

CFA 2009 – Inaugural Forecast Dinner

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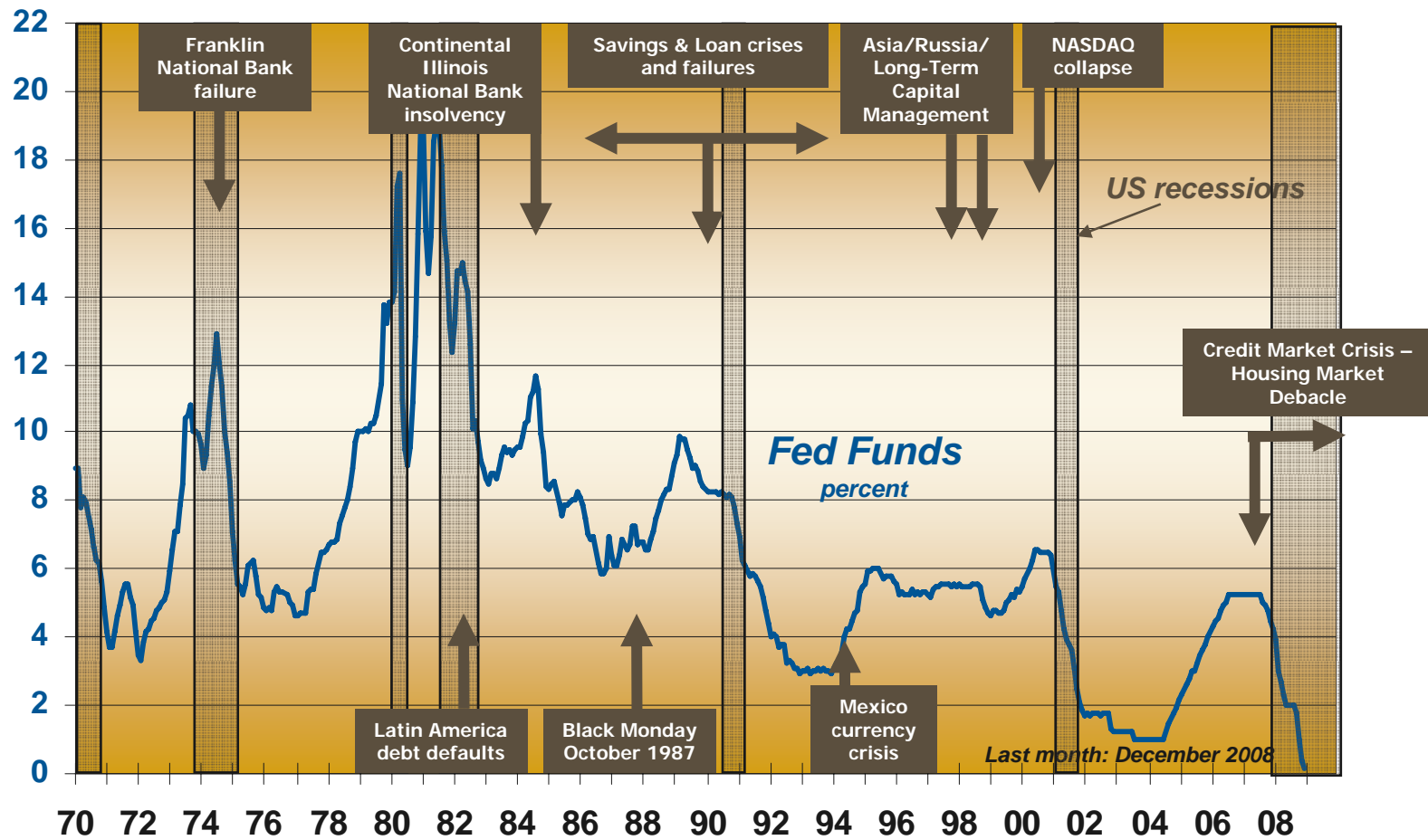
The Great Recession of 2009

- 1. It wasn't just greedy bankers that caused this***
- 2. The world has been suffering serious imbalances for many years***
- 3. A number of countries "manipulate" their currencies (Canada, thankfully, does not!)***
- 4. The "mercantilist" model of economic growth is alive and well – and wrong for an economy of a billion+ people***
- 5. There should be currency manipulation rules for IMF members (like limits on reserves)***



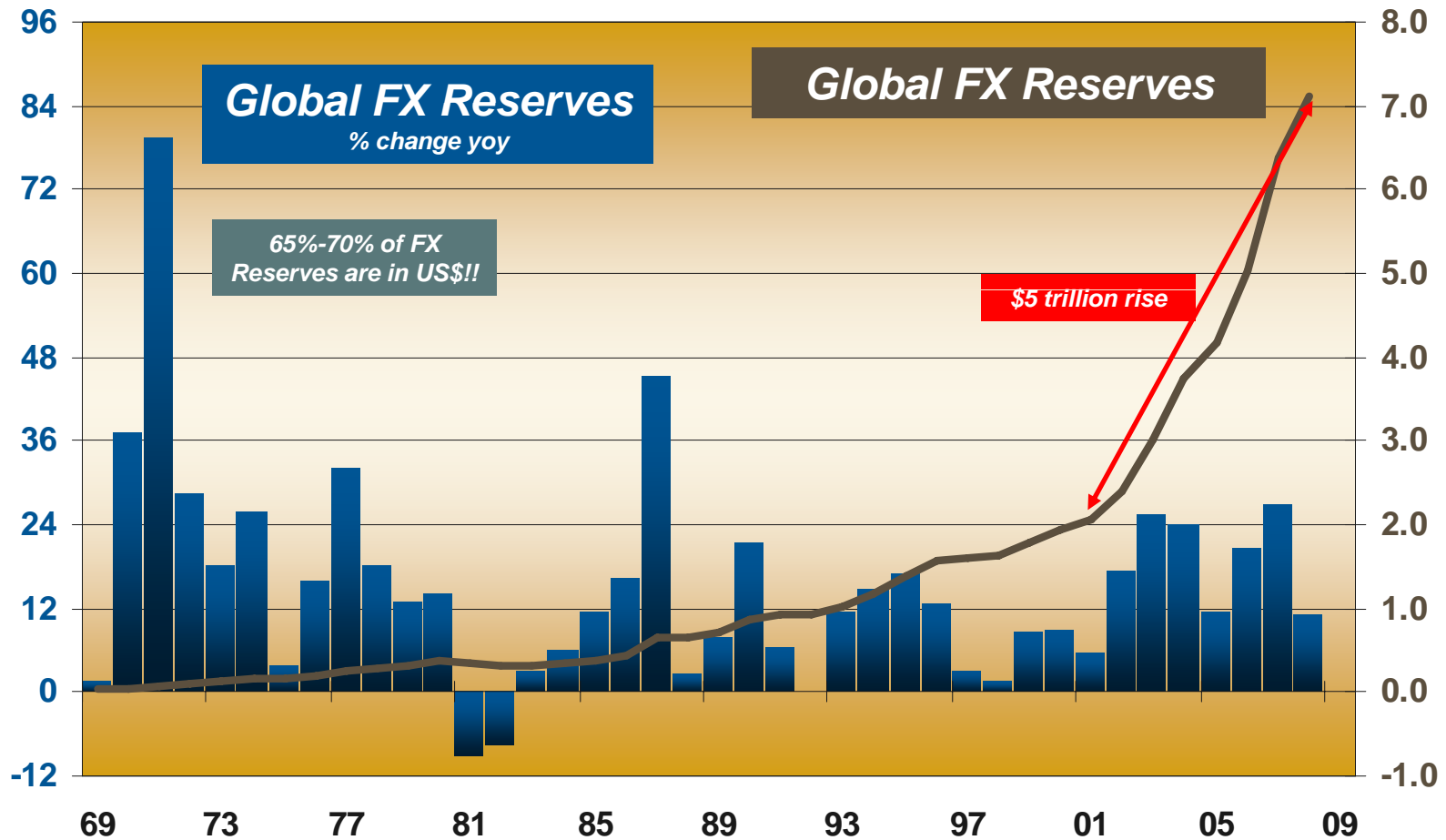
The Great Recession of 2009

Imbalances are always exposed by rising rates



The Great Recession of 2009

\$5 trillion FX reserves were recycled



Source: IMF

The Great Recession of 2009

16 countries hold a collective \$5.1 trillion

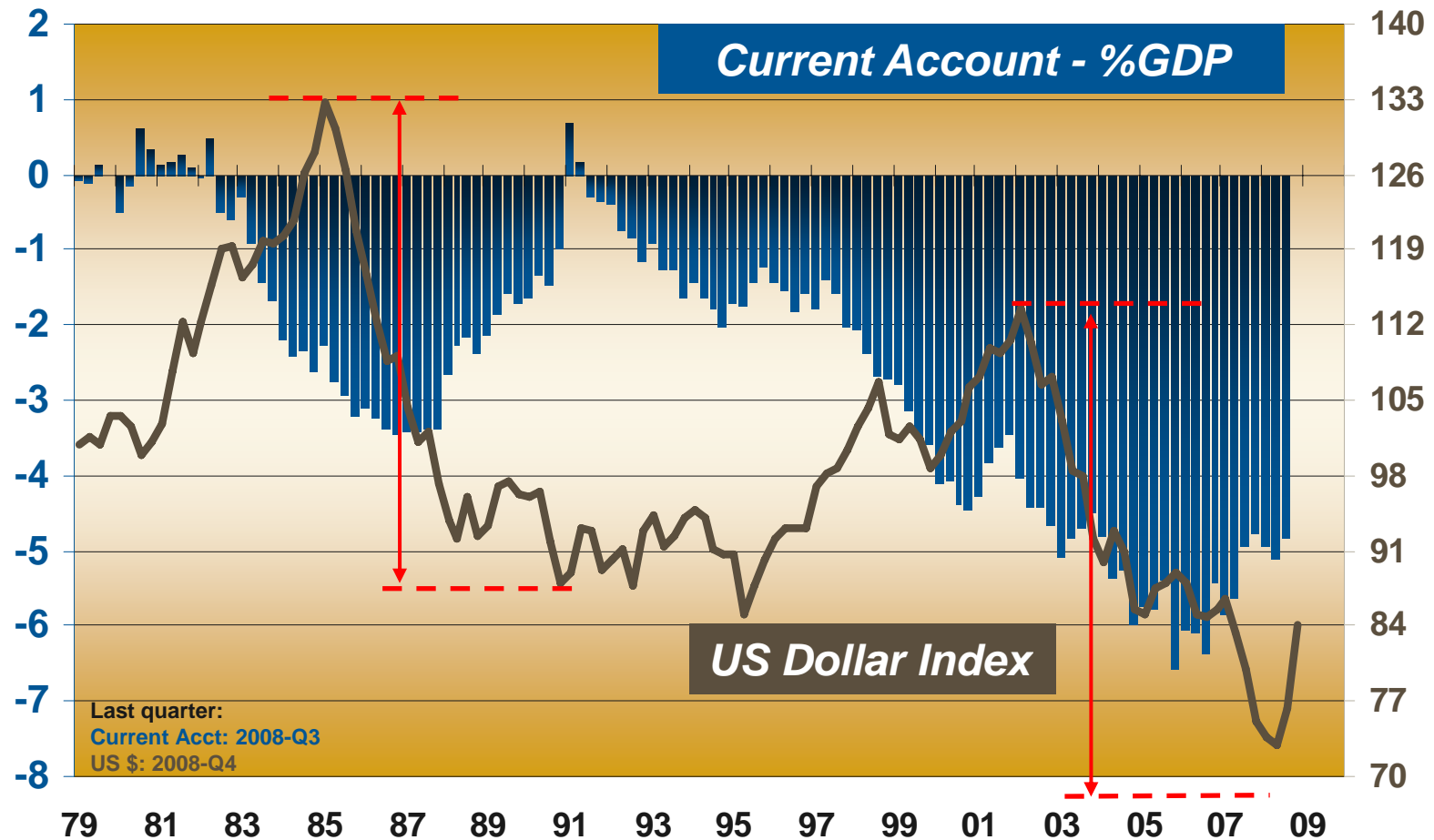
Foreign Exchange Reserves ***(countries over \$50 bn)***

	bn\$		bn\$
China	1756.7	Hong Kong	154.8
Japan	977.3	Algeria	138.3
Russia	441.4	Thailand	103.8
Taiwan	280.7	Malaysia	96.8
India	239.0	Libya	96.1
Korea	211.8	Mexico	87.5
Brazil	193.8	Poland	71.0
Singapore	177.5	Turkey	70.5
			5096.8

Source: IMF - IFS January '09

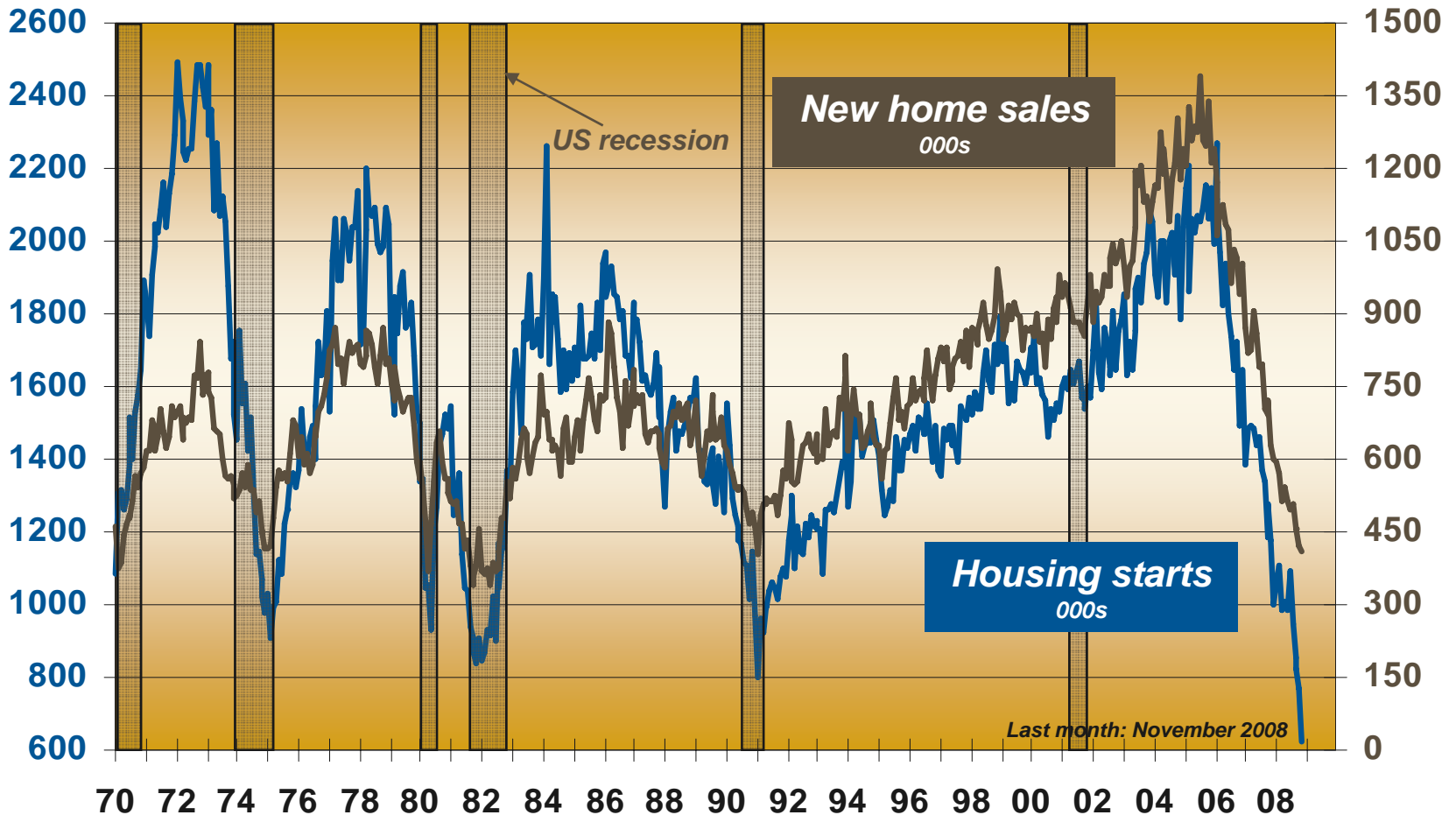
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US deficit the visible sign of imbalance



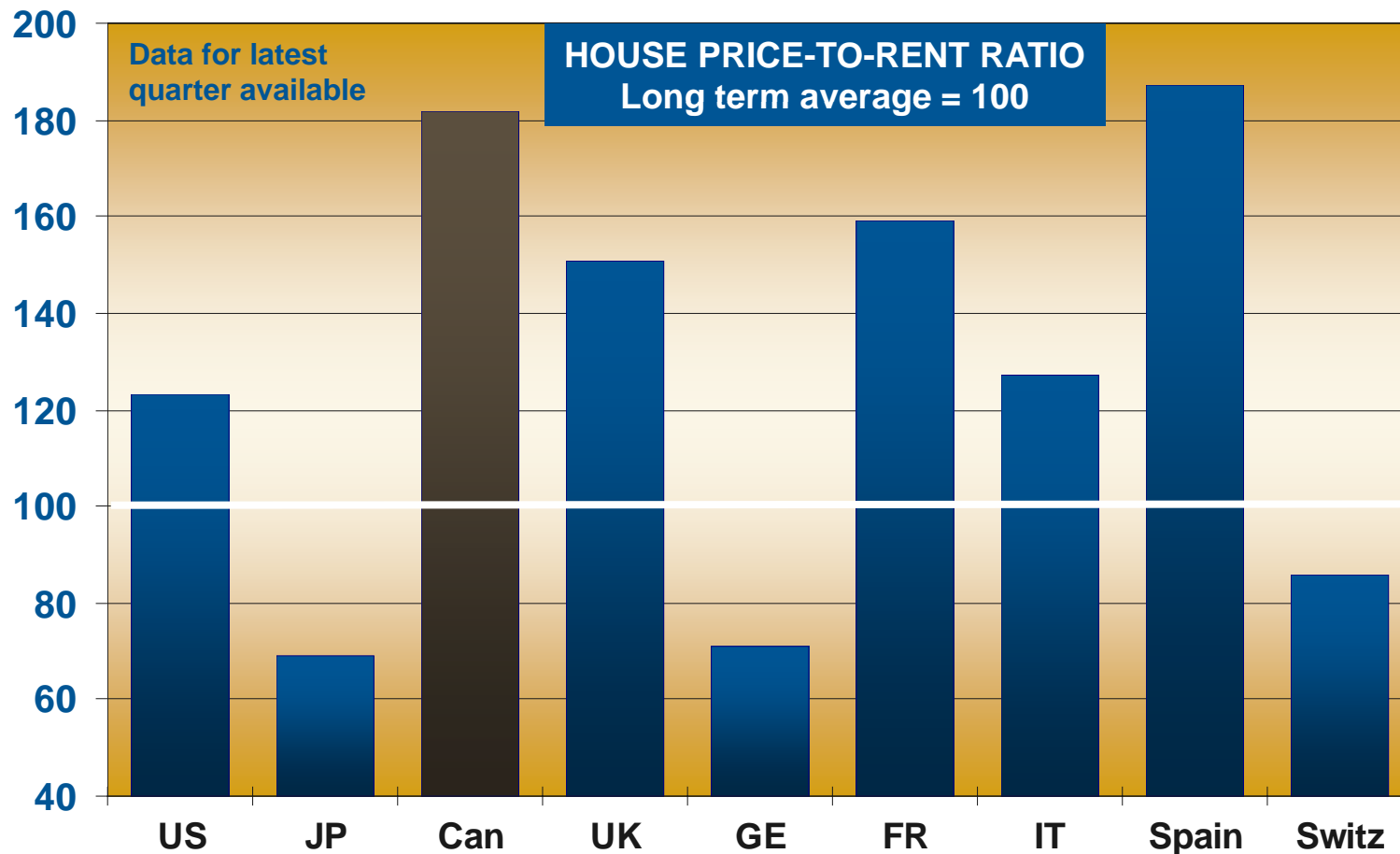
The Great Recession of 2009

Housing market exposed the greedy recycling process



The Great Recession of 2009

House prices blew up (almost) everywhere ...



Source: OECD Economic Outlook – November 2008



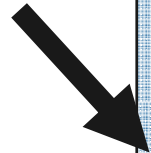
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The Great Recession of 2009

The “Depression spiral” now looms large ...

1. *A period of exuberant over-investment leads to*
2. *... excess supply, which leads to*
3. *... deflation in asset prices, which damages*
4. *... banks balance sheets, which leads to*
5. *... bank failures and*
6. *... a massive credit contraction, which leads to*
7. *... a collapse in demand, which causes*
8. *... production to contract sharply, and*
9. *... unemployment to surge, which leads to*
10. *... more excess supply, which ...*
11. *... go back to point 2 and repeat ...*

Where we are



The Great Recession of 2009

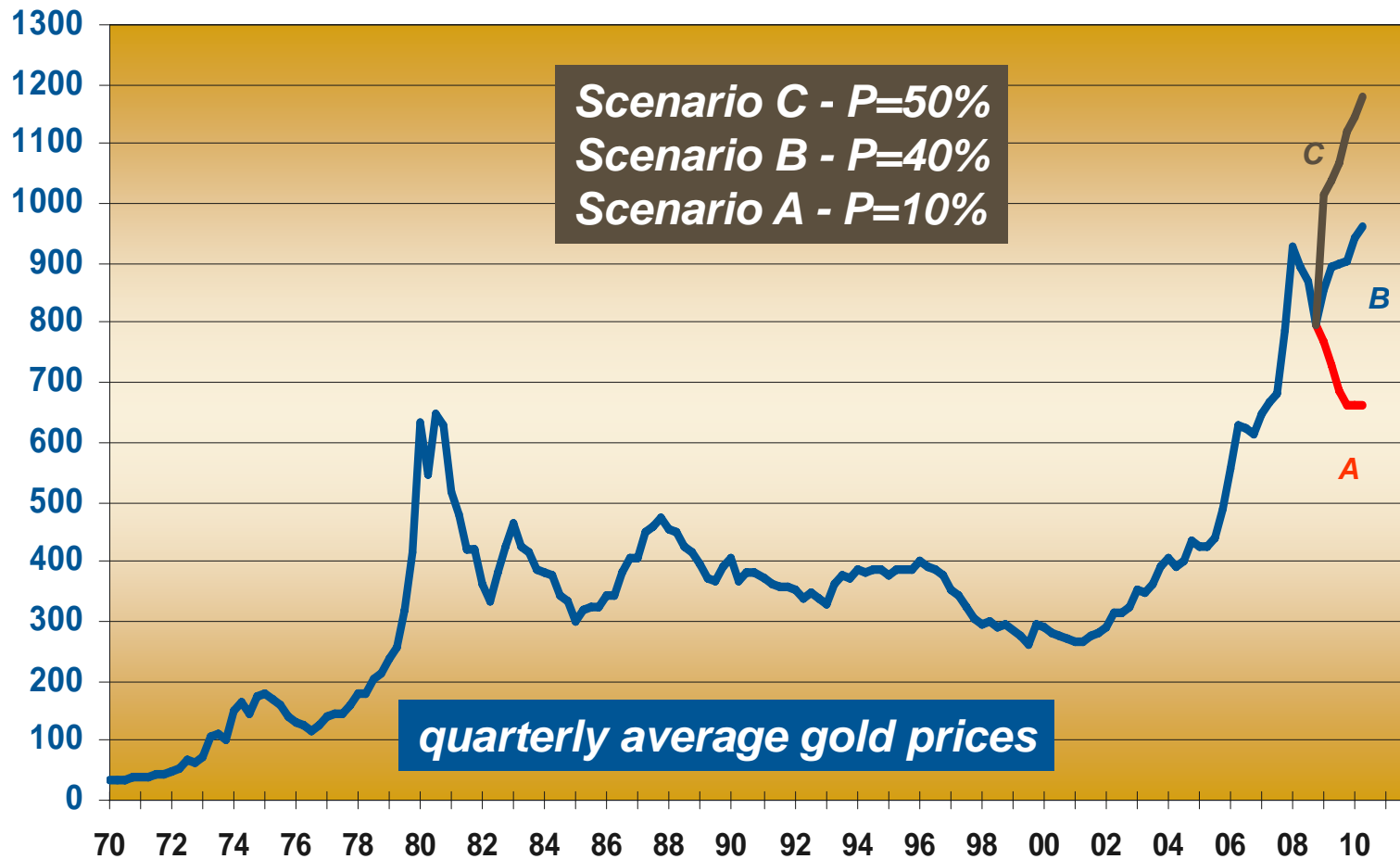
Policies required to stop the “depression spiral”

1. ***Massive boosts to demand – to soak up excess supply***
 - *This is the Keynesian prescription – fiscal deficits will accordingly rise substantially!*
2. ***Significant monetary policy easing – to arrest bank failures and counter credit contraction***
 - *This is the Friedman prescription – monetary policy will accordingly remain extremely relaxed*
3. ***Currency devaluation***
 - *Currencies will have to adjust to help restore international balance (this was the lesson of the rigid gold standard system)*
 - *Devaluation helps fight domestic deflation*



Gold Price Forecast

Reflationary policies generally very good for gold



quarterly average gold prices

Scenario C - P=50%
Scenario B - P=40%
Scenario A - P=10%



Oil Price Forecast

The recession not good for oil prices

