

Medium Term Macroeconomic Projection: A Pool of Black Swans

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1 Introduction

2 The British Swan

3 The Euro Swan

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Since last time

A few remarks from the previous lecture

CCSIF Guest Lecture
Medium run macroeconomic forecast with portfolio suggestions

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Projections made from last time ...

- Raising public debt to a level that it becomes theoretically unaffordable under the 2% inflationary assumption and continuous structural deficit [Continuous event, H.L.]
- Feeding up big banks to be deliberately avoided by the government, but benefiting capital markets in general is unavoidable. [Continuous event, A.S.]

Introduction

Macroeconomic forecast

Portfolio review and suggestions

Appendix

- There will be a re-bounce, potentially uncontrollable re-bounce of inflation at a rate of > 10% (ann.) for a short period, accompanied by a jump in the equity market at either an immediately-early or a later stage [Short-term event, H.L.]⁷
 - The solution to the above trouble is:
 - by firstly contracting certain capital or even the commodity flows (potentially by regulating the financial institutions or even the commercial ones) [Short-term event, H.L.]
 - and later re-designing the monetary policies and potentially entering a new era of technical micro-driven fiscal-monetary coordination [Long-term event, L.]

⁷Related economic concept: domestic hot money, liquidity bounce, free capital flow.

The nature of forecasting

The only function of economic forecasting is to make astrology look respectable.

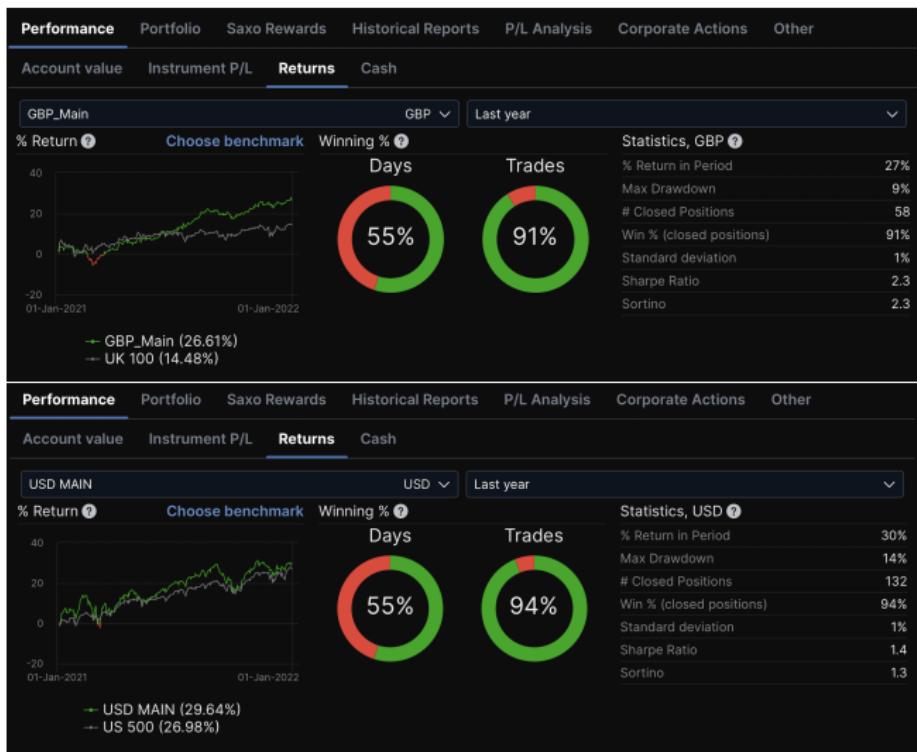
— Professor Ezra Solomon (1985)



Figure: My BoE presentation in 2019



The benefits from making suitable projections



How it unfolds into investment decisions

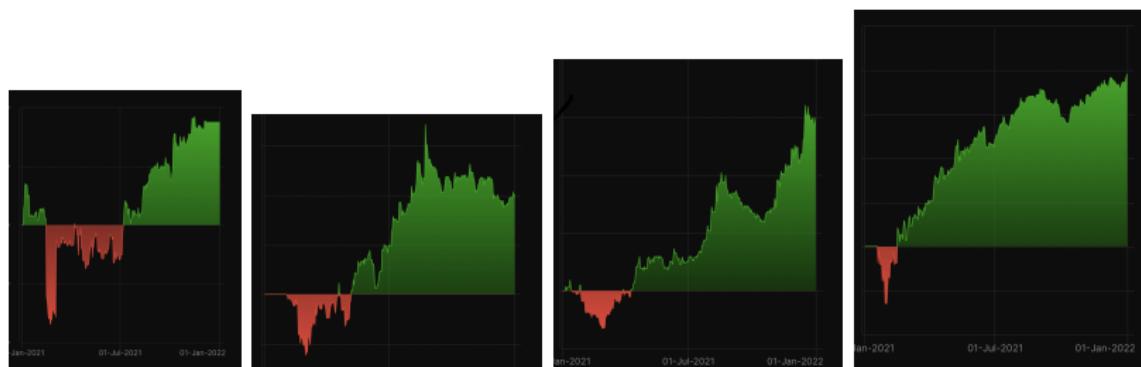


Figure: TSCO, SBRY, PFE and UKRE

Where are we going ahead?

Very Unclear. Hence the topic.



Introduction
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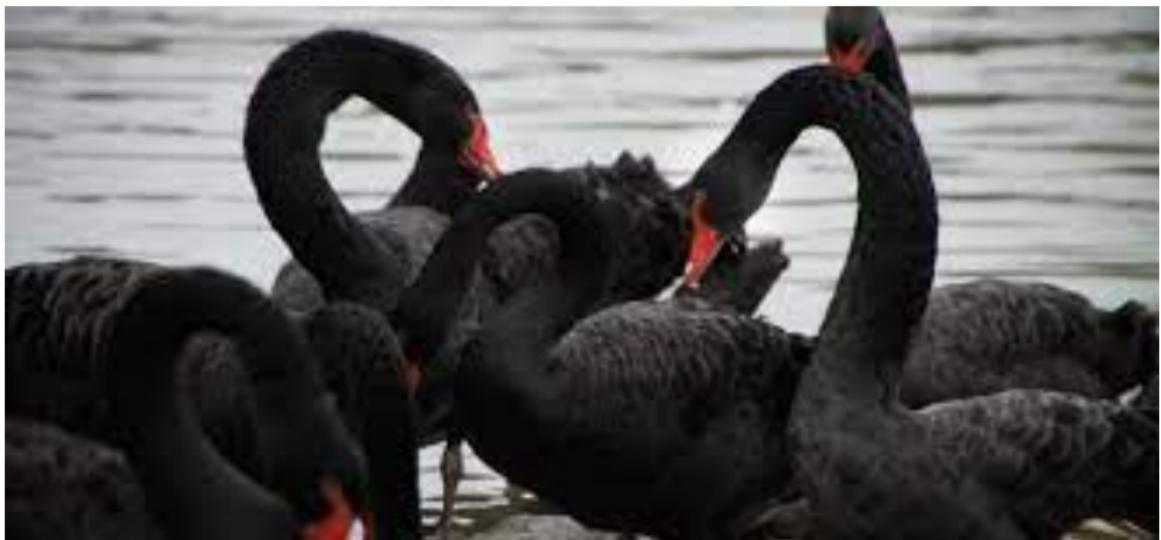
The British Swan
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The Euro Swan
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The Chinese Swan
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The Global Swan
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Conclusion
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The British Swan: potential failure of Tory leadership

by Zac and Edward

Will we reach 54 letters?



Introduction

The British Swan

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The Global Swan

Conclusion

Will Johnson win a vote of No-Confidence?



What happens if Johnson loses?



Lack of Leadership Contenders

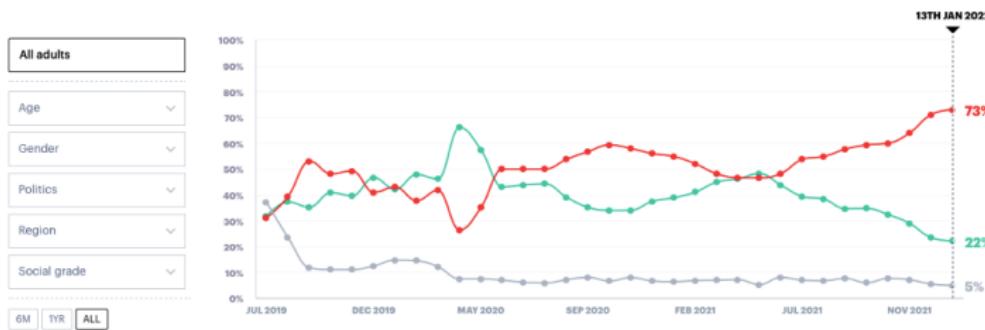




So Johnson wins, what happens next?

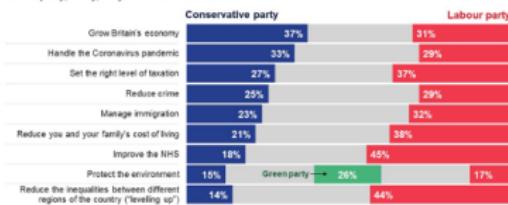
How well is Boris Johnson doing as Prime Minister?

(Well) (Badly) (Don't know)



Party trust on key issues: January 2022

Which party, if any, do you trust most to...?



Base: 1,000 United adults (16+), 10 - 19 January - 21 January 2022

Ipsos MORI

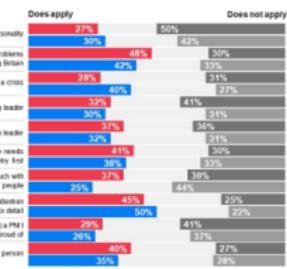
Image of party leaders

Keir Starmer versus Rishi Sunak

Do you think each of the following statements does or does not apply to...?

Leader of the Labour party, Keir Starmer

The Chancellor of the Exchequer, Rishi Sunak



Base: 1,000 United adults (16+), 1-27 January 2022

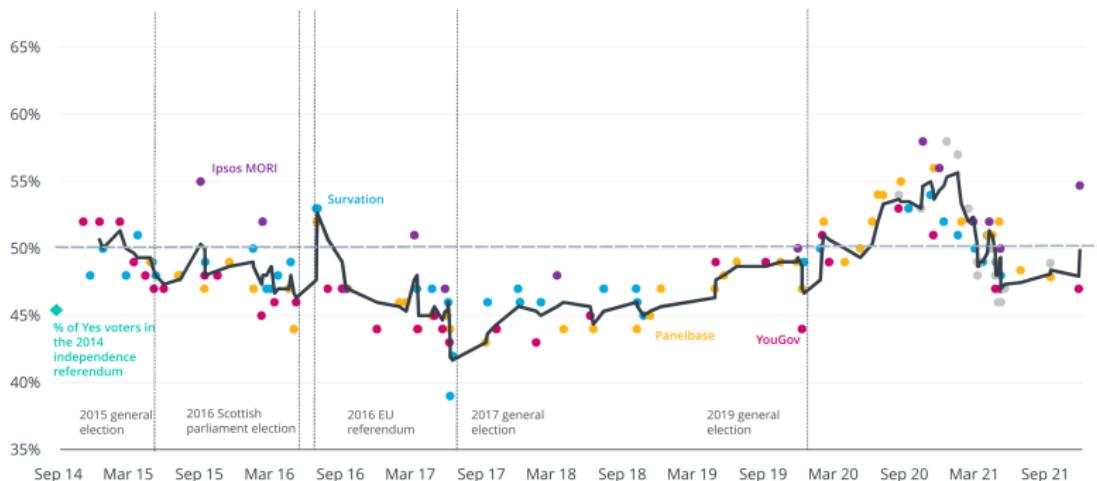
Other Political Blackswans

- Political volatility in devolved parliaments
- Politically-motivated attacks
- Crises in public bodies

Scottish Referendum

Percentage of people who would vote Yes in a second Scottish independence referendum
(rolling average of previous three polls)

IfG



Source: Institute for Government analysis of What Scotland Thinks summary of polls, Survation poll results, YouGov poll results, Panelbase poll results and Ipsos MORI poll results. Notes: Some of the polls shown on this chart included 16 and 17 year olds in the sample. Don't Know/Wouldn't Answer are excluded from results.

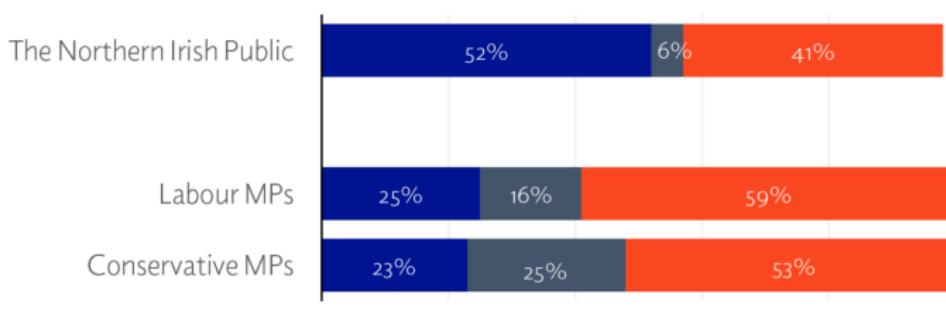


NI Protocol

A majority in Northern Ireland support the Protocol, but MPs do not.

To what extent do you agree or disagree? The Northern Ireland Protocol is on balance a good thing for Northern Ireland.

UK IN A
CHANGING
EUROPE



■ Agree ■ Neutral ■ Disagree

Source: UK in a Changing Europe/Ipsos Mori MPs survey summer 2021; ESRC 'Governance from 'a place between' project'. Don't Know responses excluded.

Outlook

- Short term Leadership Challenge:
 - Johnson will survive a vote of no confidence, if gets triggered
 - Stays on as PM until at least next year, but potential senior minister resign
- Broader uncertainties:
 - Scottish referendum push, breakdown of NI protocol
 - Risk of scandals within public bodies
 - Constitution deficiency

The Euro Swan: the weakness of Euro and potential crises

by Will and Parley

On Inflation

On Government Debts

Eurozone economy

+ Add to myFT

ECB rate expectations sting Greek and Italian government debt

Signs of more aggressive stance on inflation from European Central Bank dent bond prices



ECB president Christine Lagarde signalled a 'hawkish' shift last week by refusing to rule out a potential rate rise this year © Thomas Lohnes/Pool/EPA-EFE/Shutterstock

Italian and Greek debt sells off after ECB's hawkish shift

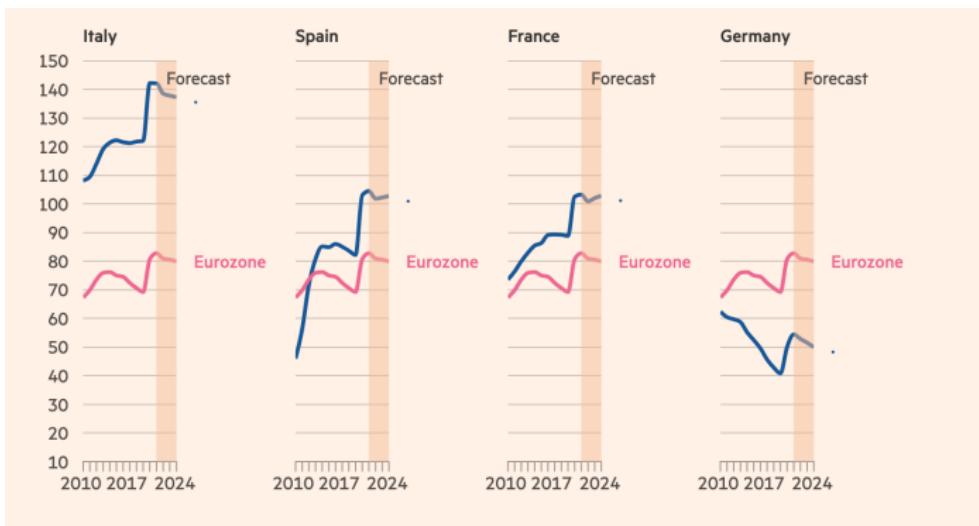
10-year government yields (%)

— Italian — Greek



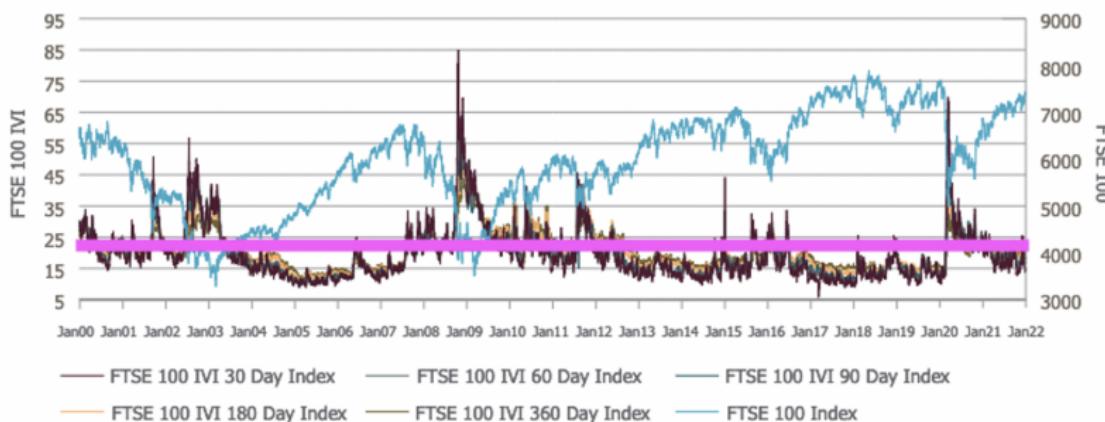
Source: Refinitiv
© FT

Debt to GDP percentage (provided by FT)



An uncertain time, but not unprecedented

FTSE 100 IVI – Implied Volatility



Back in 26th July 2012...

ECB ‘ready to do whatever it takes’



© Bloomberg News

The outlook

- Monetary conservatism vs debt accommodation
 - High inflation throughout the continent and Eurozone growth rebound.
 - Concern on the affordability of risky government debts
- Leading towards Eurozone crisis and acceptance of Euro in longer term
 - Depreciation of Euro in medium term, especially against commodities.
 - Potential political movements towards Euroscepticism — there are potential departures from common currency arrangements
- Takeaway message: bearish / neutral on stocks with main customer basis in Europe, bullish on stocks buying European factor inputs, bullish on commodities, or at least as a hedge against Euro depreciation.

The Chinese Swan: the failure of dictatorship or towards a temporary US-China reconciliation

by Parley and Will

Present economic big cycle



Ray Dalio thinks China is on the rise and US is on the decline...
I think both China and US are on decline and they're trying to push back.
Also note, e.g. Japan does not have a place on this figure so this analysis is somewhat restrictive.

Unfolding the modern & recent history (Mainland in Black, HK in Blue)

Year	Event
1949	Establishment of PRC and the one-party system by CCP
1966-1976	Cultural Revolution
1976-1989	Reforms and Opening-up in the Deng era
1984	Sino-British Joint Declaration signed
1989	Tiananmen Square protests and massacre
1992-2012	Resumed and reinforced "Reforms and Opening-Up"
1997	Transfer of sovereignty over Hong Kong (The British Retreat)
2012	Xi Jinping became the Chairman of CCP
2014	Umbrella Revolution
2018	Start of the US-China trade war
2018	Term limits removed for President from the Constitution
2019	Anti-Extradition Law Amendment Bill Movement
2020	Hong Kong national security law passed
2021	Closure of Apple Daily and the Legislative Council renewed
2022	Beijing Olympics and Boycotts

Remarks on US-China Relationships



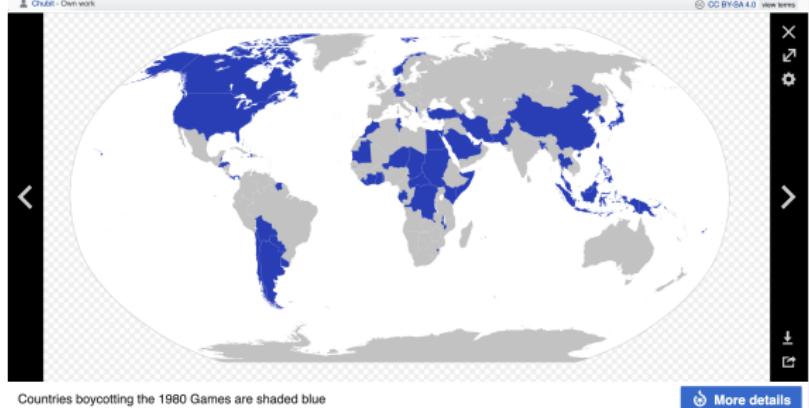
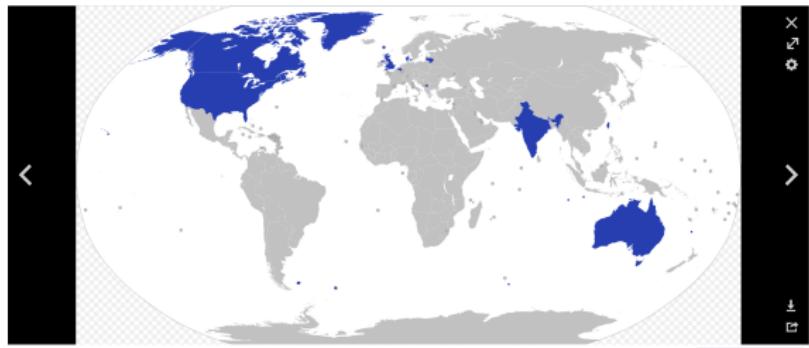
John S. Van Oudenaren • 1st
Asia Policy Research and Analysis
3d • Edited •

In 2008, I was a young English teacher living in China. I watched the Olympics opening ceremony with Chinese and foreign friends in a crowded restaurant in the suburbs of Shanghai.

I vividly remember the (mostly local) crowd booing when the TV showed the US team first walking out. But minutes later, they burst into cheers when the US basketball team led by Kobe Bryant walked across the stage. It struck me as the perfect metaphor for Chinese views of America at that time: affinity for US culture and people, coupled with distrust of American power.

14 years later, I doubt I'll ever go back to China. I don't think any of us, Chinese or American, clinking glasses of Budweisers and Tsingtao on that warm summer night, ever saw things turning out like they have. It's only been 14 years since the 08 games, but it's been a lifetime in terms of US-China relations.

Remarks on Olympics Boycotts: 2022 vs 1980



HK: where the dictatorship fails and wins back



Leaders
Jan 8th 2022 edition ▾

Plant patriots

Hong Kong's new legislature is a mockery of democracy

And its media are losing any independence



Getty Images

There are no rioters, there's only tyranny

On Political Philosophy by MT



Talk by Thatcher in Iowa, 1998

P.S. the GDPPC of Chinese Mainland is 10,500 USD whereas for HK is 46,300 USD, as of 2020.

Where we are heading towards

- Two possibilities: EITHER the dictator gets removed OR the dictator manages to stay at the cost of economic drawback
- The end of one-party system by CCP:
 - Unstable transition period and potential breakdown of the country, e.g. Soviet in 1989-1991.
 - Short term shocks to global supply and demand, followed by capital influx (FDI) from the developed countries for good deals.
 - Unleash potential economic growth with US-guided economic liberalism and globalism.
- The stay of one-party system by CCP:
 - The 'success' of Chairman Xi's leadership
 - Oppression of freedom at the cost of lost of talents and economic growth
 - Further economic independence from the global supply chain: less reliance on global trade as part of the output
 - Temporary cease fire with US on trade war, e.g. the concept similar to Détente in 1970s while US dealt with stagflation

Remark on the potential breakdown: the global support for HK



Remark on the potential breakdown: the British support for HK



Priti Patel @pritipatel

...

A year ago today, we launched the Hong Kong BNO Visa route to fulfil our promise to the people of Hong Kong.

I'm proud of its success in helping families & talented hard-working Hong Kongers start new lives here.

Global Britain will always stand up for liberty & freedom.

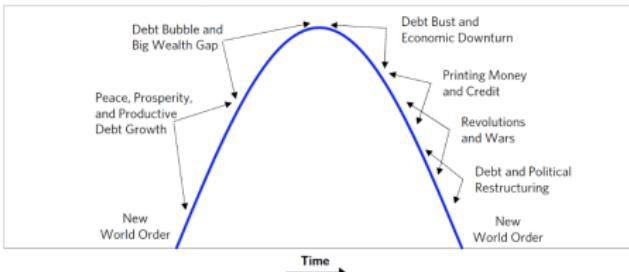
ANNIVERSARY

— ON THIS DAY IN 2021, WE LAUNCHED THE —

HONG KONG BNO VISA

Remark on Détente and Prisoner's Dilemma

The Typical Big Cycle Behind Empires' Rises and Declines



Prisoners'
dilemma

		prisoner B	
		confess	remain silent
prisoner A	confess	5 years	5 years
	remain silent	20 years	0 year
	confess	0 year	20 years
	remain silent	1 year	1 year

Introduction
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The British Swan
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The Euro Swan
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The Chinese Swan
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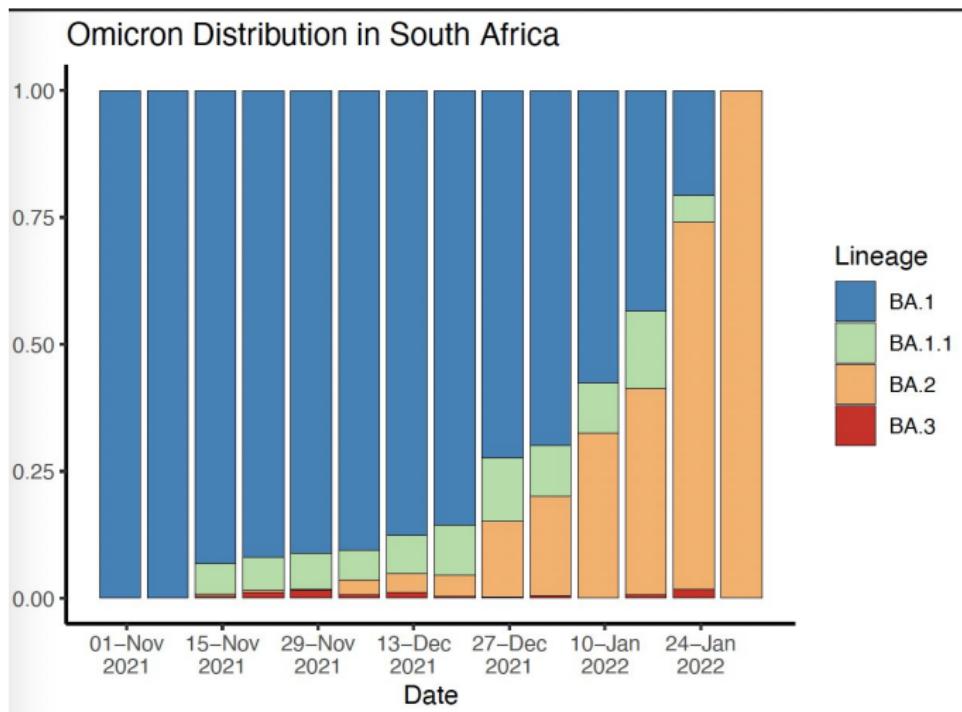
The Global Swan
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Conclusion
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The Global Swan: Covid variants and where things can go worse

by Trevor

Omicron and Variants: Spread of Omicron



Omicron and Variants: Mutation and Variants

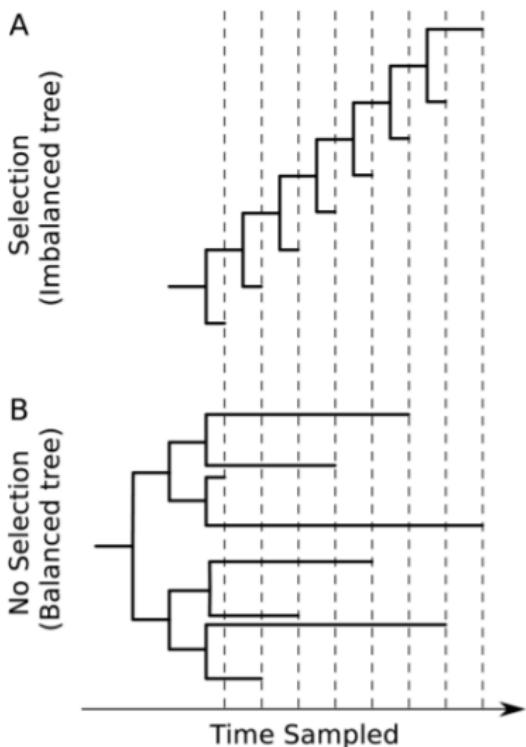
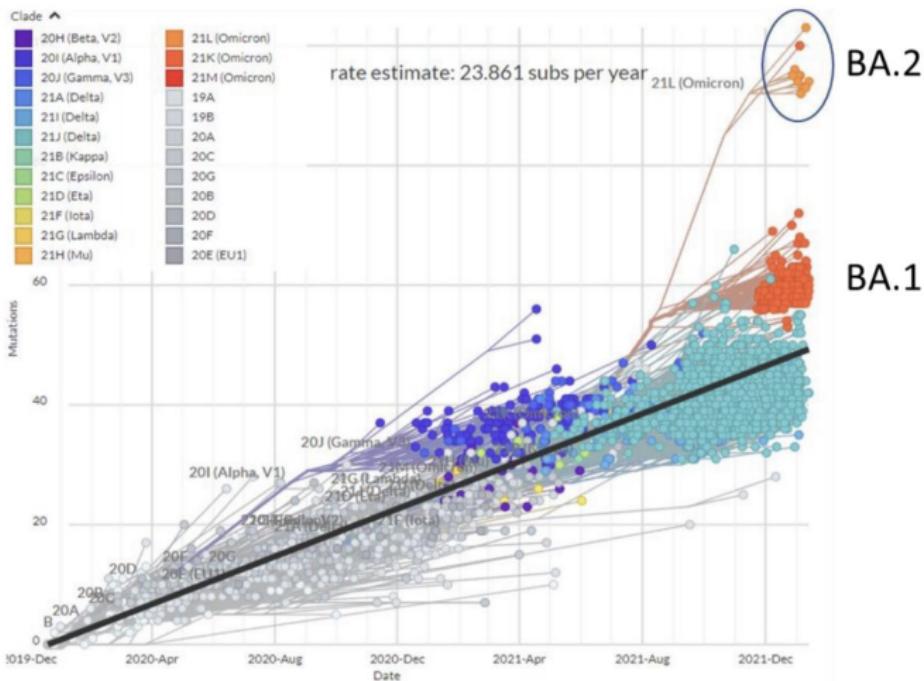


Figure 3. Idealized caricatures of virus phylogenies that show the effects of immune escape.
doi:10.1371/journal.pcbi.1002947.g003

Omicron and Variants: Variants of Omicron

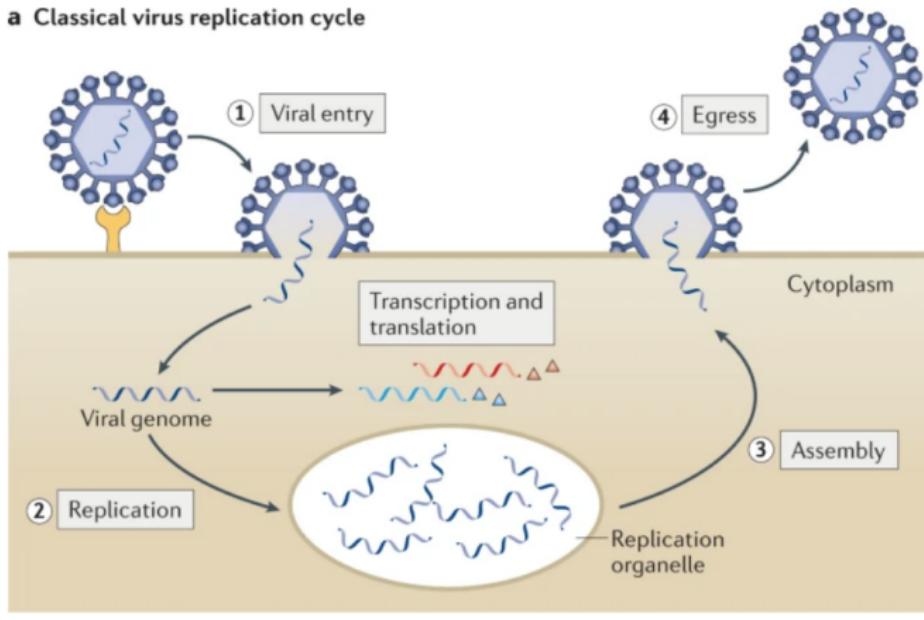


Omicron and Variants: Nature of Omicron

Study	Type	Key Finding	Citation
USA SAVE Consortium	Syrian hamster and mouse models	Decreased lung infectivity, viral load, and pathology	M Diamond M et al https://www.researchsquare.com/article/rs-1211792/v1
Liverpool, UK	Mouse model	Decreased lung infectivity, viral load & inflammation	E Bentley et al https://www.biorxiv.org/content/10.1101/2021.12.26.474085v1
Belgium	Syrian hamster model	Markedly decreased lung infectivity, replication, and pathology	R Abdelnabi et al https://www.biorxiv.org/content/10.1101/2021.12.24.474086v1
Japan	Syrian hamster model	Decreased lung infectivity	K Seto et al https://drive.google.com/file/d/1rhCazFav1pokFKmsZl5_oqleH9ofFckR/view
Cambridge, US	Syrian hamster model	Reduced pathogenicity, reduced viral load in lungs	K McMahan et al https://www.biorxiv.org/content/10.1101/2022.01.02.474743v1
Cambridge, UK	In vitro lab studies	Decreased lung cell infectivity	R Gupta et al https://www.biorxiv.org/content/10.1101/2021.12.17.473248v2
Hong Kong	In vitro lab studies	Decreased lung cell infectivity	MC Chi-wai et al https://www.med.hku.hk/en/news/pres/20211215-omicron-sars-cov-2-infection

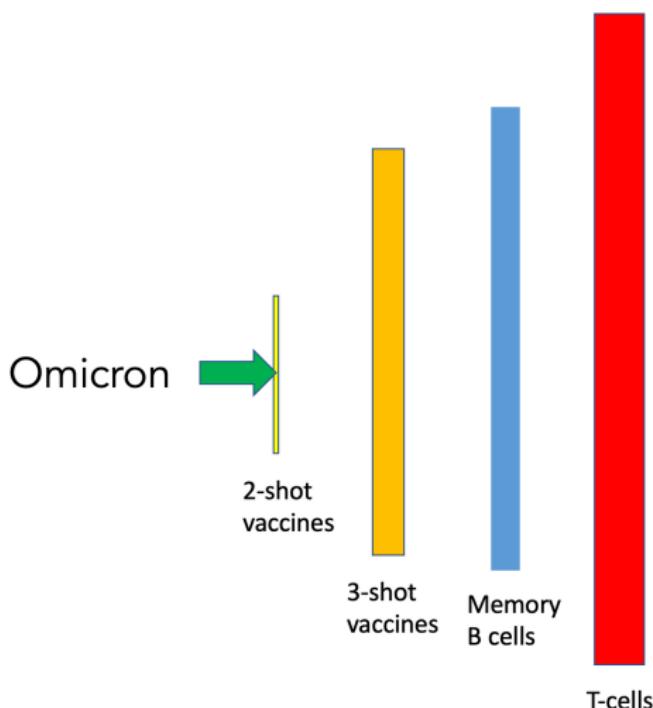
Vaccines and Therapeutics: Viral Replication

a Classical virus replication cycle



Endemic Pandemics: Defence Against the Dark Arts

There are 3.5 key lines of defence against Omicron and beyond.



Endemic Pandemics: Memory T Cell

Primary Institution	Patient samples	Cross-Reactivity Metrics	Citation
University of Cape Town	Pfizer, J&J, vaccines; Prior Covid	Retained 70-80% of T cell response vs Omicron	Keeton R et al, MedRxiv 28 December 2021
La Jolla Immunology	Multiple vaccines and variants	Retained T cell functionality vs Omicron w/ epitope level binding data	Tarke et al, BioRxiv 28 December 2021
Beth Israel Deaconess	Pfizer, J&J vaccines	CD8+ T cell 80+% Omicron- specific, 8 months	Liu J et al, MedRxiv 3 January 2022
Santa Lucia Foundation	Multiple vaccines, mix	CD4+ and CD8+ retained response to Omicron	De Marco L et al , MedRxiv 30 December 2021
Erasmus University	mRNA, AZ and J&J vaccines, prior Covid	CD4+ 6months after mRNA , J&J vaccines, responsive to Omicron	GeurtsvanKessel C et al, MedRxiv, 29 December 2021
Karolinska Institutet	mRNA vaccine and prior Covid	CD4+ and CD8+ response largely intact, mRNA > Prior Covid	Gao Y et al Research Square 3 Jan 2022

The global outlook

Median Outcome

- Mutation to very transmissible but milder variant.
- Endemic case similar to the annual flu.
- Implication: No long-term change in economic patterns.

Black Swan Risk

- Higher steady state level of morbidity and mortality.
- Systematically higher death rate over winters and underlying possibility of recurrent outbreaks persists.
- Implication: Compositional change in consumption patterns towards goods over services.

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The yards will be hard, but opportunities persist

