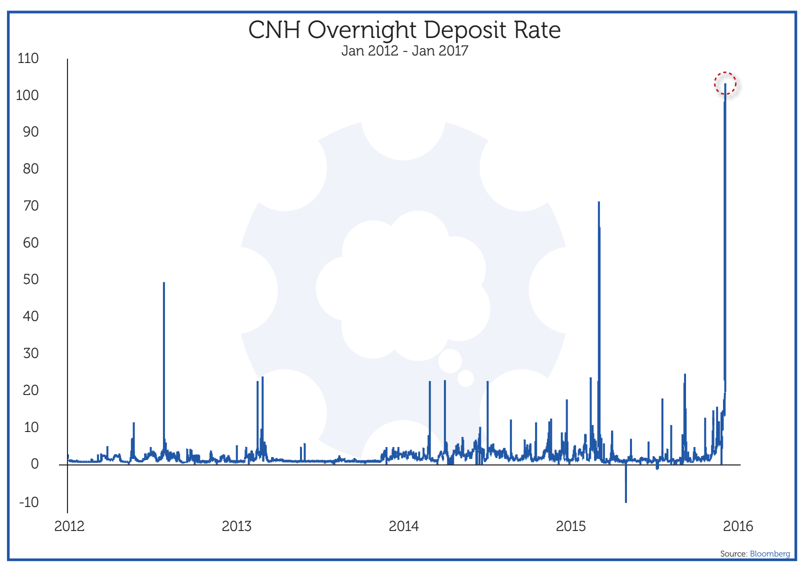


However, the chances are high that was a petulant warning shot on behalf of the PBoC to try and show the world who is in charge.

My feeling is that the 7 level on the yuan will be allowed to fall in the first quarter of 2017 as a prelude to a larger devaluation much later in the year.

As the chart (right) shows clearly, the PBoC have been slowly and steadily walking the Yuan lower for two years now and it's hard to see them changing course now—particularly given the strength of the dollar.

In fact, as of January 1, the Chinese reduced the weighting of the dollar in the CFETS basket from 26.4% to 22.4% through the inclusion of 11 additional currencies, a move which allows them more flexibility in distancing themselves from the dollar but which may well increase the volatility of the yuan should the dollar continue to strengthen and cause problems in EM currencies—but more on that in part 2 of Peak Optimism next time.



The big problem the Chinese have been facing over the last two years has been capital outflow although last year's $1 trillion looks like it won't quite be matched in 2016 (estimates are that the final number will be 'just' $750 billion).

Chinese officials have been going to extraordinary lengths to try and staunch the bleeding:

> ***(Gordon Chang): If outflow last year was lower than 2015's unprecedented number—my sense—it is only because the central bank imposed informal capital controls on outbound payments. Beijing, for the most part, has not changed rules allowing payments offshore; it is just not allowing them to take place.***
>
> ***Consider the annual $50,000 quota for conversion into foreign currency. That limit reset on January 1, but there was no apparent rush to take advantage of the new quota and push money offshore.***
>
> ***Why not? The State Administration of Foreign Exchange, the central bank unit responsible for enforcing capital controls, has made the application process burdensome by requiring additional documentation and face-to-face appointments. It has also tightened bank reporting requirements and imposed prohibitions that either did not exist before or have not been enforced for years. Customers, for instance, are now required to promise they will not use the foreign cash they acquire for certain purposes.***
>
> ***Moreover, Beijing has been cracking down hard on corporate transfers for several months.***

That crackdown has been wide-ranging and has included some sweeping moves which only go to reinforce both the severity of the outflow and the leadership's resolve to maintain control of it:

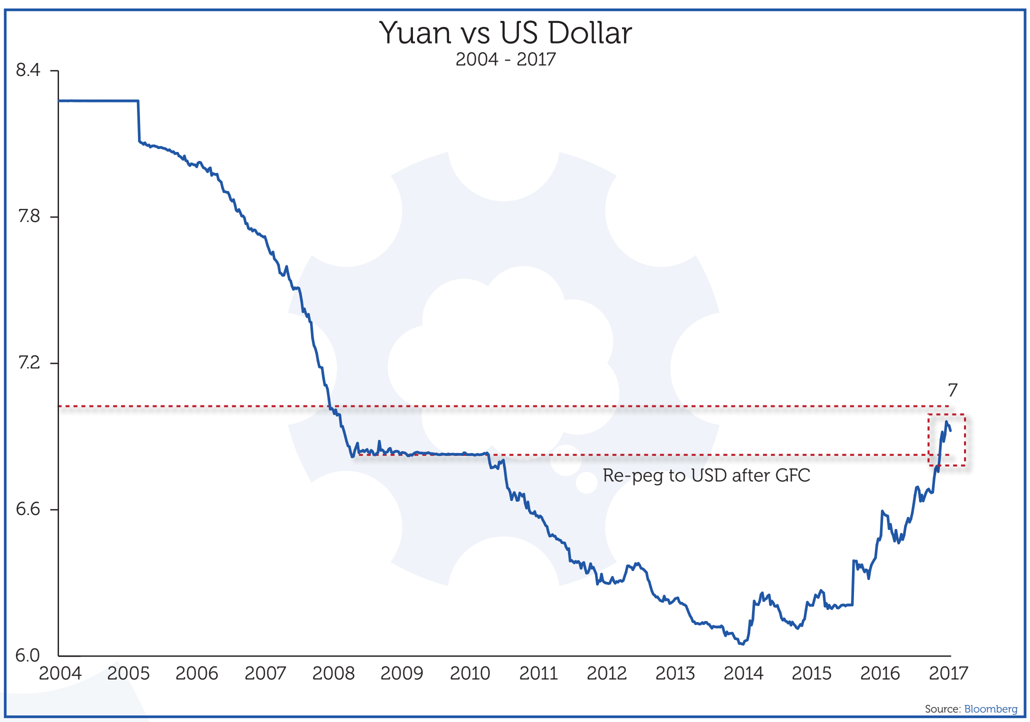
> ***Measures adopted or revealed in the last weeks indicates a high level of concern in the Chinese capital. A circular issued by the People's Bank of China on November 26 prohibits a domestic non-financial enterprise from lending more than 30% of its equity to a foreign company in renminbi.***
>
> ***The South China Morning Post reports that the New York branch of the Industrial and Commercial Bank of China has already blocked two payments because of the new rule.***
>
> ***In addition, on November 28 the Shanghai branch of the State Administration of Foreign Exchange, the forex regulator, began requiring approval for payments exceeding $5 million for the purposes of cross-border acquisitions.***
>
> ***There is also new scrutiny of cross-border deals. Authorities, it has been reported, are looking at acquisitions of foreign companies for $1 billion or more if the potential target is not in the same business as the acquirer.***
>
> ***The Australian Financial Review notes that regulatory review is especially tight if a state firm plans a major real estate buy.***

Beijing is also showing desperation by extending the crackdown to foreign companies, which had been largely immune to tightened currency restrictions. Now, however, Chinese forex regulators have ordered banks to limit their outbound transfers. "Until this week, it was possible for big companies to 'sweep' $50 million worth of yuan or dollars in or out of China with minimal documentation," reported the Wall Street Journal, referring to popular sweeping programs permitted in Shanghai's free-trade zone since the middle of 2013. "Now, these people say, the cap is the equivalent of $5 million, a pittance for the largest corporations."

Bringing us back full circle, is the conclusion of Chang's article which links the capital controls to the National Congress (although I suspect there is little chance that things will be relaxed until after the Congress has finished):

The raft of new restrictions, many believe, are only temporary. Various publications report that the recently imposed controls will be kept in place only until next September, on the eve of the 19th Communist Party Congress.

So... with downward pressure on the yuan likely to remain high in the coming months, look for heightened volatility in the yuan and a break of the symbolic 7 level before the end of March before the leash is put back on as summer arrives and the build-up to the National Congress gathers momentum.

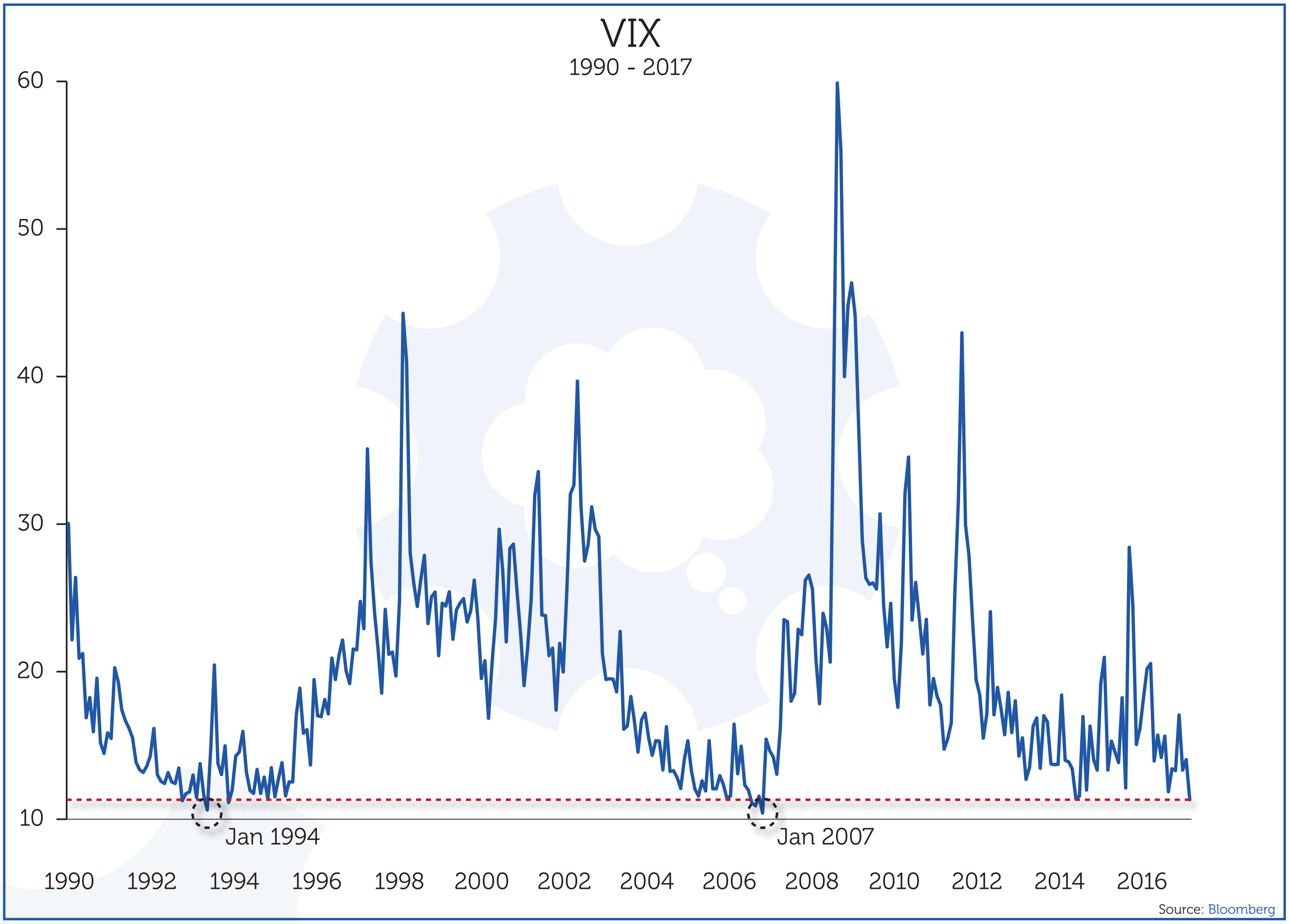


Already the yuan has been allowed to blow straight through the level at which it was re-pegged to the US dollar in the wake of the Credit Crisis without any fuss whatsoever and the 7 level—though evocative—once breached will most likely be left similarly in the rear view mirror.

With that, we will wrap things up for this week but next time, in part 2 of ***Peak Optimism***, we will take a look at Europe, the dollar, the (waning) influence of central banks and, of course, gold but, until then, keep an eye on President-elect Trump's stance towards China and, perhaps more importantly, the response from the Chinese to his posturing.

My feeling is that we are seeing one final blow-off top which will be looked back upon in the coming years as the very height of (misplaced) optimism about both a Trump presidency and a bull market in equities. It will also mark the lows in volatility which makes the Vix something worth thinking about playing from the long side for the first time in quite a while.

As you can see from the chart, below, we are at levels seen only twice before; immediately prior to the bond market bloodbath in 1994 and immediately prior to the beginning of the Credit Crisis in 2007.



With all the uncertainty in the world and with the U.S. Presidential inauguration often marking the end of a post-election euphoria, being able to buy the Vix within spitting distance of its near-30 year lows is likely to be an opportunity not to be missed.

As my friend Michael Lewitt pointed out in the January edition of [The Credit Strategist](), history is definitely on the side of both lower equity prices and higher volatility as well as higher bond prices (given the track record of new Presidents and recessions):

(The Credit Strategist): Let's start with a little history. There were four cases where a Republican succeeded a Democratic president. In each of those cases – Eisenhower, Nixon, Reagan and Bush II – the market fell during the Republican's first year in office by an average of 10%. Further, recent presidents that succeeded two-termers faced daunting economies during their first terms: Reagan's election was followed by a recession within 18 months, Bush I's within two years, and Obama took office in the midst of the worst financial crisis since the Great Depression. Further, unlike Reagan, who also promised a pro-growth agenda, Mr. Trump is entering office with the country carrying a heavy debt load that will hamper his ability to simply snap his fingers (or send out a tweet) and trigger higher growth.

All-time highs on equity markets around the world? A sudden belief that bonds no longer make sense to own and that interest rates are only going one way? Complete confidence that President Trump is the second coming of Ronald Reagan and not another Silvio Berlusconi in the making?

Peak optimism?

I think so.

OK.. so the rest of the first edition of *Things That Make You Go Hmmm...* for 2017 takes us to the High Streets of Great Britain where all is not well amongst the country's shoppers, to Germany where a high-ranking official makes a startling admission and to China where we see an eerily familiar boom.

Danielle DiMartino Booth explains why the Fed need to be rebuilt from the bottom up, Ray Dalio tells us about a personal encounter with fake news and we meet a Scotsman who is proposing a living wage in Great Britain.

We find out all about a potential debt-related conflict between President-elect Trump and Wall Street, get a ~~useless~~ belated apology from Toshiba's management and hear how the world could be in for a 'massive global property price fall'.

Charts? We got 'em and they feature Russian and Chinese CDS, US housing markets and the resurgence of European inflation and we get to hear from three splendid gentlemen in the shape of Niall Ferguson, Ian Bremmer and my dear friend David Hay.

That's it from me for another week. Happy New Year to one and all.

UNTIL NEXT TIME...

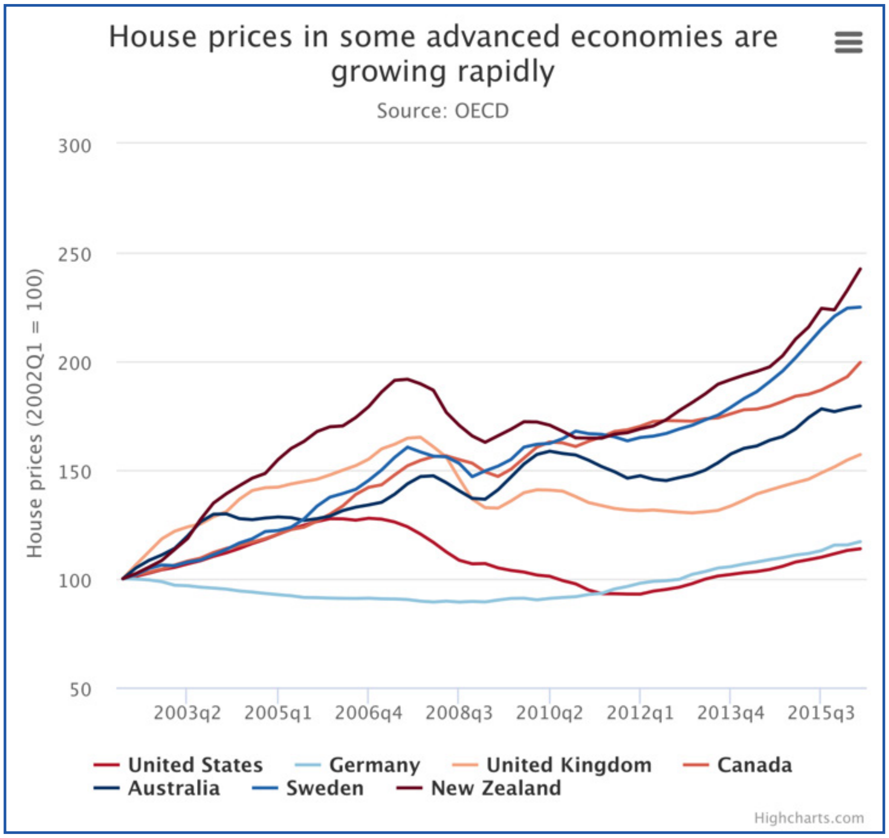
FEARS OF A 'MASSIVE' GLOBAL PROPERTY PRICE FALL AMID 'DANGEROUS' CONDITIONS...: *UK DAILY TELEGRAPH*

Property prices have climbed to dangerous levels in several advanced economies, raising the risk of massive price falls if markets overheat, according to the Organisation for Economic Co-operation and Development (OECD).

Catherine Mann, the OECD's chief economist, said the think-tank was monitoring "vulnerabilities in asset markets" closely amid predictions of higher inflation and the prospect of diverging monetary policies next year.

Ms Mann said a "number of countries", including Canada and Sweden, had "very high" commercial and residential property prices that were "not consistent with a stable real estate market".

She also said property price falls in Britain following the vote to leave the EU could "be good for the UK" if the adjustment is borne mainly by foreign investors.

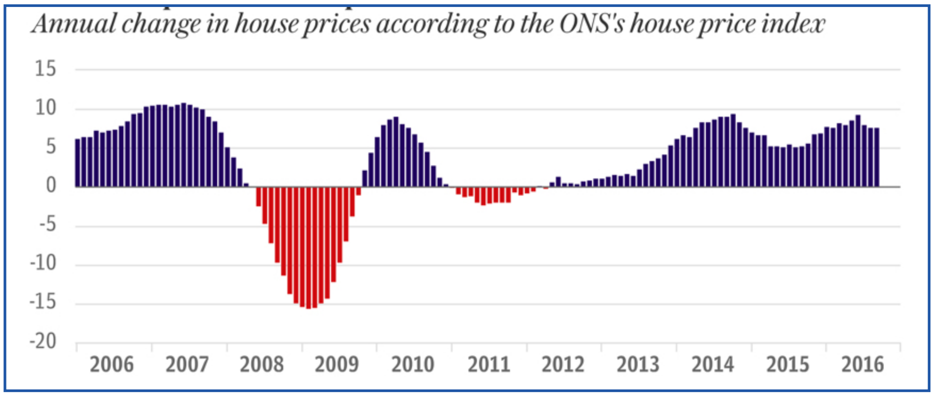


"We've already started to see some changes in real estate prices in the UK, [particularly in] the London market," said Ms Mann.

"[What's] interesting in terms of the implications for the UK economy is who bears the burden - who bears the adjustment cost. If it's a non-resident then lower house prices could actually be good for the UK."

The warning comes as research by Countrywide reveals that the number of homes sold in the UK for more than the asking price has tumbled in the last year.

In January 2016, 41.5pc of homes for sale in London were sold above the asking price. But this fell to just 23pc in November. Nationally, the fall was less steep: from 29.8pc in March to 23.1pc in November.



The data suggest that the UK housing market could be at an inflection point with activity slowing throughout 2016, particularly in the capital, as sellers accepted lower offers while buyers deserted the market amid uncertainty over Brexit.

While prices did not fall across the country last year, there was a slowdown in activity as people chose not to buy a home. Johnny Morris, head of research at Countrywide, said: "There isn't the same level of competition in the market now."

The Royal Institution of Surveyors reported that the number of new buyer inquiries has been at very low levels in the second half of the year. The number of new properties on the market has also been at record lows, helping to prop up prices.

Mr Morris added: "We expect prices to fall next year as this slowdown works through the system. Generally the first thing to change will be the number of transactions, and then after the gap between what people will pay and how much people will accept opens up quickly and takes a while to close. Sales slow, and then there is a price adjustment."

The EU's financial risk watchdog recently warned that eight countries, including the UK, had property markets that risked overheating in the environment of low interest rates.

The Bank of England also cautioned last month that the improvement in household finances seen since the 2008 crisis "may have come to an end".

The OECD's Ms Mann said countries such as Canada, New Zealand and Sweden had all seen rapid increases in house prices over the past few years...

REBUILD THE FED FROM THE BOTTOM UP: *UK GUARDIAN*

The presidency of Donald Trump will present the opportunity to reshape the Federal Reserve from the outside in.

Though many proposals have been floated in recent years, the call to eradicate the Fed altogether is neither reasonable nor wise.

That would only deny the risks inherent in globalized financial markets, leaving the U.S. economy open to attack. At the same time, simply auditing the Fed's monetary policy-making methodologies also comes up short.

It is the individuals who make an institution. At the Fed, it is those same individuals, as well-intentioned as many of them may be, who have doubled down on their broken economic theories despite their pernicious effects. If anything, the Fed has only institutionalized its errant ways in the years since the 2008 financial crisis, rendering the economy and markets all the more fragile.

The first thing an engaged Congress can do is prevent future missteps on the Fed's part.

In November 1977, the Federal Reserve Act was revised to expand the central bank's mandate to maximize employment in addition to maintaining price stability. No doubt, the debilitating stagflation of the day, manifest in both high inflation and unemployment, suggested that fiscal policy had reached its outer bound in offering relief. Still, some 30 years on, the evidence is clear: Interest rates are the wrong tool to produce both maximum employment and stable prices.

In fact, extraordinarily low interest rates can be counterproductive if they facilitate inaction or worse, and give Congress license to enact legislation that effectively encourages the unemployed to remain outside the workforce. (This was the case with the Obama administration's expansion of qualifiers for disability insurance, to cite an example.)

Congress should immediately remove the employment maximization mandate that necessarily conflicts with the Fed's other mandate, the minimization of inflation. The single mandate would ensure that the Fed is less intrusive than it's been in recent years.

Once the Fed's mission has been simplified, the real work begins. In a 1993 Reuters interview, Milton Friedman observed that, "The Fed's relatively enhanced standing among the public has been aided by the fact that Fed has always paid a great deal of attention to soothing the people in the media and buying up its most likely critics." He explained that the Fed employed half the monetary economists in the U.S. and created visiting appointments for two-thirds of the rest. For Friedman, the risk was that the economics profession would be hard-pressed to ever criticize the Fed.

His prescience was remarkable. Today the institution of the Fed is as intellectually entrenched as it has ever been. It has become the largest employer of people with doctorates in economics. It has hired or contracted with more than 1,000 of these economists, who actively endeavor to validate, rather than question, orthodox theories and policies. The pipeline of talent filling new positions at the Fed is sourced from the same stagnant academic pool that produced the current leadership. Is it any wonder criticism within the Fed has been quashed?

Now the door is open for an outsider to bring the outside world back into the Fed. The last time that all seven governor positions on the Federal Reserve Board were occupied was in 2013. Trump can expeditiously fill these seats, but, more important, he can remake the culture inside the Fed.

Armies of consultants have presumably been busy making a list of potential board nominees. If these advisers have the interests of those who voted for Trump at heart, they will look for individuals who have been on the receiving end of monetary policy and therefore understand it.

They will find CEOs who would rather have invested in the future of their companies, thus creating more jobs and opportunities, rather than be pressured to buy back their shares with cheap debt because of regulatory uncertainty. They will seek out the handful of pension fund managers who have insisted on using assumptions for lower rates of return, to better reflect the reality of lower returns on fixed-income securities, and who resisted the siren call of inappropriate investments to offset the dearth of options in a low-interest-rate world. They will seek rational critics of Fed policy who empathize with, not roundly dismiss, the plight of savers in this environment.

Once a full complement of possible nominees is in place, the new administration can concentrate on redrawing the institution to reflect the tremendous change the U.S. economy has undergone in the more than 100 years since the Fed first came into being.

Right now, there are 12 Fed districts. Some regions of the U.S. have become more economically powerful over the years. California is the largest economy followed by Texas. They should have their own Fed districts. A third one could encompass most of the rest of the West.

At the same time, the regions that have become less economically relevant should be consolidated. For example, Missouri no longer merits two Feds. St. Louis can be incorporated into the Chicago Fed, along with Cleveland. New York is the third-largest state economy. It seems economically reasonable, from Philadelphia north, to have two Fed districts rather than three.

Then give the presidents of the 10 districts that remain permanent votes on the Federal Open Market Committee. This is a necessary act to begin dismantling the over-concentration of power at the board in Washington and at the New York Fed...

BAH, HUMBUG! THE HIGH STREET BRACES FOR THE BIGGEST CHRISTMAS WASH-OUT IN YEARS: *UK DAILY TELEGRAPH*

Frenzied Friday", "Sales Saturday", the "Boxing Day blitz" - Christmas has always been a time for shopping splurges but this year the headlines screamed of a country in the grip of an unparalleled festive bonanza.

It was all about the timing. December 23rd - now established as the busiest Christmas shopping day for supermarkets - fell on a Friday, prompting predictions of even greater sales, as shoppers tried to squeeze in last minute purchases of mince pies and brussels sprouts before the weekend merriment kicked off.

Then there was Christmas Eve. The last Saturday before Christmas is traditionally another of the busiest days of the break but because this year it was also Christmas Eve, more people than ever were expected to hit the shops.

Meanwhile, various experts claimed there would be a Boxing Day boom as millions of Britons flocked to the shops in attempt to snap up some last bargains before a wave of Brexit-related price hikes swept through the aisles.

Yet for all the optimism, the early signs are that the festive frenzy either never materialised or quickly fizzled out. High street footfall dropped 2.2pc year-on-year on Boxing Day, according to data firm Springboard. Shopping centre visits plummeted by almost 20pc.

The first weekend of the New Year, traditionally seen as a reliable barometer of the months ahead, was even more disappointing and will fill Britain's struggling retailers with dread. Over the New Year weekend, visitor numbers slumped by an average of 16.1pc including on the high street, shopping centres and retail parks, according to Springboard.

New Year's Day was a total washout, with shopping centres in particular suffering from a big slump, in stark contrast to New Year's Day last year, when footfall at shopping centres jumped 9.8pc.

To get a sense of just how bad it was this year, high streets proved to be the best-performing locations on New Year's Day, despite suffering a 12.7pc slip in footfall.

Shopper numbers at retail parks tumbled a huge 19.1pc, while for shopping centres, it was a bloodbath. Vistor numbers at malls plummeted by half on January 1 compared with the same day last year.

As usual poor weather has been blamed, along with Bank Holiday trading hours.

It's possible to pick out one or two relative bright spots: New Year's Eve proved to be the stronger of the two days for retailers but high street numbers still fell 2.4pc year-on-year. They just weren't as bad as the 5.1pc decline on December 31, 2015.

One obvious result of such a widespread fall is that internet shopping continues to grow but at 6.pc year-on-year across the two-day period, even online shopping growth finally looks like it is slowing.

It is of course dangerous to draw too many conclusions from such a short period.

The real test will come when the big names publish their figures for the Christmas period including the weeks beforehand, starting with Next and Topps Tiles today.

However, there is plenty to suggest that 2017 is already shaping up to be one of the worst years for a high street that still hasn't properly recovered from the recession.

Perhaps the biggest threat is the one that retailers are least able to influence - the mood of the consumer, which looks to have darkened in recent months.

With experts predicting the toughest year for the UK economy since 2009, the prospect of consumer confidence deteriorating as the high street prepares to face a barrage of other major headwinds, will be terrifying for many retailers.

Deutsche Bank is forecasting household discretionary spend growth to slow from 5.4pc in 2016 to 4.pc in 2017.

Then there is the spectre of inflation. After six months of depreciation, the slump in the pound is starting to feed through to the shop-floor as retailers are forced to pass on raw material price rises to the consumer.

However, the scale of sterling's fall means the pain will have to be shared, which means squeezed margins across the industry. Add in rising business rates, the living wage, and the apprenticeship levy, the high street may be facing its toughest year for a decade.

Already, the City is beginning to bet who where the winners and losers will come from. Yesterday, shares in Halfords fell nearly 6pc, Debenhams lost 4pc, and Next dropped 2pc, as analysts at Deutsche Bank downgraded three of the UK's biggest traditional retailers to sell ratings.

Yet probably the biggest headache of all will continue to come from online's continued growth. Last Christmas, the best figures were registered at pure online players Asos and Boohoo. Where the major high street chains such as John Lewis delivered strong figures, it was via the web rather than in-store.

This year, while many traditional bricks and mortar chains have another Christmas to forget, Amazon has notched up its best yet.

The Seattle-based retailer giant shipped more than 1 billion items around the world over the holiday season, including enough 4K TVs to reach the peak of Mount Everest more than nine times.

Total sales were more than five times the previous vacation period, and nearly three quarters of all customers ordered on their mobile phones.

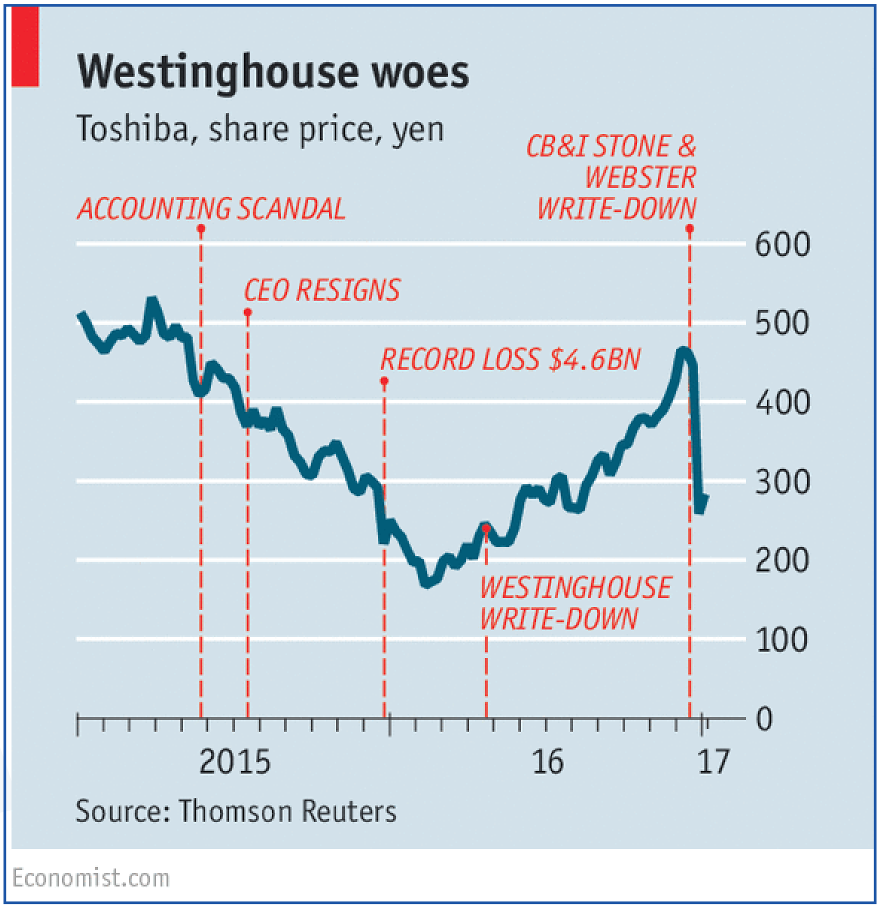
Until the large majority of the high street learns how to compete with those sort of stats, there will be no escape from the pain...

TOSHIBA ADMITS TO A RUINOUS OVERPAYMENT FOR AN AMERICAN NUCLEAR FIRM: *ECONOMIST*

The probe in 2015 into one of Japan's largest-ever accounting scandals, at Toshiba, an electronics and nuclear-power conglomerate that has been the epitome of the country's engineering prowess, concluded that number-fiddling at the firm was "systemic". It was found to have padded profits by ¥152bn ($1.3bn) between 2008 and 2014. Its boss, and half of the board's 16 members, resigned; regulators imposed upon it a record fine of $60m.

Now its deal-making nous is in doubt too. In December 2015—the very same month that it forecast hundreds of billions of yen in losses for the financial year then under way, as it struggled to recover from the scandal—Toshiba's American arm, Westinghouse Electric, bought a nuclear-construction firm, CB&I Stone & Webster. One year on, on December 27th, Toshiba announced that cost overruns at that new unit could lead to several billions of dollars in charges against profits.

Its shares fell by 42% in a three-day stretch as investors dumped them, fearing a write-down that could wipe out its shareholders' equity, which in late September stood at $3.1bn. Moody's and S&P, two ratings agencies, announced credit downgrades and threatened more. Toshiba's explanation for how it got the numbers so wrong on a smallish purchase is woolly. But it is clear that missing construction deadlines on nuclear-power plants can send costs skyrocketing. Its projects in America, and in China, are years behind schedule. Mycle Schneider, a nuclear expert, says that in America, as elsewhere, engineering problems are compounded by a shortage of skilled manpower. Few plants have been built there recently.



Part of the $229m that Westinghouse paid for CB&I Stone & Webster included $87m of goodwill (a premium over the firm's book value based on its physical assets). It is that initial estimate that is now being recalculated.

Toshiba had looked to be bouncing back from its accounting nightmare. Before the latest plunge it had made the second-biggest gains on the Nikkei 225 index in 2016, where its shares were up by 77%. In April it wrote off $2.3bn on the goodwill value of Westinghouse, purchased for $5.4bn in 2006—a write-down that it had long avoided.

In August it announced its first profit in six quarters. It forecast a net profit of ¥145bn for the financial year of 2016-17, a clear reversal from its ¥460bn loss of the previous year. Part of that was thanks to a bold turnaround plan: firing 14,000 staff, as well as selling lossmaking parts of its manufacturing empire, like TVs, and one of its star units, a medical-equipment maker, for $6bn.

That left it free to focus on its semiconductor arm, which has been buoyed by demand from Chinese smartphone makers, and its nuclear unit, which accounts for a third of its revenue. The latest write-down could dampen future investment in both. Toshiba has limited ways left to raise cash. It has been barred from doing so on the stockmarket ever since it was put on alert after the accounting fiasco—one step short of a delisting.

Observers reckon that Toshiba has some room to manoeuvre, and that it will not ditch its nuclear business. It could raise as much as $4bn from the sale of some part-owned subsidiaries, including NuFlare, a spinoff of its semiconductor unit, says Seth Fischer of Oasis Management in Hong Kong, a hedge fund, and a shareholder in Toshiba's power-station affiliate. It could even choose to sell its lucrative chip business altogether (Toshiba is the world's second-biggest maker of NAND chips after Samsung Electronics of South Korea), as well as some of its remaining consumer-electronics ones.

Toshiba's central part in a plan by the government of Shinzo Abe, the prime minister, to pep up growth by exporting nuclear-power technology to emerging countries may help. In June Westinghouse clinched a deal in India to build six new-generation AP1000 reactors, Toshiba's first order since the triple meltdown at the Fukushima Dai-ichi nuclear plant in 2011. Toshiba is also involved in that site's costly and complex clean-up. Some think that Japanese banks, known for keeping zombie firms on life support, will stand behind it, come what may. Shares in Toshiba's two main lenders, Sumitomo and Mizuho, slid last week after the profit warning. Investors expect more big bank loans or a debt-for-equity swap, which allows a bank to turn bad loans into shares.

The consensus on Toshiba's latest screw-up is that a long-standing culture of poor management is to blame. Toshiba's audit committee, for example, was until 2015 headed by its former chief financial officer; such bodies should be fully independent, says Nicholas Benes of the Board Director Training Institute of Japan. It is not clear whether or not the firm has fully overhauled its culture as part of its response to the scandal laid bare in 2015.

Satoshi Tsunakawa, who was installed as the company's new boss in June 2016, said last week that he had only become aware of the problem with CB&I Stone & Webster in December. It was in 2015 that Mr Abe introduced Japan's first detailed rules on how companies should run themselves. The spectacle of Toshiba's apparently endless crisis suggests more needs to be done...

GERMANY'S GABRIEL SAYS EU BREAK-UP NO LONGER UNTHINKABLE: *REUTERS*

Germany's insistence on austerity in the euro zone has left Europe more divided than ever and a break-up of the European Union is no longer inconceivable, German Vice Chancellor Sigmar Gabriel told Der Spiegel magazine.

Gabriel, whose Social Democrats (SPD) are junior partner to Chancellor Angela Merkel's conservatives in her ruling grand coalition, said strenuous efforts by countries like France and Italy to reduce their fiscal deficits came with political risks.

"I once asked the chancellor, what would be more costly for Germany: for France to be allowed to have half a percentage point more deficit, or for Marine Le Pen to become president?" he said, referring to the leader of the far-right National Front.

"Until today, she still owes me an answer," added Gabriel, whose SPD favors a greater focus on investment while Merkel's conservatives put more emphasis on fiscal discipline as a foundation for economic prosperity.

The SPD is expected to choose Gabriel, their long-standing chairman who is also economy minister, to run against Merkel for chancellor in September's federal election, senior party sources said on Thursday.

Asked if he really believed he could win more votes by transferring more German money to other EU countries, Gabriel replied: "I know that this discussion is extremely unpopular."

"But I also know about the state of the EU. It is no longer unthinkable that it breaks apart," he said in the interview, published on Saturday.

"Should that happen, our children and grandchildren would curse us," he added. "Because Germany is the biggest beneficiary of the European community - economically and politically."...

CHINA'S DEBT BOOM LOOKS EERILY FAMILIAR: *WSJ*

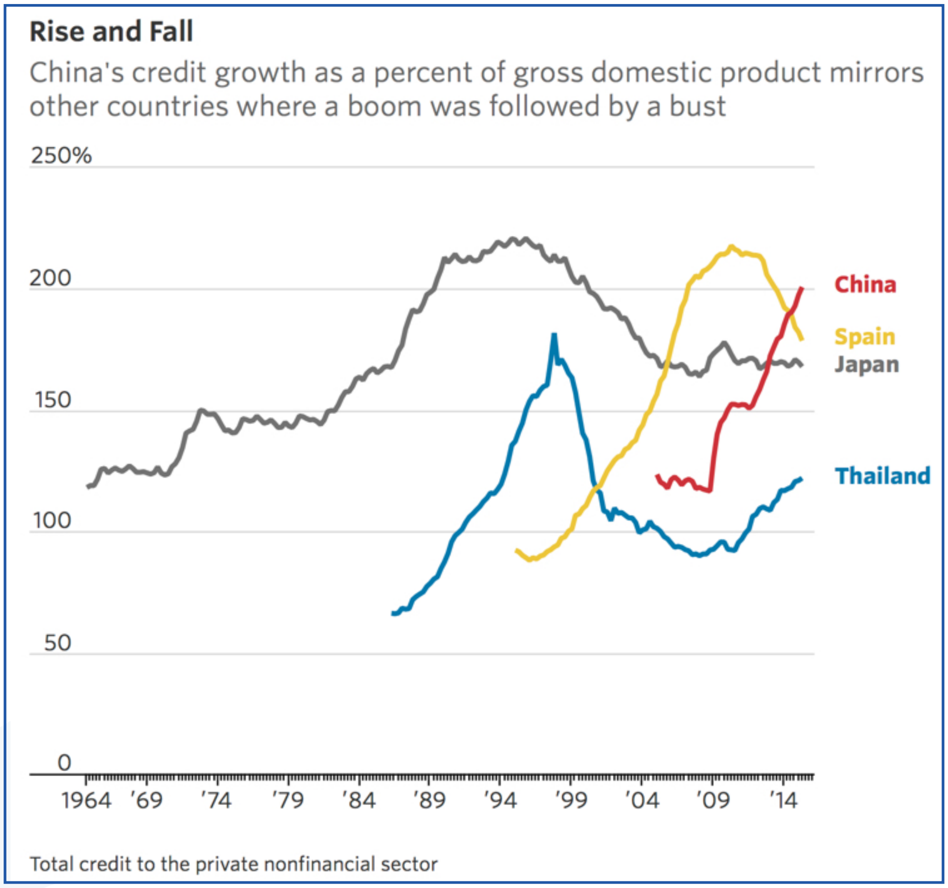
The International Monetary Fund is still holding out hope China's government can rein in the country's dangerous credit boom.

But in yet another warning to the world's No. 2 economy, the world's last-chance lender says time is running out.

Without an immediate rollout of an aggressive, comprehensive strategy, the IMF says the country is at risk of a credit crunch that could stall growth in the Asian giant and hit the global economy with another bout of damaging headwinds.

"Risks appear high but manageable if the problem is addressed promptly," fund economists warn in a new blog post. But the window is closing quickly, the IMF adds. "China urgently needs to tackle its corporate-debt problem before it becomes a major drag on growth."

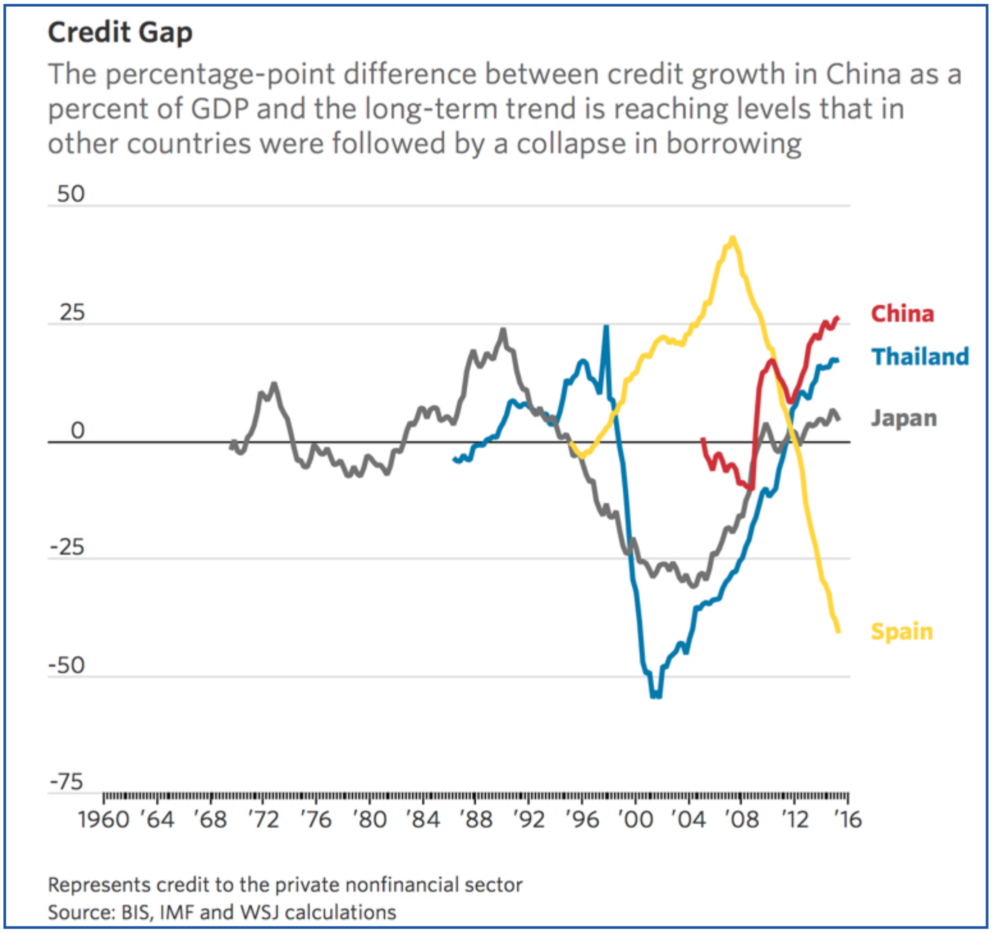
Analysts says that President Xi Jinping is slow-walking economic overhauls ahead of a major leadership reshuffle, relying on policies of the past that fuel growth now at the expense of the longer-term health of the economy.



But the IMF says Beijing should sacrifice near-term growth to secure future economic health. That requires doing more than the government has done so far to recalibrate the financial system.

China's credit boom already looks eerily familiar, mimicking past financial booms that were followed by busts.

Besides outright credit growth, economists also see danger signs in the gap between borrowing and its long-term trend.



And yet with growth slowing, the People's Bank of China continues to pump cash into the economy at the behest of the country's leadership. That's keeping excess manufacturing capacity online and companies afloat that under normal market conditions would fail.

Adding to China's headaches is a strengthening dollar, which makes servicing dollar-denominated debt far more expensive as the yuan's value falls against the greenback.

Many economists point out the government has large foreign-exchange reserves it can use to buffer against a credit crunch and the state balance sheets offer plenty of fiscal room to absorb shocks. But the central bank has burned through nearly a quarter of its foreign-exchange reserves over the last two years trying to keep the yuan's value from plummeting. And state balance sheets don't reflect the government's total liabilities, including from government-owned companies.

With asset bubbles frothing throughout the economy, many analysts fear it all adds up to a day of reckoning.

"The current approach is selective in addressing the overcapacity problem, and in particular does not tackle financial implications," the IMF says. Beijing is also relying too heavily on mergers and acquisitions, "which will likely be insufficient to promote financial discipline."

The fund's proposal is ambitious. It requires the government to shutter failing companies and engage in industrial-scale restructuring, a broad swath of investors taking losses, and corporate governance reform. The IMF also says Beijing must overhaul local-government financing and will need to fund safety nets to help the surge of unemployed workers.

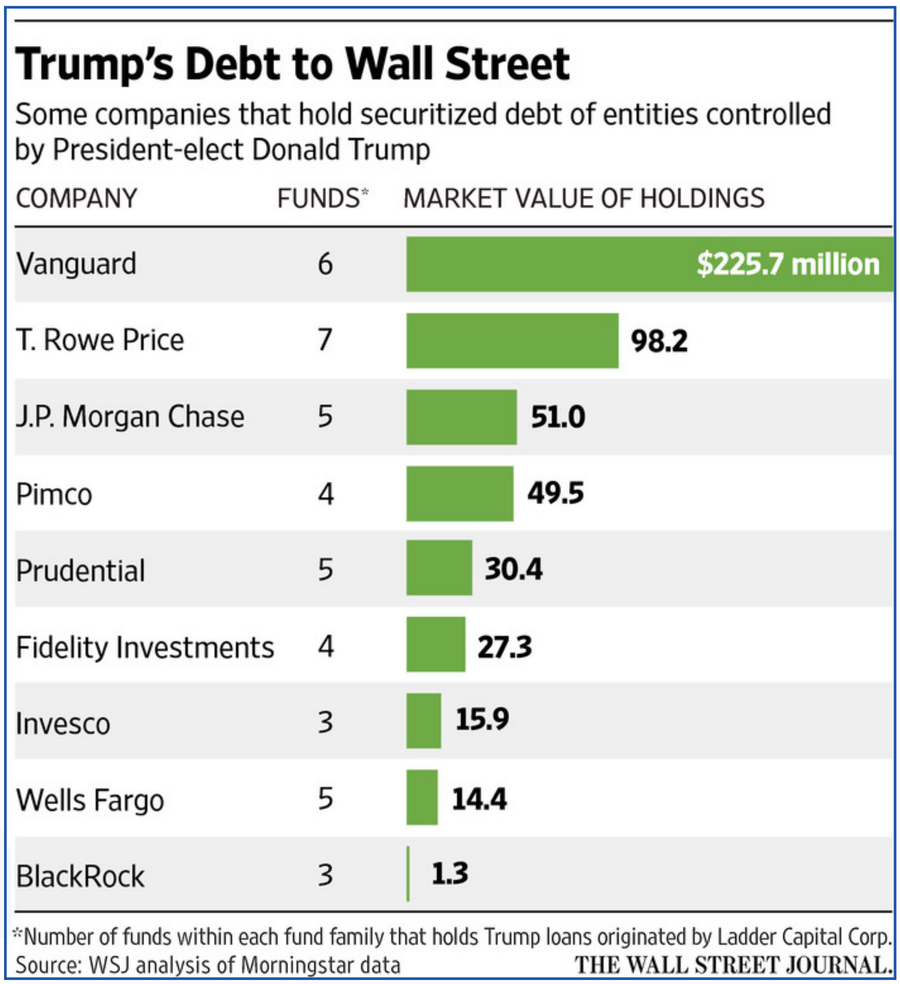
Given the size of the task, some economists are skeptical...

TRUMP'S DEBTS ARE WIDELY HELD ON WALL STREET, CREATING NEW POTENTIAL CONFLICTS: *WSJ*

The debts of President-elect Donald Trump and his businesses are scattered across Wall Street banks, mutual funds and other financial institutions, broadening the tangle of interests that pose potential conflicts for the incoming president's administration.

Hundreds of millions of dollars of debt attached to Mr. Trump's properties, some of them backed by Mr. Trump's personal guarantee, were packaged into securities and sold to investors over the past five years, according to a Wall Street Journal analysis of legal and property documents.

Mr. Trump has previously disclosed that his businesses owe at least $315 million to 10 companies. According to the Journal's analysis, Trump businesses' debts are held by more than 150 institutions. They bought the debt after it was sliced up and repackaged into bonds—a process known as securitization, which has been used for more than $1 billion of debt connected to Mr. Trump's companies.



As a result, a broader array of financial institutions now are in a potentially powerful position over the incoming president. If the Trump businesses were to default on their debts, the giant financial institutions that serve as so-called special servicers of these loan pools would have the power to foreclose on some of Mr. Trump's marquee properties or seek the tens of millions of dollars that Mr. Trump personally guaranteed on the loans.

"The problem with any of this debt is if something goes wrong, and if there is a situation where the president is suddenly personally beholden or vulnerable to threats from the lenders," said Trevor Potter, who served as a general counsel to the presidential campaigns of Republicans George H.W. Bush and John McCain.

Wells Fargo & Co., for example, runs at least five mutual funds that own portions of Trump businesses' securitized debt, according to an analysis of mutual-fund data conducted by Morningstar Inc. for the Journal.

The bank also is a trustee or administrator for pools of securitized loans that include $282 million of loans to Mr. Trump. And Wells acts as a special servicer for $950 million of loans to a property that one of Mr. Trump's companies partly owns, according to securities and property filings.

Wells Fargo is currently facing scrutiny from federal regulators surrounding its fraudulent sales practices and other issues. Once he takes office, Mr. Trump will appoint the heads of many of the regulators that police the bank.

Other companies with holdings of Trump business debt include funds run by J.P. Morgan Chase & Co., BlackRock Inc., Fidelity Investments, Invesco Ltd., Pacific Investment Management Co., Prudential PLC and Vanguard Group.

Aides to Mr. Trump didn't respond to requests for comment. Representatives of the financial institutions either declined to comment or didn't respond to requests for comment.

It is common for big real-estate investors to have debts spread around Wall Street. But the wide-ranging nature of Mr. Trump's debts complicates the potential conflicts he could face between his role as president and his personal financial interest—especially if Mr. Trump opts not to sell his real-estate holdings, some experts say.

"The appearance of potential conflicts is dangerous and seriously exists in this situation," said Lawrence Noble, a former general counsel at the Federal Election Commission, who now works for the nonpartisan Campaign Legal Center.

The president-elect has yet to announce to what extent he plans to disentangle himself from his business empire before he assumes the presidency on Jan. 20. He has said he was taking steps to that effect and had planned an announcement in December, but that press conference was postponed. A new press conference is scheduled for Jan. 11, though it isn't clear if Mr. Trump will discuss his business interests then.

That uncertainty—compounded by Mr. Trump's decision to break with decades of precedent by declining to release his tax returns—makes it impossible to gauge the full extent of potential conflicts.

Mr. Trump's business consists chiefly of real-estate assets and units that manage hotels and condo towers, rolled up in an umbrella company called the Trump Organization, which he owns.

Last May, Mr. Trump filed a financial-disclosure form with the Federal Election Commission that listed 16 loans worth $315 million that his businesses had received from 10 companies, including Deutsche Bank AG. But that form reported debts only for companies he controls, excluding more than $1.5 billion lent to partnerships that are 30%-owned by him.

Ladder Capital Corp., a New York real-estate investment trust, is listed in the disclosure as financing some of Mr. Trump's most valuable Manhattan properties. The firm in 2012 lent $100 million secured by Trump Tower, the president-elect's Fifth Avenue headquarters, and in 2015 lent $160 million secured by 40 Wall Street, named in gold lettering on its art deco walls as "The Trump Building." Both loans are backed by personal guarantees from Mr. Trump for part of the debt, securities filings show.

Ladder no longer owns any of the $282 million in loans it made to Trump entities, according to securities filings and a person familiar with the matter...

THE FAKE & DISTORTED NEWS EPIDEMIC & BRIDGEWATER'S RECENT EXPERIENCE WITH THE WSJ : *RAY DALIO*

While I just recently read The Wall Street Journal's article about Bridgewater and was surprised by its intentional distortions, I have been reflecting for quite a while on the destructive effects that fake and distorted media are having on our society's well-being.

To me, fake and distorted media are essentially the same problem in different degrees. My own experience, which I will share later in this piece, is just one small case within an epidemic. While Bridgewater will survive this case—and even if we didn't, the world would be just fine—it is questionable whether the world will be just fine if this fake and distorted media epidemic is not arrested. As Martin Baron, the Washington Post's Executive Editor, said in reflecting on the problem, "If you have a society where people can't agree on the basic facts, how do you have a functioning democracy?" Distorted pictures lead us to make bad decisions. In my opinion, if people don't correct such inaccuracies and don't fight against this problem, continued distortions in the media will prevent the public's accurate understanding of what is happening, which will threaten our society's well-being. We in the financial community now openly talk about fake or distorted media being used to manipulate market prices to the harm of many, and similar conversations are taking place in most areas.

This is not just a fringe media problem; it is a mainstream media problem. And while it is widely recognized, there is no discussion underway about how to rectify it. The Associated Press said that only 6 percent of Americans surveyed have "a lot of trust" in the media. A recent Gallup study showed that Americans' trust in the media has dropped to an all-time low, with only 32 percent of those surveyed saying that they have either a "fair" or "great deal" of trust in the media.

That compares with 55 percent having such confidence in 1999 and 72 percent in 1976. The dramatically decreased trustworthiness has even plagued icons of journalistic trust such as The Wall Street Journal and The New York Times, as sensationalism and commercialism have superseded accuracy and journalistic integrity as primary objectives. Many, if not most, "journalists" are trying to write the story that they want to write and fit the facts to it rather than accumulating facts to accurately report pictures of what is true. To be clear, I am not saying that this is the case for all people in the news media as there are a number of true journalists who do seek to convey accurate information; I'm just saying that they are a rapidly shrinking percentage of the total and the poll numbers reflect that.

The failure to rectify this problem is due to there not being any systemic checks on the news media's quality. The news media is unique in being the only industry that operates without quality controls or checks on its power. It has so much unchecked power that even the most powerful people and companies are afraid to speak out against it for fear of recrimination. In fact, I presume that I will be widely attacked in the media for what I am saying here. Nonetheless I am compelled to say what many people express privately, which is that 1) the quality of news media is declining in general, 2) those in the news media have an enormous amount of power, 3) the news industry is unique in not having its standards of behavior specified and overseen, and 4) this confluence of realities is dangerous.

While we all treasure our free press which is the reason that those in this industry are not overseen, the accelerating loss of faith in the media appears to be coming to a head and will probably lead to a backlash. I worry that if the industry doesn't fix its problems, other forces will cause the pendulum to swing in the opposite direction, which will lead to some of the cherished press freedoms being lost. That too could undermine the public's ability to know what is true. There is no getting around the fact that we need a responsible news media, and the powers that be need to start talking about how to bring that about. Personally, I hope that prominent media organizations will explore ways of self-regulating the quality of what they are producing, or at least create ratings in the way the Motion Picture Association of America provides its movie ratings. If the industry created a self-regulatory organization that set standards and conveyed assessments of quality as is done in a number of other industries, it would be much better than most of the other alternatives. In any case, it's not my place to determine how this problem is resolved as much as to speak up about the problem and encourage discussion of it.

I have mixed feelings about describing our most recent experience with The Wall Street Journal because many people might misconstrue my doing this as me simply complaining about an article that I didn't like. While I certainly don't want to let the inaccuracies about Bridgewater stand, my more pressing motivation is to give you a window into how media is often made because I believe that those of you who haven't seen it from the inside will find it eye-opening. It probably will be a little bit like watching sausage being made for the first time.

About six weeks before the Wall Street Journal story by Rob Copeland and Bradley Hope came out, we were contacted by Copeland, who was "fact-checking" and seeking information about Bridgewater. Many of the things he was asking about were downright wrong, so we were presented with the choice of either cooperating with him or allowing the incorrect information to go out. Because we've had a history of Copeland and Hope writing misleading stories about Bridgewater even when we cooperated with them, we were inclined to not engage with them because we expected that they might again distort whatever we said. Copeland however insisted that they wanted to "reset the relationship" to present an accurate picture of the firm. He offered to enter into an agreement in which we would provide him with information that he didn't already have in order to give him a fuller picture but only on the condition that he would not use that information unless we mutually agreed that his presentation of it in the article was accurate. We understand that the culture behind our exceptional success over the last 40 years is both unusual and commonly misunderstood, so we decided to enter into that agreement with him. As explained below, he broke the agreement by presenting distorted pictures of what we told him even after he asked us to "fact check" his assertions and we replied in writing that they were inaccurate.

Copeland and Hope allege that Bridgewater is an oppressive environment based on very few conversations—as they put it, on interviews with "more than a dozen past and present Bridgewater employees and others close to the firm." We have about 1,500 people who work at Bridgewater, most of whom love it rather than feel oppressed, so the picture they gleaned from these dozen people was clearly not representative. Bridgewater obviously could not have been as successful for as long as it has been without a culture that values its employees and fosters excellence; Copeland wasn't seeking to understand that. We explained to him in writing that "You are painting a one-sided negative picture of the work environment. The problem is that people who are happy with their experience and respecting our rules are not allowed to speak with the media so you end up hearing disproportionately from disgruntled people. It becomes a gross exaggeration and none of the joy of the Bridgewater experience gets represented." We offered to provide Copeland an extensive list of employees and former employees who could freely speak with him. He did not take us up on that offer...

HAS POLITICAL CORRECTNESS GONE OFF THE RAILS IN AMERICA?: *DER SPIEGEL*

It's a Friday afternoon in Oberlin, Ohio, around one month before the country heads to the polls to elect Donald Trump as its next president. The final classes and lectures of the week have just ended, and a young woman comes walking by in bare feet with a hula hoop gyrating around her waist while others are performing what seems to be a rhythmic dance to the African music that's playing. Two black students are rapping.

It's the kind of scene that could easily play out on a beach full of backpack tourists, but this is unfolding at one of the country's most expensive universities.

Many female students here have dyed their hair green or blue, they have piercings and their fashion sense seems inspired by "Girls" creator and millennial star Lena Dunham, who, of course, also studied here.

In such a setting, it seems almost inconceivable that this country could go on to elect Donald Trump as its president only a few weeks later. Yet pro-Trump country is just a few miles away. Oberlin is located in Ohio, one of the swing states that made Trump's election possible. Drive five miles down College Road toward town, and you start seeing blue "Trump Pence 2016" signs on people's lawns.

Places like Oberlin are the breeding grounds of the leftist elite Trump's people spoke so disparagingly of during the election campaign.

Only a few months earlier, a handful of students claimed they had been traumatized after someone used chalk to scrawl "Trump 2016" on the walls of buildings and on sidewalks at Oberlin and at other liberal universities. It triggered protests on some campuses, with students demanding "safe spaces" where they would be spared from hearing or seeing the name of this "fascist, racist candidate."

In the months prior to the election, "safe spaces" had been one of the most widely discussed terms at Oberlin. The concept has its roots in feminism and describes a physically and intellectually sheltered space that protects one from potentially insulting, injurious or traumatizing ideas or comments -- a place, in short, that protects one from the world. When conservative philosopher and feminism critic Christina Hoff Sommers was scheduled to give a speech at Oberlin last year, some students did not approve and claimed that Sommer's views on feminism represented "microaggressions."

When Sommers appeared anyway, leading some Oberlin students to create a "safe space" during the speech where, as one professor reported, "New Age music" was played to calm their nerves and ease their trauma. They could also "get massages and console themselves with stuffed animals."

"Microaggressions" are the conceptual cousins of "safe spaces" -- small remarks perceived by the victims to be objectionable. In addition, there are also "trigger warnings" -- brief indicators placed before a text, image, film or work of art alerting the viewer or listener of the possibility that it could "trigger" memories of a traumatic experience or the recurrence of post-traumatic stress disorder. Such a warning surely makes sense for people who have experienced war, who have fled their home country or who have otherwise been exposed to cruelty and violence.

But at Oberlin, one student complained to the university administration and requested a trigger warning for Sophocles' "Antigone." The student argued that the suicide scene in the play had triggered strong emotions in him and that he, as someone who had himself long been on suicide watch, should have been warned. In an article he wrote for the Oberlin Review, the student, Cyrus Eosphoros, compared a trigger warning to the list of ingredients on food items. "People should have the right to know and consent to what they're putting into their minds," he wrote. Eosphoros has since dropped out of the school.

The call for safe spaces and trigger warnings in addition to complaints about microaggressions all fall under the term "political correctness" in the United States.

Few other expressions are as ideologically charged and contested as this one. It is most widely used as an invective: Coming from the mouths of the right-wing, including Donald Trump and his millions of followers, the term is used to describe self-censorship. They consider it an expression of a victim culture, within which the hypersensitive "leftist mainstream" (also used as an epithet) seeks to isolate itself from every deviation from its own worldview. Opponents of political correctness consider it to be an overwrought fixation on the needs of minorities and one's individual identity, on skin color and gender.

Now, two months after the election, those looking for clues as to how Trump's victory became possible quickly arrive at the refusal of many Trump detractors -- including members of Hillary Clinton's own campaign team -- to confront the uncomfortable fact that there are legions of Trump fans all across the country. It's almost as if, in the face of Trump, liberal America collectively retreated to a "safe space." And when they finally resurfaced after the election, Trump had won.

There was a time when political correctness wasn't yet synonymous with hypersensitivity, feel-good oases or censorship. Originally, it was associated with the counterculture, not as a project of the academic elite and the establishment as it is today. Initially, it was an attempt to free the public debate from prejudices based on race, gender and background -- from the apparently casual yet hate-filled and disparaging comments that frequently caused suffering, particularly among minorities and the weaker members of society. It was intended as an effort to get the voices of these minorities heard in the first place.

One of the primary assumptions of political correctness is that thinking starts with language. Those who use disparaging language must think that way as well. Another assumption is that of constant progress. That people evolve over time, that discrimination and inequality diminish over the centuries, from the elimination of slavery to women's suffrage to same-sex marriage and the growing acceptance of transgender people. Progress was seen as the integration of the formerly suppressed and of minorities. At least in theory...

[THE SCOTTISH PIONEER WHOSE PLAN FOR A BASIC INCOME COULD TRANSFORM BRITAIN](): *UK GUARDIAN*

In the city where Adam Smith developed the free-market theories that inspired Thatcherism nearly 300 years later, a young Labour politician is pursuing an economic vision that takes a drastically different approach to “the wealth of nations”. Councillor Matt Kerr, an anti-poverty specialist on Glasgow city council, has been exploring how people become enslaved by poverty – and how they can escape it.

A meeting in Glasgow last month with Guy Standing, the radical economist who founded the Basic Income Earth Network, inspired Kerr to seek cross-party support to pilot a “universal basic income” in parts of Fife and Glasgow. He acknowledges that these are very early days and that there are many obstacles ahead, but the move makes him the most senior incumbent politician in Britain to contemplate a radical scheme that only a few years ago was considered beyond the political pale.

So why is Kerr sticking his neck out?

“Look, it might be that at the end of this whole exercise we find that it’s just not workable, but I’d rather give it a go in good faith. At the moment, defending a system that is only slightly better than the one the government is trying to implement is simply not good enough. It’s not giving anyone any hope.”

The universal basic income concept is so simple you are tempted to ask why it has never been seriously looked at before. It offers something for everyone across the political spectrum. It works on the premise that individuals are guaranteed a minimum regular payment unconditionally. Kerr, who worked as a postman for 14 years, acknowledges that much academic research and fieldwork must be done to calibrate payments appropriate to the needs of people.

“We, as a party, need to be ambitious for people and I think this can be a part of that. Nye Bevan is a great hero of mine, but I can’t imagine if he were around today that he would have created the benefits system the way it now looks. It’s time to ask if this has worked. This has been a 70-year experiment. It worked at the time when we had high levels of employment. But we don’t have that now. And although I’ll always strive for full employment, the reality is that as technology improves and increases, that’s going to be harder to achieve.

“This is a big challenge to the left. In these circumstances you can’t just write people off and nor can you have the current system that is hugely difficult to navigate and completely enslaves people to the state.”

Already, the Finnish government, as well as provinces in Canada and some Dutch cities, are looking at pilot schemes. Glasgow, however, would seem to offer an ideal petri dish for experimentation. The infamous "Glasgow effect" sees adult males in the city's most deprived areas die significantly younger than those from other working-class UK cities with similar patterns of deprivation and health inequalities. Here a person can lose 20 years of life expectancy in a six-mile corridor from the east end of the city to its arboreal west end.

"The universal basic income is about the relationship between state and individual," says Kerr. "I've always believed that socialism is about giving people freedom from fear, but the right have distorted the word to suit their agenda.

"If you're free from worrying about having a roof over your head and feeding your children, you can be free to take some risks and manage your own life. You can have the ability to take part in your community and volunteer without the risk of sanctions. At its core is a message from the state to the individual, saying 'we actually give a damn about you and we'll treat you with respect.'"

Kerr is scathing about another Scot, Iain Duncan Smith, and his universal credit scheme. Almost 15 years ago, the former Tory minister for work and pensions famously toured Easterhouse, a sprawling and disadvantaged community in the north-east of Glasgow. "People who guided him round at the time genuinely thought that he got it, that he began to understand the deep-rooted patterns of inequality that underpinned the lives of many people living there.

"But his system of universal credit showed he didn't get it. It was doomed to failure because they made one basic error: they moved people off receiving their benefits weekly or fortnightly to once every four weeks. Thus people began to fall into the clutches of loan sharks or predatory credit card firms when the cash ran out well before the end of four weeks."

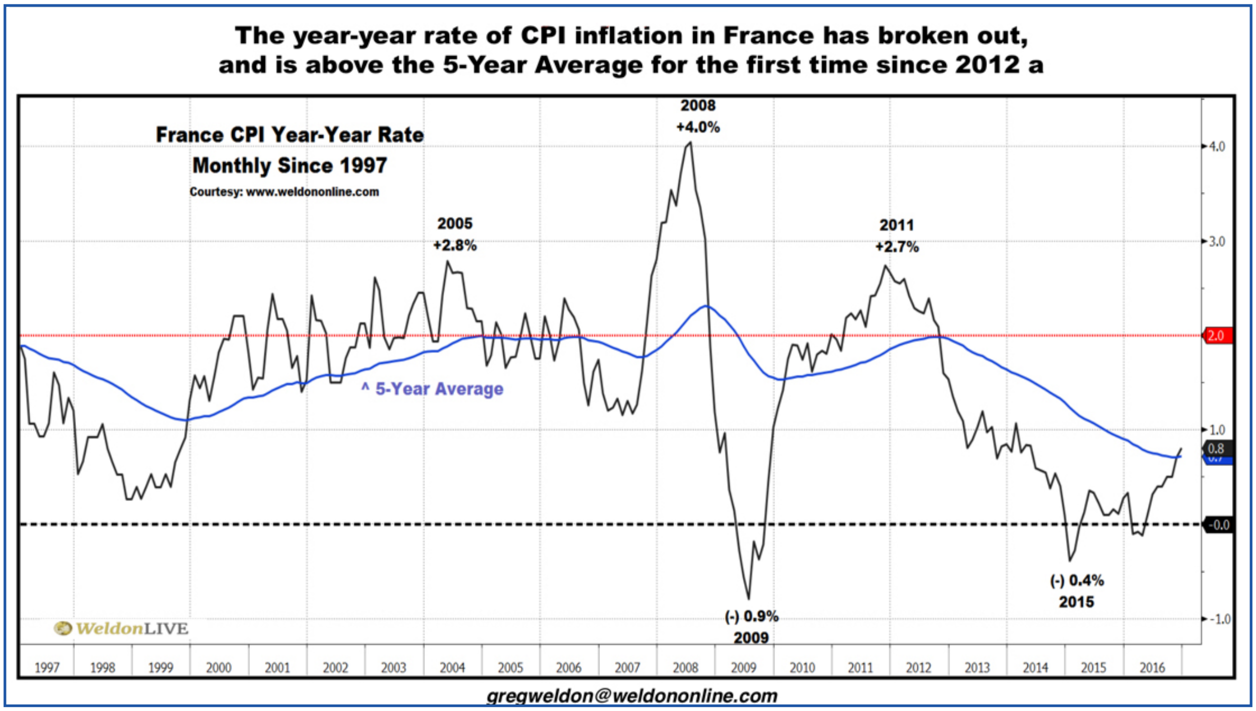
Discussions around the universal basic income also highlight competing political and moral philosophies.

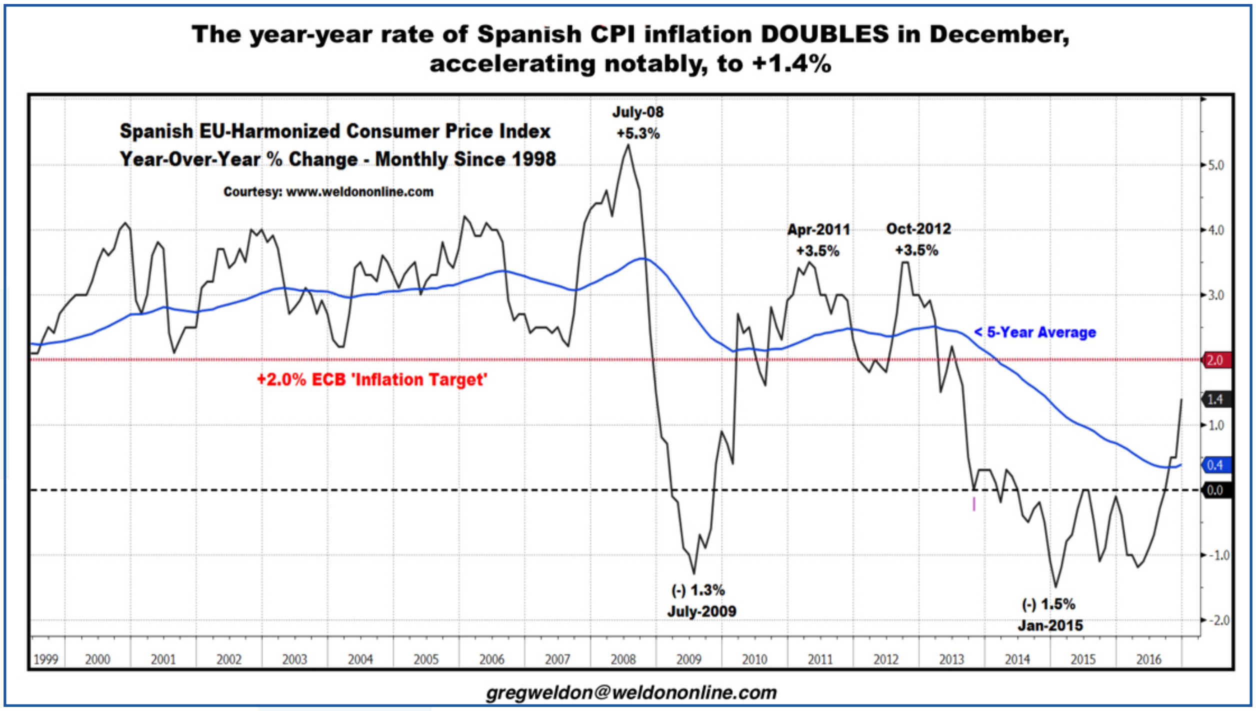
On the one hand, there is the view that our benefits scheme is one that we and the generations before us all paid into. We are entitled to any benefits we may require throughout our lives because they have already been paid for. The view favoured by the right, however, is that the postwar welfare state has, in places, created a damaging dependency culture among generations of the unemployed: the state therefore has a duty to incentivise people to get off benefits.

For Kerr, though, there is also a challenge for the left. "We're sleepwalking here," he says. "We like to tell ourselves that we are a nice, centre-left society that values our public services, yet we consistently reject parties who seek to increase taxes to pay for them. There needs to be a conversation about that...

CHARTS THAT MAKE YOU GO HMMM...

My buddy Greg Weldon's latest chartpack is an absolute killer. You can check it out as part of the [free Real Vision Publications trial] if you'd like to see the whole thing, but here are two key charts on the return of inflation in the EU which struck a chord with me...



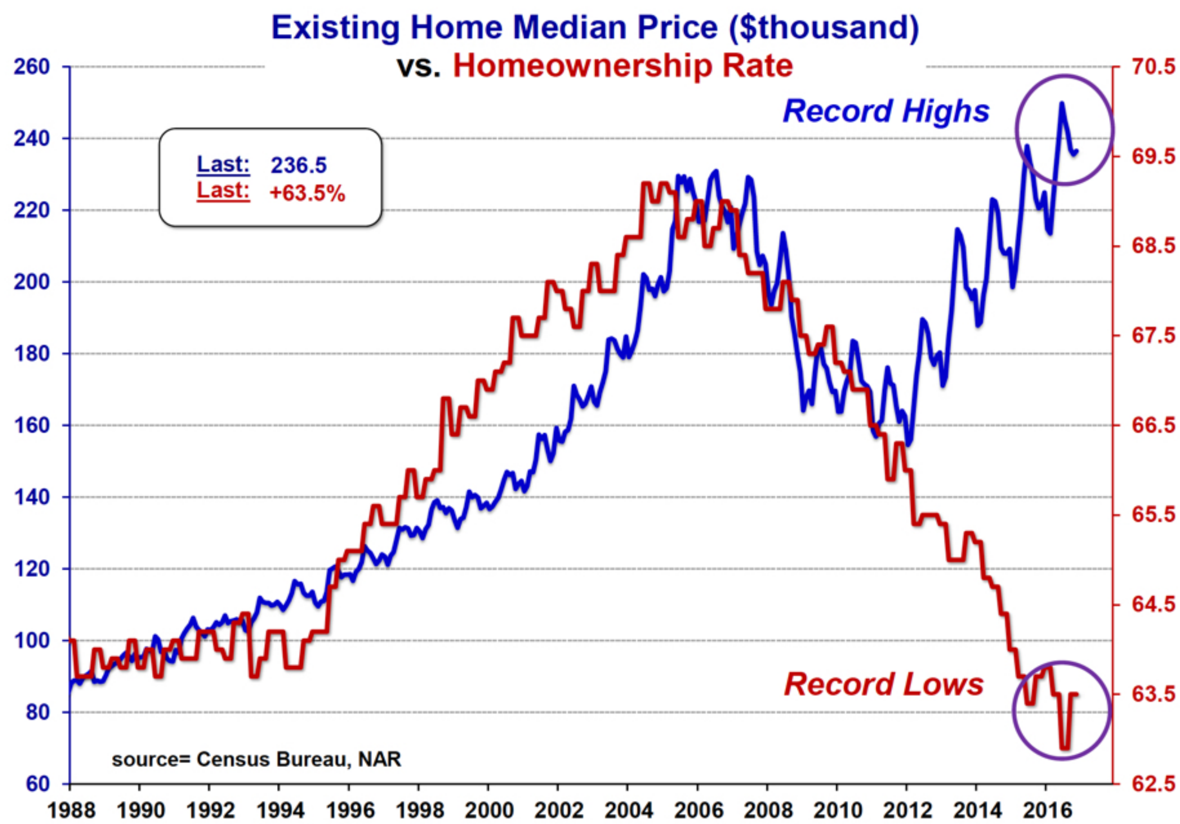


Two great charts from Holger Zschaepitz ([@Schuldensuehner]()):

Russia CDS vs China CDS and the record $1.1 trillion gain in global stock market capitalization in the first trading week of 2017...

Meridian Macro Research LLC

Just another brick in the 'everything bubble' wall: Record high home prices while Homeownership rate is near record lows, real average earnings of production & nonsupervisory are in decline, 69% of Americans have less than $1k in savings, and Healthcare costs continue to soar. With mortgage rates on the rise, one must ask just how long home prices can remain at these levels.



As we head into 2017, Eric Pomboy of [Meridian Macro] sent out his latest chart pack and it was an absolute doozy.

Amongst a series of superb charts which Eric suggests we keep in mind was this one which stopped me in my tracks; The existing home median price versus the home ownership rate going back to 1988.

As Eric says:

> ***Just another brick in the 'everything bubble' wall: Record high home prices while Homeownership rate is near record lows, real average earnings of production & nonsupervisory are in decline, 69% of Americans have less than $1k in savings, and Healthcare costs continue to soar. With mortgage rates on the rise, one must ask just how long home prices can remain at these levels.***

How long, indeed...

WORDS THAT MAKE YOU GO HMMM...

My dear friend David Hay graced the Macrovoices podcast this week and, as always, demonstrated perfectly why he is one of the savviest investors it's been my pleasure to meet.

David talks Trump, recession, the dollar and MLPs (an area in which his knowledge is second to none). Enjoy...

CLICK TO LISTEN

Niall Ferguson is someone whose opinions on geopolitical issues I seek out whenever I have the opportunity and this week we start the new year with a chance to hear his thoughts on the likely relationship between Donald Trump and Vladimir Putin after Trump takes office on January 20th.

Niall explains why Putin isn't totally to blame for Russia's fractious relationship with the West and how Barack Obama has underestimated the Russian President....

CLICK TO LISTEN

The excellent Ian Bremmer of Eurasia Group sits down to talk with Charlie Rose about his outlook for 2017 and the annual report which Eurasia Group released this past week.

The title of the report is 2017: The Geopolitical Recession.

Do you see where this conversation is going?

CLICK TO WATCH

AND FINALLY...

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Meet Kye Smith. Kye is a drummer from Newcastle, NSW (just a couple of hours north of Sydney) and he is an incredible talent.

Above are links to two 5-minute videos of Kye playing career progressions of both the Beatles and the Foo Fighters so pick your poison and watch an amazing drummer display a level of skill that is truly incredible to watch.

Of course, if you happen to be a fan of the Beatles and/or the t, it just makes it that much more enjoyable...

Things that make you go hmmm

About The Author

Much to his chagrin, Grant Williams has reached 30 years in finance.

Over that period, he has held senior positions at a number of investment banks and brokers including Robert Fleming, UBS, Banc of America and Credit Suisse in locations as diverse as London, Tokyo, New York, Hong Kong, Sydney and Singapore.

From humble beginnings in 2009, *Things That Make You Go Hmmm...* has grown to become one of the most popular and widely-read financial publications in the world.

Grant is a senior advisor to Vulpes Investment Management in Singapore and also one of the founders of *Real Vision Television*—an online, on-demand TV channel featuring in-depth interviews with the brightest minds in finance.

A regular speaker at investment conferences across the globe, Grant blends history and humour with keen financial insight to produce unique presentations which have been enthusiastically received by audiences wherever he has traveled.

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