

BE ALERT!!

EXPECT THE UNEXPECTED

Global Economy: Expect the Unexpected

In his first appearance with us, Simon Hunt provides a comprehensive overview of the risks inherent in today's global economy. A fact that is not given the attention it deserves by most geopolitical experts in the West.

Simon Hunt

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Introduction by Peter Hanseler

Whenever I am in Dubai, I have dinner with Simon.



Simon Christopher Brook Hunt

Simon has spent his working life in the copper industry, having been educated in England and Belgium. He has traveled extensively, including Burma, China, Thailand, Indonesia, India, Sri Lanka, Russia, parts of Africa where he lived for a number of years, the USA, Canada, Chile, Brazil, etc. and now lives in Dubai.

He first visited China in 1993: every year until 2020 he has visited about 80 factories in about 50 cities and now speaks regularly with business friends in the country.

In putting together his work on copper, he has had to have independent views not only on the global economy but also on geopolitical developments, the latter being an interest fostered by his father.

He produces regular reports on the global economy, China, the copper industry and geopolitics and has a newsletter which can be found at simon-hunt.com.

He can be contacted at simon@shss.com or at his website for Simon Hunt Strategic Services.

It is a great honor for us that he was willing to publish his current views on the economic state of the world.

Global Economy: Expect The Unexpected

"The US labor market is not in equilibrium, or anywhere close to it...If current trends persist, labor demand will fall short of supply by the end of this year or in early 2025. At that point unemployment will surge."

BCA RESEARCH, 22ND AUGUST 2024

"Fed rate cuts will help at the margin, but they will not prevent a recession. In fact, a decline in mortgage rates could prompt more homeowners, who were previously locked into low-rate mortgages, to sell their homes. While this will eventually make housing more affordable, it could exacerbate the cyclical downturn by reducing household wealth and eroding the collateral on bank balance sheets."

BCA RESEARCH, 22ND AUGUST 2024

"For the Treasury Market, Powell's speech was a nothingburger. A Sept rate cut has been priced in since the Aug 2 jobs report."

WOLF RICHTER, 24TH AUGUST 2024

"China's bank loans to the real economy contracted for the first time in 19 years, a grim milestone that underscores why weak domestic demand has emerged as a major hurdle to the economy's growth and recovery. Yuan-denominated bank loans that exclude those extended to financial institutions shrank by 77 billion yuan at the end of July from a month ago, according to data released by the PBOC. That marked the first drop since July 2005, as more debt was repaid than taken out."

BLOOMBERG 13TH AUGUST 2024

"Paradoxically, communist China has been encouraging its people to buy gold for over two decades, in order to build a politically stable, more self-sufficient domestic consumer class. Paradoxically, because 'capitalist' US has been encouraging its people to sell gold and buy US government debt

as its savings so that the government can more easily steal its people's real purchasing via inflation...."

LUKE GROMEN, 23RD AUGUST 2024

"Interestingly, the recent peak in the Dohmen Money Flow (mid-May 2024) was made exactly 3 months ago. That would suggest an internal market top is being formed. What's worse for the broader market? The volume over the past 3 weeks has declined steadily while the NYSE has climbed to a new record high. That is yet another bearish signal. The action now is typical of the 'last hurrah' that we forecasted would occur in late August back in early June."

BERT DOHMEN'S WELLINGTON NEWSLETTER, 25TH AUGUST 2024

"The role of the United States and other NATO allies in planning and supplying Ukraine with intelligence, weapons and some troops (in the form of 'mercenaries' is a 'Casus Belli'. Pure and simple."

LARRY JOHNSON, SONAR 21, 20TH AUGUST 2024

"Ultimately, the message that western services sent was that the West (NATO) is coming for Russia. This is the meaning of deliberately choosing Kursk, Reading the runes of Bill Burns message says prepare for war with NATO.... What it did do however is put an end to all prospects of an eventual negotiated settlement in Ukraine. Distrust of the of the US in Russia is now absolute. It has made Russia more determined to prosecute the special operation to a conclusion. German equipment visible in Kursk has raised old ghosts, and consolidated awareness of the hostile western intentions toward Russia. 'Never again' in the unspoken riposte."

ALASTAIR CROOKE, 26 TH AUGUST 2024

"All the drones launched from the Bekka crossed the Lebanese-Palestinian border safely towards the specified targets. The specific military targets were the Aman military intelligence base and Unit 8200 in 'Glilot' and the other target was the air defense base in 'Ein Shemer'."

SAYYED HASSAN, HEZBOLLAH LEADER, 26TH AUGUST 2024

Summary

- Wars change structures and market timings; and a real war risks breaking out before September in Europe.
- Big money as well as central banks are sniffing out this high risk and are thus preparing for it by flooding their systems with liquidity.
- They also note that America, Europe and Japanese economies are losing growth momentum and likely to shift into recession soon, so a combination of war and recession risks requires contingency planning.
- As a result, equity and base metal markets will continue moving higher into late this year or early next. The S&P should reach around 5900 and copper about \$11,500, the latter having nothing to do with EVs, Renewables and Data Centers but to the demands of war and the unfolding inflationary scenario.
- The second and larger war risk is in the Middle East at a time when a new US Administration will not have got their feet fully under the table as we can best guess at the moment.
- It is this war that will send oil prices to \$150+ causing more pain in Europe and Japan than in America. But global supply chains will be disrupted and logistical costs and those of intermediate goods (plastics) will increase sharply.
- Despite prior central bank liquidity injections business activity will slow sharply, recessionary signs will reappear, and markets will tumble. The S&P should fall below 5000 and copper to around \$6000 during 2025.
- Once more central banks and governments will be forced to come to the rescue by more money printing and fiscal stimulus which will only create more inflation together with the US dollar collapsing.

- These developments should see equities such as the S&P and base metals such as copper reach around 6500 and \$14,000 respectively by 2028/2029 from where large corrections will occur as the economic and political environment becomes even more difficult.
- One of the reasons why America and its allies is waging war on Russia and China who head up the BRICS group of nations is that China and Russia are linking their currencies to gold and with Russia valuing oil in gold terms.
- The US dollar is grossly overvalued versus gold. Because the CNY is floating against gold if America wants the USD to fall against the CNY, then America must adjust the gold price to mirror its long-term ratio to gold. This seems to have been happening since Yellen was last in Beijing.
- What Russia and China are doing together with the rest of BRICS members is a threat to America's hegemony and the dollar's domination of global payments and investments.
- War is one means of retaining their global power if they can. The bottom line is that by the end of the decade the US dollar will have halved in value with other 'fiat' currencies such as the Euro, Sterling and the Yen rising sharply which will cause other problems for those countries. The rise in these 'fiat' will not be for fundamental reasons but purely the opposite mirror of the USD. All remain 'fiat' currencies

Background

Not only is the risk of conflicts in Europe escalating into open war between NATO (USA) and Russia and between Israel/US/UK and Iran, but most of the world is on the point of falling back into recession by end-2024.

Incoming data in the USA ranging from employment to durable goods orders, to consumer sentiment, to real retail sales (adjusted for inflation), to surging corporate bankruptcies, to weak NFIB small firms' optimism index and their outlook findings being the worst in 50 years are signals that America will be in recession by year-end if the country is not already in one.

Consumer spending accounts for 68% of GDP. Yet consumer sentiment hardly suggests an economy growing at 2-3%. For instance, according to the University of Michigan's survey of consumer sentiment for July 2024, sentiment fell sharply as follows:

July 2024 66.4

June 2024 79.0

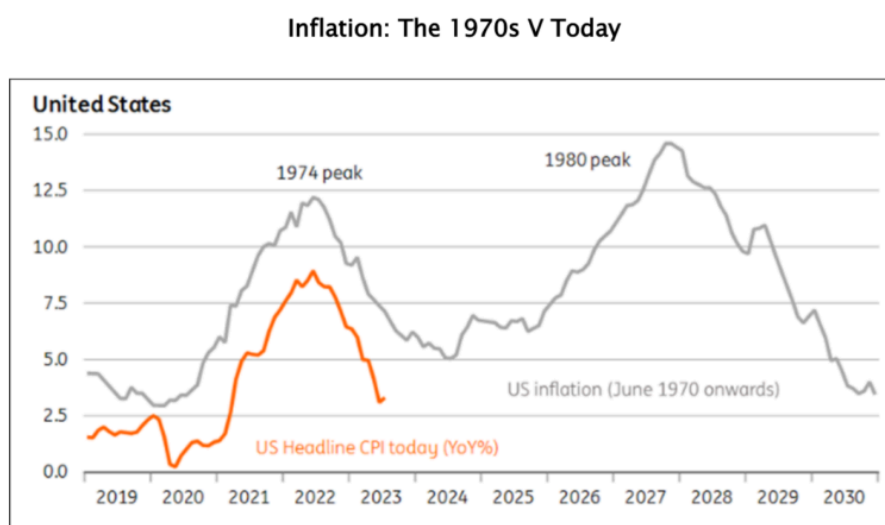
July 2023 71.5

That is a 7% fall year-on year and a 16% decline month-on-month.

The causes are probably twofold. First, sentiment falls when households see that their neighbors have lost their jobs and thus grow cautious in their own spending. Second, the CPI is and has been for years a flawed data series designed to make households feel that inflation is lower than what they experience as we explained in a recent report.

Weak demand may cause food prices to temporarily fall. Temporally because oil prices should rise sharply next year (see later) which will affect the cost of moving goods and people around the country and the world and will impact a whole range of intermediate goods like plastics.

Figure 1:



Inflation: The 1970s vs. Today

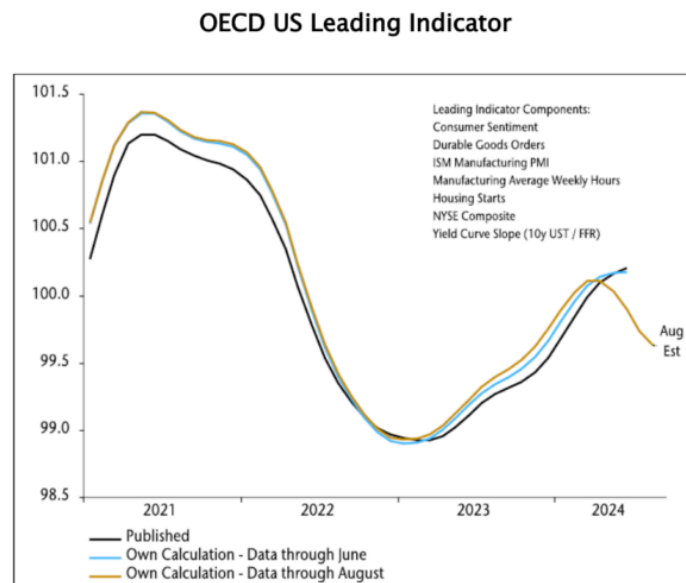
As we said in our report of 19th August inflation is and will continue to follow a similar path to what some of us experienced in the 1970s.

Too often analysts assume that the laws of recessions have been repealed and that economic activity, stock and base metal markets can rise continuously almost forever. That is not how the world works: economic activity is always interrupted by recessions even though government's adherence to debt instead of productivity has increased the timespan between recessions since 1990.

Since 1949, in the USA the average year's span between recessions has been 5.4 years. But when there has been a long period of growth – 8 years or above – not only is the recession deeper but the time- span averages 4.5 years.

The last recession was in 2020. Not only will America most likely be in recession BY year-end but historically it is due for one.

Figure 2:



Source: Simon Ward, Money & Cycles Weekly

Another way of looking at the US economy marching into recession is to see the first sharp fall based

on four of the seven components of the OECD's leading indicator since mid-2022.

Whoever is in the White House after November's election will be facing a dire fiscal situation. The

Federal Government spends more than the revenue it receives; last year all of \$1.7 trillion or 39% of its

revenues.

Federal Government 2023

Revenues \$4.4 trillion

Spending \$6.1 trillion

A major consequence of America's addiction to debt is that it takes America more debt to produce every dollar of GDP.

Figure 3:

Trillions of Dollars

Year	US Public Debt	US GDP	Debt per GDP
2024E	\$36.0	\$28.0	\$1.3
2023	33.2	27.4	\$1.2
2020	26.9	21.3	\$1.3
2010	13.6	15.0	\$0.9
2000	5.7	10.3	\$0.6
1990	3.2	6.0	\$0.5

Source: Government data

Part of the problem is demographics or the ageing of American society. The large baby-boom

generation is starting to retire as follows:

Demographics – 65+ Years – Millions

2010 40.5

2020 55.8

2030 71.2

2040 78.3

2050 82.1

The bulk of the retirees is occurring now until 2030.

Medicare is another issue when Medicare costs per person are compared with other G7 countries. For instance:

Healthcare Costs Per Person – USD

What worries some foreign holders of US government debt is not just the trajectory of the debt but the unfunded liabilities of the government. The following data is produced by an organization called Truth in Accounting.

Unfunded liabilities

Trillions of Dollars

Government Assets	5.4
What US Government owes:	
Unfunded Medicare Promises	–66.2
Unfunded Social Security Promises	–50.3
Publicly Held Debt	–26.3
Pension & Retiree Health Care Liabilities	–14.3
Other Liabilities	–2.2
Total Bills	–153.9

Until foreign government holders of US government debt see a fundamental change in policy to 'make ends meet' and given that the fall in government's CPI is transitory, foreign holders will continue to sell down US debt. By 2030 it is quite likely that the US dollar index will have halved in value from today's level. This means that the other Fiat currencies such as the Yen, Sterling and the Euro will rise versus the US\$.

The one currency that will retain its value whilst all the others are falling will be gold.

America and other G7 countries are wedded to debt driven economies which infers that their unit of account is a 'Fiat' currency. China, as Luke Gromen's earlier quote infers has taken an opposite tack by linking their currency to the price of gold, as probably Russia has done as well.

Based on Alastair Macleod's analysis the Chinese government through its ministries including the PLA has around 25,000 tons of physical gold produced and imported since around 1950 as well does its people own another circa 25,000 tons bought off the Shanghai Gold Exchange (SGE) since its inception in 2002.

This year Beijing has encouraged households to purchase physical gold by setting up a platform whereby households can purchase physical gold directly from the SGE through their bank accounts and even on an instalment basis.

Luke Gromen, the editor of FFTT Tree Rings adds an interesting twist to China's currency. 'We have repeatedly highlighted that China is floating the CNY against gold and that the CNY was down 30% vs. gold from mid -2023 to January 1, 2024, and that the CNY is now down 55% v gold since mid-2023.'

He produces another twist to the gold story, writing, 'China likely told Treasury Secretary Yellen and her colleagues that 'if you want the USD to fall v CNY, then you need to let the USD price of gold rise a lot, because the USD is wildly overvalued v gold – the long-term average of the market value of US official gold as a % of foreign held USTs is 40%. Today at \$2500 that ratio is just 8%'.

One day China will announce that its currency is supported by the physical gold which its people own.

Russia is probably following China's policy of linking their currency to gold as well as their oil price.

Russia holds at least 12,000 tons of gold.

Since Yellen's visit to Beijing, the price of gold has risen sharply.

The currency battle between the Fiat currencies of America and her allies against those two countries China and Russia heading the BRICS group of nations is part of America's war against these two countries. Should the US dollar lose its dominant role in the global payment and investment system it will be the beginning of the end of her hegemonic status.

To sum up our views, global markets are living in a reverie that all is well with the world: inflation is coming down, the Fed and other central banks are cutting interest rates and central banks reversal from QT to QE will ensure that global growth together with equity and base metal markets will kick-on higher.

The consensus view is that it is time to go long of economic growth and equities, bonds and base metals.

Or is it because we should be aware of expecting the unexpected, one of which is that the world is experiencing a very dangerous political and social period. What happens if conflicts escalate into wars either or both in Europe and the Middle East.

Wars change everything. Old money is sniffing out that wars either in Europe or the Middle East will break out quite soon.

This changes the profile of where equity, base metal prices and bond yields are going. In a nutshell:

- Equity and base metals will defy recession as a military syndrome supersedes fundamental analysis.
- This means no significant correction until late this year or the early months of next year. S&P for instance rises to around 5900 and copper to around \$11,500 by then. For copper the rise will have nothing to do with renewables, EVs, data centers but war needs.
- Wars and the consequences of war then hit markets hard with S&P falling to under 5000 and copper to about \$6000.
- By the end of 2025, central banks and governments will unleash a tsunami of credit to float the 'fiat' currency system off the rocks whilst China, Russia and the BRICS group of nations more formally link their currencies to gold. The big crash into rolling recessions/depression won't start until the 2028-2030 period.

Geopolitics or The War Syndrome

Wars have been an integral part of history. Between 1823 and 1939 there were 19 large wars with a major conflict starting every 6.2 years. Between 1914 and 1939, 10 large wars broke out about one every 2.7 years. Then between 1945 and 2003 there were only 5 large wars or about one every 12.8 years. Is this period of long peace about to change?

America has long wanted to dismember Russia to gain control of its natural resources ever since 1991 and perhaps even earlier and to control 'The Heartland' as Halford Mackinder wrote in 1904, 'He who controls the Heartland controls the world'

Ukraine/NATO v Russia

NATO envisaged Ukraine as a steppingstone into Russia. Having trained and equipped an army of around 400,000 and built defensive positions around Donbass etc. they believed that they could defeat Russia should Russia step into Ukraine to defend its people in the Russian territories within Ukraine.

Those hopes have not been realized as Russia is defeating the Ukraine army supported by NATO with special forces, equipment and satellite imagery.

Instead at some point in the second half of 2023, NATO's focus changed from using Ukraine as the steppingstone into Russia to starting to prepare for a war with Russia by the deployment of troops and military equipment into countries surrounding Russia.

In early May, NATO held a meeting in a Baltic country to tell member governments that they were preparing to attack Russia and that they should prepare their people for it. These governments decided not to warn their populations.

Ukraine's invasion of the Kursk Oblast region of Russia with a total force of 20-30,000 troops including special forces from NATO member countries and equipment from them including German tanks marked with Swastikas crossed the ultimate Red Line of Russia's.

The consequences on these troops, on Ukraine and on some NATO countries will be fierce. In Kursk, all the invading force will be killed; their lines of retreat have been cut-off. Now there are suggestions that Kiev may attempt to sabotage the Kursk nuclear power station in an operation where they would blame Russia. Russia will destroy any drone or missile or a renewed land invasion before they reach the nuclear plant.

Outside their country, Russia has embarked on retaliatory missions to destroy Ukraine's key infrastructure and probably then to destroy all of NATO command and control posts and bunkers both within Ukraine and ultimately in countries surrounding Russia. This would include Romania where the F-16s are based.

For Russia, the gloves are off. A new phase of the war with NATO has begun. There cannot now be peace negotiations. Ukraine won't survive as a nation state. Gone will be a country half controlled by the West but one essentially becoming a province of Russia as an outcome of this escalated war. Gone too will be the circa \$4 trillion for rebuilding the country and owning the fertile land that many in the west were trading against the costs of war.

In fact, remarks made by Russia's foreign minister Lavrov mark a fundamental shift in their policy on the war in Ukraine which portends a dramatic escalation of the war should the West ignore Lavrov's message.

His key points of his message were:

- Russia's doctrine on the use of nuclear weapons is 'currently being clarified'.
- Kiev's demands for the West to permit Ukraine using Storm Shadow missiles to strike Moscow and St, Petersburg are blackmail and will be met with force.
- Russia will not be swayed by a peace summit with Ukraine in a global south country if it follows the same logic as the first one.
- If the West is interested in resolving the conflict in Ukraine, then negotiations need to be initiated.

Our best guess is that Russia will continue its retaliation as set out above. Will NATO respond by coming to the assistance of Kiev in their direst need? Quite likely before the end of September this year. A de facto war then becomes a real war before November.

Middle East

Israel's hidden agenda is to drive all Palestinians out of Gaza and the West Bank. The country's Founding Fathers, the UK and America (the Balfour Declaration) will never abandon Israel. The peace proposals now being pushed by America have a slim chance of succeeding. The war in Gaza will continue.

Hezbollah's actions have forced some 80,000 settlers along the northern border of the Golan Heights to be evacuated. This has meant that Israel has de facto lost around 250 square miles of territory.

Israel knows that there can be no lasting peace with Hezbollah. For the moment Hezbollah does not want to escalate the war. Decisions are being made jointly with Iran, Hamas, Iraq and Houthis when decisive actions should be taken. They probably involve advice from Moscow.

Israel's large-scale bombing of Hezbollah in Lebanon did very little damage as missiles had been removed from the known sites.

Hezbollah's attack on Israel caused considerable damage. The attack from the Bekka Valley was aimed at military targets that included the Aman military intelligence base, Unit 8200 in 'Gllilot' and the air defense base in Ein Shemer. The military base

was hit 11 times. All reporting of damage inflicted by the attack was banned.

For the time being both Israel and Hezbollah have settled their accounts, so it is back to the war of attrition, that is until next time.

In Israel's view and many on the Hill in Washington call Iran is 'the Head of the Snake'. Iran has not yet retaliated from the assassination of Hamas's leader in Tehran where he was guest of the government attending the celebrations for the new president.

Iran will retaliate in their own time and at their own target. Preparations are and have been made in case the country is attacked. Plane and ship loads of military equipment including sophisticated electronic jamming equipment and S400s are and have been sent from Russia plus the technicians to operate the equipment.

The country has a high inventory level of sophisticated missiles embedded deep in the mountains across the country.; and the Straits of Hormoz has been mined with explosives. The country has warned America that should they be attacked, that Iran would strike at America's military bases across the region.

On the other hand, America has placed nearly half of its navy in or around the Middle East including a nuclear submarine and two aircraft carriers.

The big question is this force placed in the region to act as a deterrent to Iran retaliating or is it an offensive force or indeed both. Iran has stated that it does not fear America's or Israel's forces which its attack on Israel in April revealed.

Trying to guess by putting all the dots together whether Iran attacks first or Israel supported by its allies does may not take place until next year. It is then that oil prices soar, and markets correct sharply.

ARTICLE TAGS:

Analysis Johnson, Larry Lavrov, Sergey Powell, Jerome Yellen, Janet BRICS G7
Hezbollah Hamas