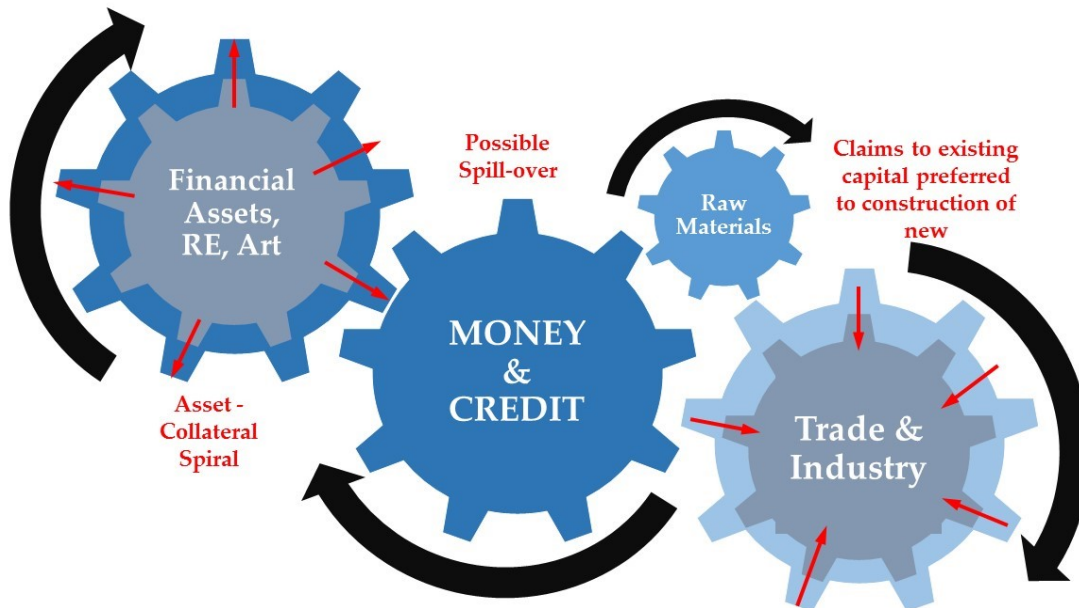
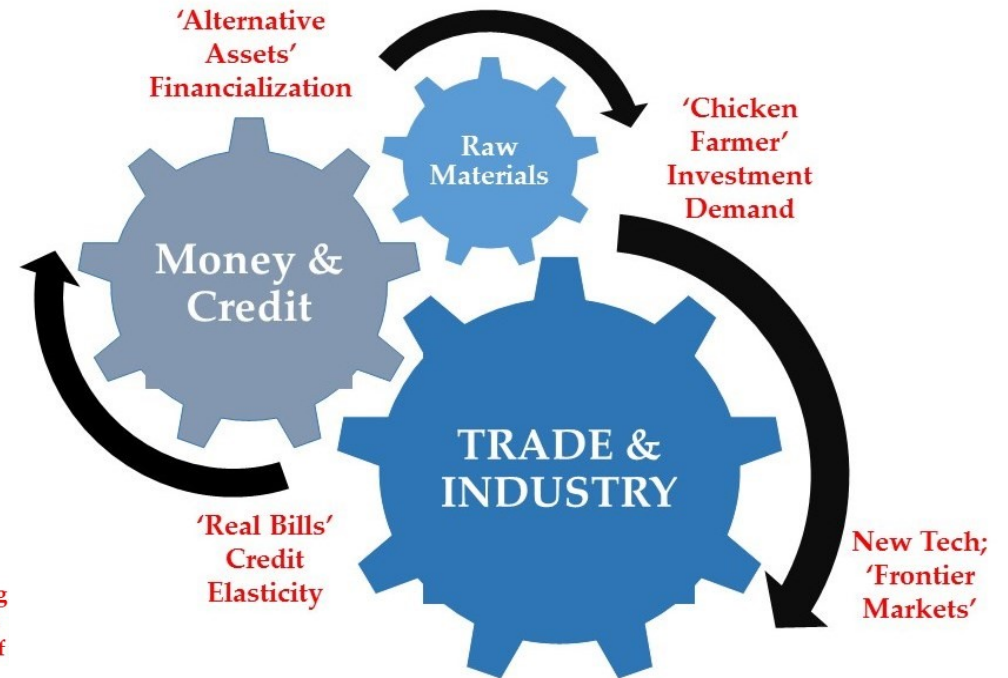
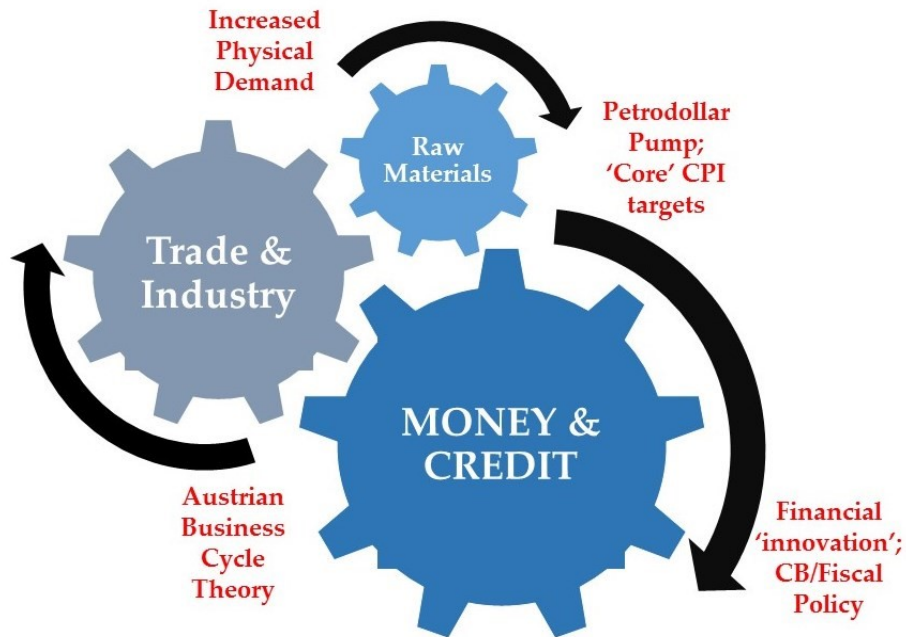


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22nd May 2017



IN THIS ISSUE:-

CHINA: Has the PBoC blinked?

USA: Great QI, despite DC, but has the bloom come off?

JAPAN: The Nikkei breaks higher

FOREX: Betting against the Buck



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As money poured out of China in the aftermath of the collapse of what we at the time called the stock market's 'Mississippi Bubble 2.0', there was much anxious—if ill-informed—commentary regarding the inevitability of a generalized collapse as the loss of those same foreign exchange reserves whose acquisition had underpinned the country's impressive monetary expansion now triggered instead a nasty, deflationary contraction.

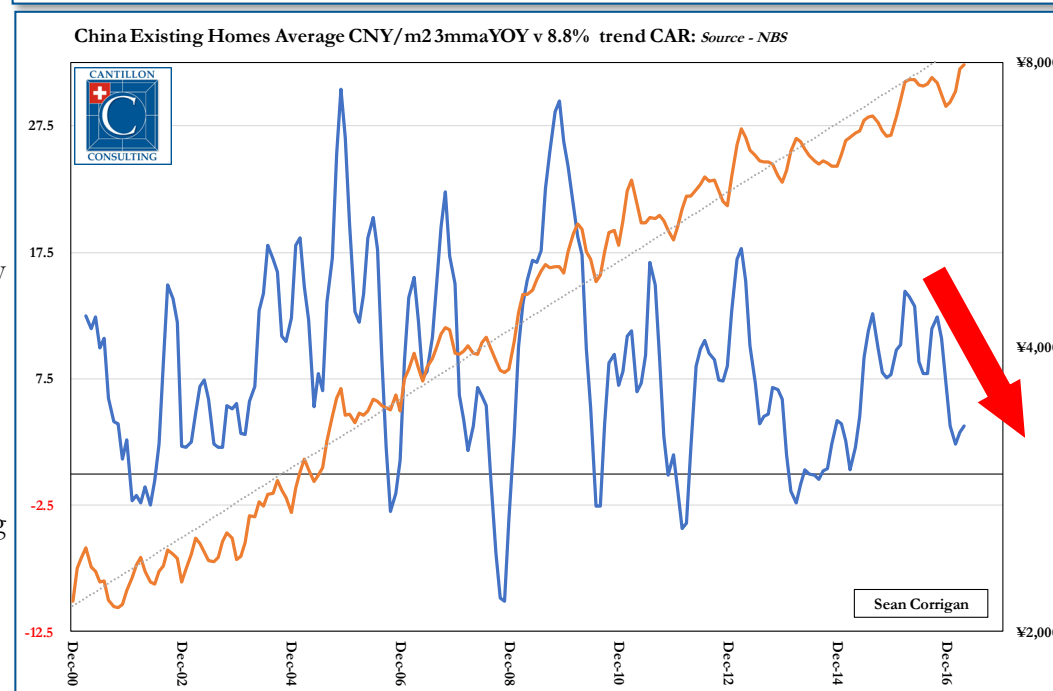
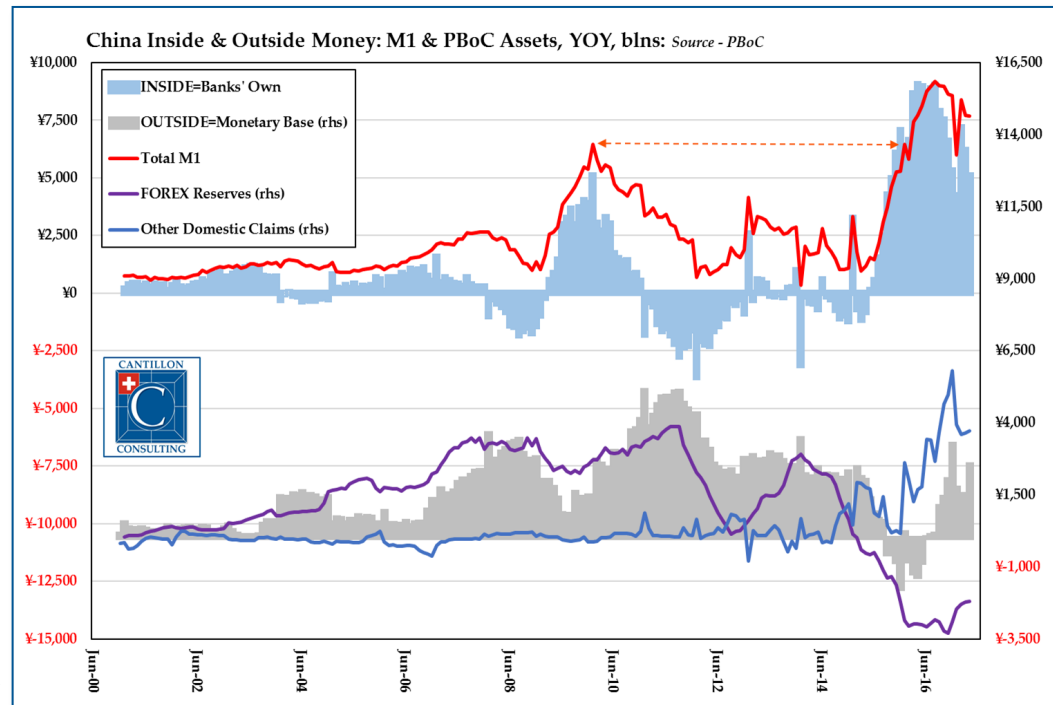
Our counter was that this outflow in no way prevented the bank from both lowering statutory reserve requirements nor from replacing reserves through the open market purchase of domestic assets—the only caveat being that this was not at all consonant with a defence of the exchange rate. So, indeed it proved.

As the top graph shows, the forex drain (purple) was more than compensated for by the undertaking of such measures (blue line) to the point that the monetary base (grey columns) actually grew, not shrank. Additionally, banks created much more of their own 'inside' money (demand deposits, light blue columns, upper) and so not only triggered a much-needed rise in business revenues (and, hence, profits) but also ignited two nasty booms in commodities and housing.

Like a panicked householder who nails a board atop an overflowing bath-tub, rather than *fully* turning off the taps, the PBoC and its peers have fought this mainly through applying the clumsiest of 'macroprudential' bolts to empty stable doors, backed up with a healthy dose of witch-hunting of previously-tolerated offences against its regulatory diktats.

But now, with business again faltering, with iron ore a third off its peak, with house prices stagnating, and with two large insurers—Anbang and Foresea—making the wrong sort of headlines, the 'Big Mother' may have blinked by upping the provision of funds to a market becoming starved of liquidity.

Before becoming popping the champagne corks however, it is worth bearing in mind that President Xi—who has effectively put his own signature





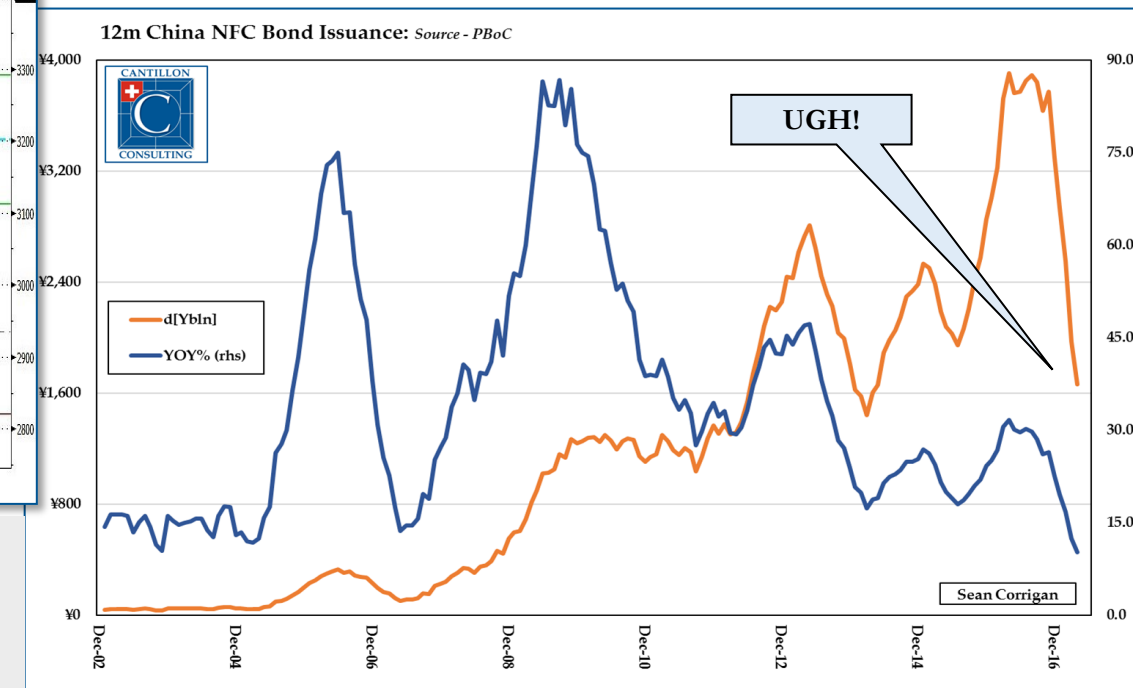
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on the ‘deleveraging’ programme underway—would not have wanted anything untoward to have occurred in the middle of the all-important OBOR gathering over which he presided last week.

That time having passed, we must now watch very carefully to see if the clampdown is renewed in the days ahead or whether ‘Stop-Go with Chinese characteristics’ has again switched to the accommodative phase of the game.



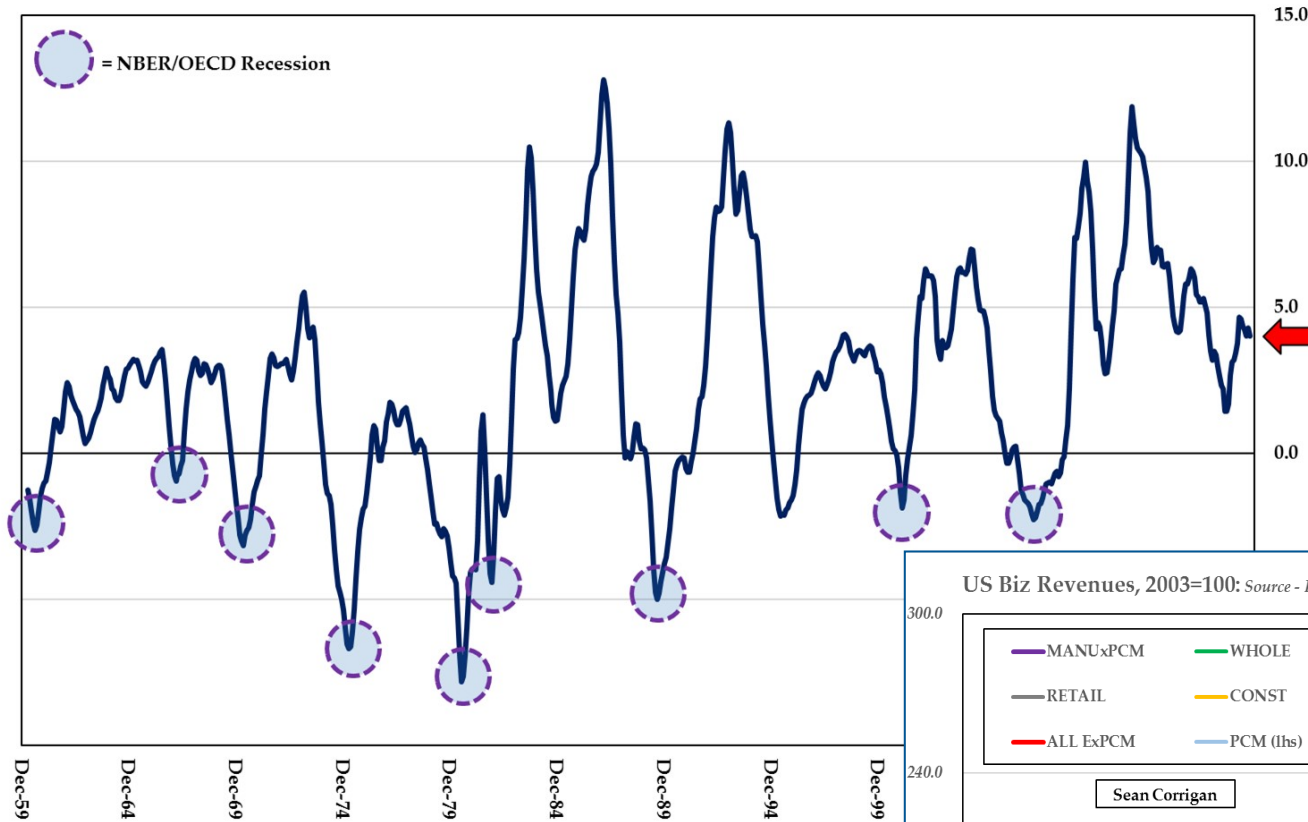
So many moving parts, so much misplaced innovation in the Red Queen race between central planners and the subjects of their plans. To rewrite Newton: every action has an disproportionate and highly unpredictable reaction. Caution warranted.



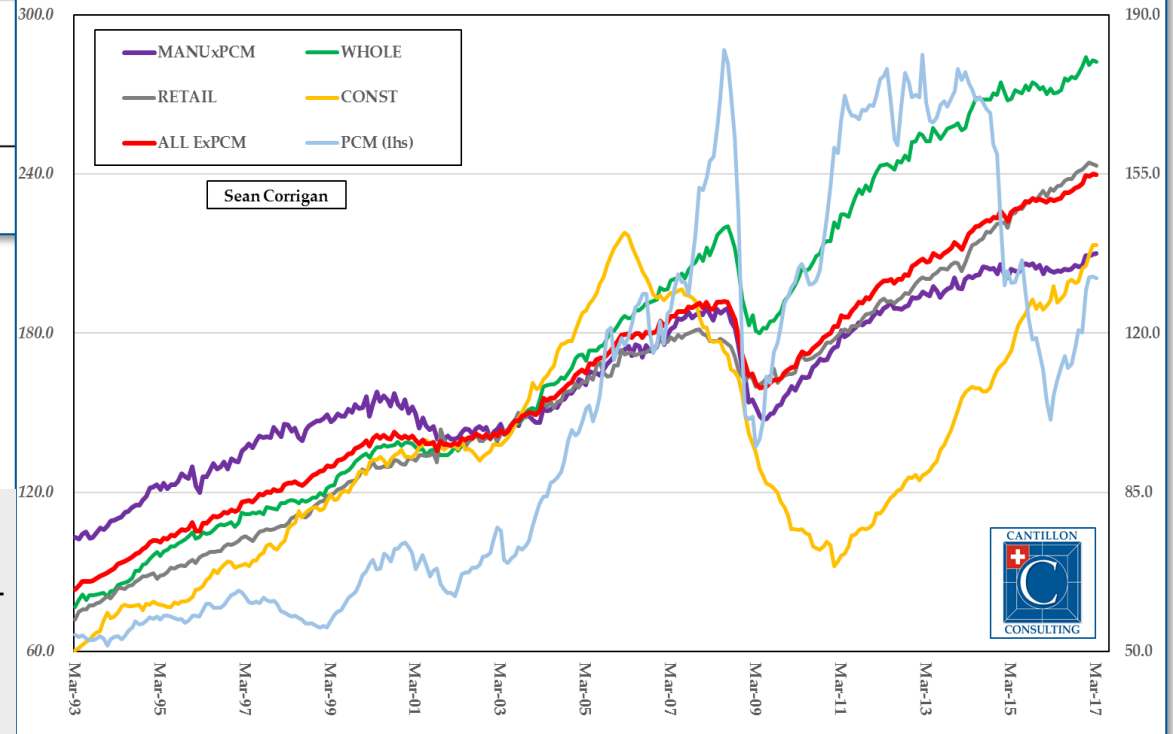


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US Real M1+, 3mma YOY: Source - FRB, Cleveland Fed



US Biz Revenues, 2003=100: Source - BLS, Census

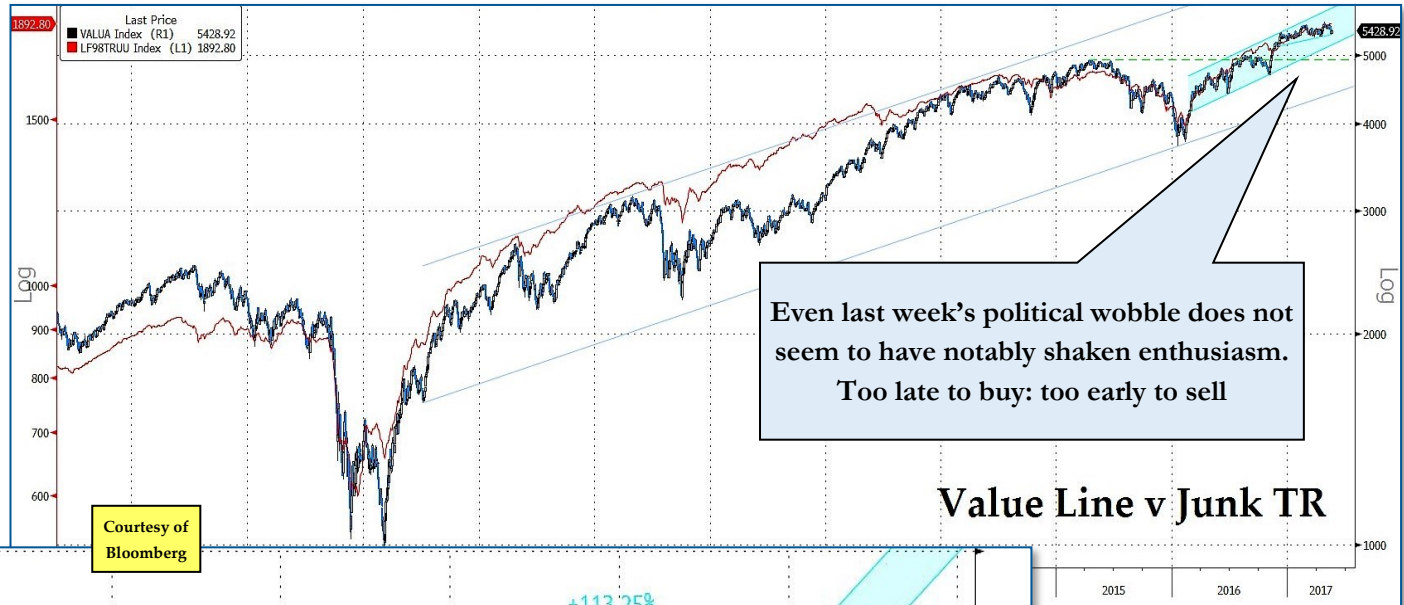


Despite the disappointment of the always-unrealistic hopes of radical change aroused by Donald Trump's election, Q1 was actually something of a signal success: a strong rebound from the depths of the 'hidden recession' of the shale bust saw hiring climb, revenues quicken, and profits mount. Solid, ongoing growth in the supply of a money increasingly being put to use should maintain the trend over the next few months.



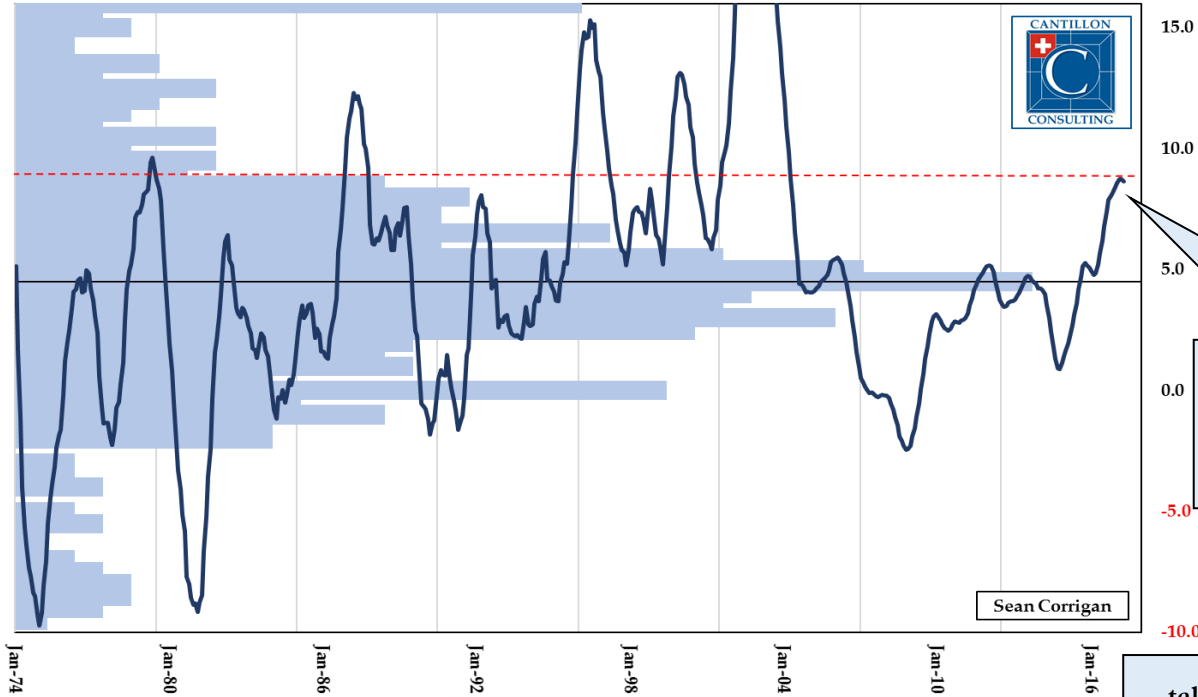
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However, it is well worth keeping an eye on whether the remarkable post-Crisis outperformance of the US is about to end, here at its richest level of the modern age

Japan Real M1, 6mmaYOY%: Source - BOJ



Sean Corrigan



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The fastest real money growth in 13 years is, unsurprisingly, making its influence felt, even in Abe's Japan...

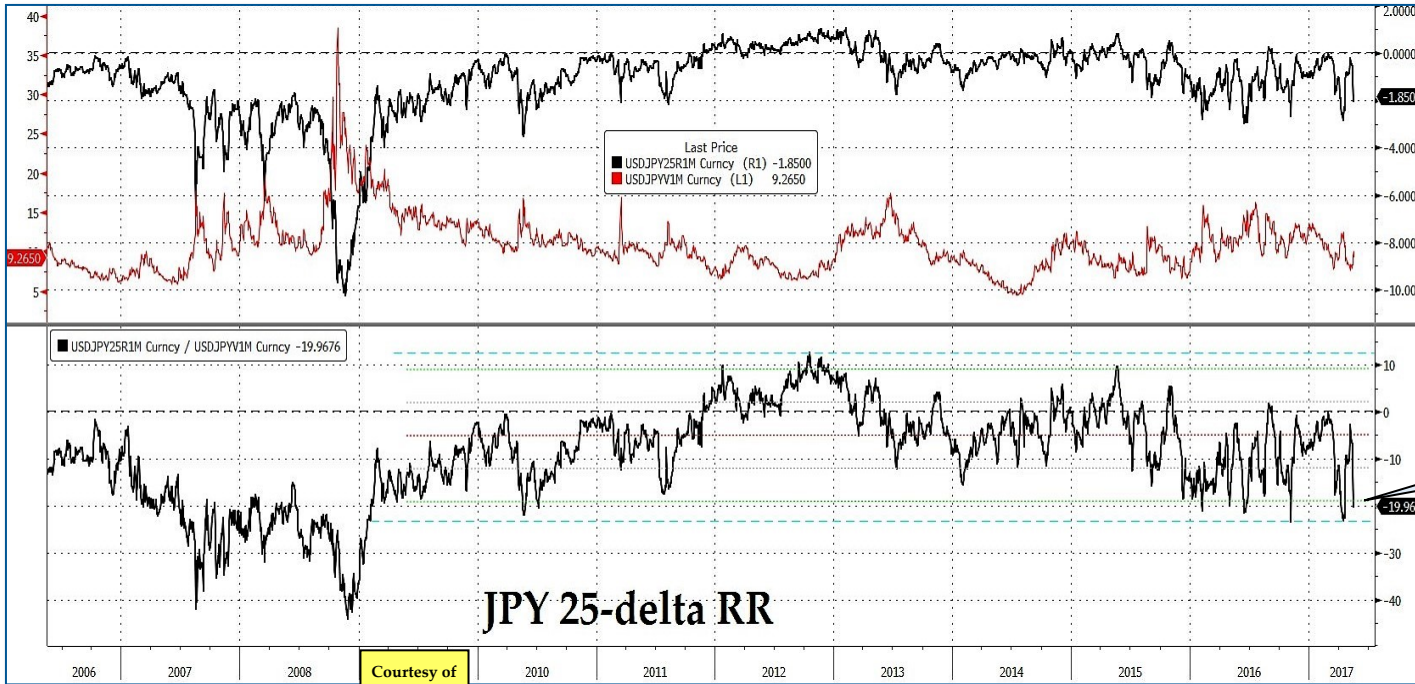
...taking the NKY225 above the 50% mark in the post-bubble range for the first time since Techmania. If it holds, look for another 10-15%



Courtesy of Bloomberg



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Options for yen, euro, sterling are showing multiple standard deviation dollar bearishness...

JPY 25-delta RR

Courtesy of Bloomberg

..but the current, post-election lows only take us to the middle of the last 15 month's consolidation band and leave us still in a bullish medium-term pattern

USD Narrow TWI





BONUS CHART OF THE WEEK

Measured in common currency, the Nikkei just broke a major downtrend v the Shanghai Composite, to reach its best mark since Sept '14. Interestingly, this brings the pair back to the ratio they first touched 16 long years ago, way back in mid-2001. In that same time, Chinese GDP has grown 970% - 16% CAR! - faster than has that of Japan.

A signal lesson that 'growth' does not necessarily imply return on capital invested!





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