Funding the Future

Clueless markets traded by automatons in search of a co...

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Three ideas struck me form my reading of the FT this morning. First, Mark Carney is still talking about the 'normalisation' of interest rates.

Second, Martin Wolf points out how improbable this is despite pointing out that:

Ten-year US Treasury inflation-protected securities (TIPS) yielded 0.6 per cent in late September, while even 30-year TIPS yielded just 1.3 per cent.

And that:

According to Andy Haldane, the Bank of England's chief economist, these are the lowest real interest rates for 5,000 years.

In other words, we're not living in anything that might be described as 'normal times', from which Wolf thinks we can only hope for escape in growth terms by the creation of another credit boom, most probably in the USA, which requires that rates remain low. I think he has little faith in the chances of that happening.

Third, Gillian Tett (in easily the most interesting article) notes that since the 2008 crash a weird tendency has developed in all asset markets that they rise and fall in close correlation with each other. This has not been the long term trend, and is a characteristic only usually found in periods of great stress. She admits the causes are not wholly known, but maybe excess QE cash coup;led with integrated modern risk management that can reallocate capital quickly between markets are factors.

What really matters is the consequence: what has been created is a risk transmission mechanism that means there are no safe havens in the event of a down turn. So if copper prices fall so are other asset prices likely to do so. The implication is obvious: no one is immune from crashes in that case. We not only have globalisation, we have universalisation (my word, not Tett's).

Put it all together and what do we have? Clueless markets traded by automatons in search of a consistent dream that something still might happen to restore their faith in rentierism. It's not pretty.

No wonder I say it is time to think outside the constraints of the current markets. The solution is very obviously not within them.