



*June 22<sup>nd</sup> 2016*

*Let the games begin! Is this Europe's shoot-out at the OK Corral? Global elites do not have a clue! Are we living in a tabloid – celebrity world fantasy as poverty in advanced economies skyrockets? Federal Reserve good for some light relief – reminds author of “Mad” magazine of his youth!*

*We shall celebrate today the solar solstice – shall we ask the druids about the UK – EU vote result? What if the result is uncertain – get ready for some heavy trading!*

**Caution as the UK-EU race nears its end!**

*We are seeing caution as the race nears the final stretch – with continued dissonance between the polls on one side and – betting companies and financial markets on the other. While putting on a show of confidence in a “remain” victory, nervousness is running high in the – albeit, decaf lite – Pro-EU contingent.*

**“Experts” keep lecturing UK voters – is this counterproductive?**

*There have been more appeals from the “experts” so derided by the “split” partisans and most important an impassioned appeal by Cameron himself. The spontaneous intervention from abroad continues without cease – warning of grim consequences should a majority opt for out. They have been threatened with everything except for a plague of locusts!*

**Not everybody lives in multi-million pound homes!**

*What we see as amazing is the extent to which the UK elites underestimated the groundswell of support for the “leave” vote. Opinion has been so drugged with a tabloid world of multi-million pound homes that those slogging it out at the bottom of the income scale have been “tipplexed” out of the picture!*

**In this the UK is following the trend being set in all countries where income and wealth inequalities are exploding. We are rapidly reaching the point where to lead an ordinary life you have to be extraordinary!**

**Is this “The fire next time”?**

*As we have often said and citing James Baldwin’s excellent book – this is not only about the vote tomorrow – this is also about “The Fire Next Time”. A victory shall potentially unleash break-up forces last seen in Eastern Europe in 1989 – 1990.*

**With populism – simple solutions to complex problems – on the rise, the tendency to both find scapegoats – immigrants and EU rules- shall have been legitimized.**

**Cameron shall attempt Brexit light – we doubt that this shall work – The US is not New York and London is not the UK**

*Should the leave camp lose by a narrow margin, this shall scare the living daylights out of the smug mighty and powerful. There shall be a “Brexit light” with attempts to reduce immigration – which is what this whole story is about.*

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***We see this situation as becoming more acute as immigrants – often from countries with far stricter educational standards – start to compete for higher wage jobs.***

***EU + Eastern Europe = NAFTA + Green Card***

*Will limiting benefits discourage new arrivals? We heavily doubt this as long as wage differentials comparable to those between the US and Mexico persist. The EU mutated from a free trade grouping of comparable economies to NAFTA + green card.*

***The core issue is not about employment and not even about wage increases – opportunity cost - but about culture shock. Will this problem be solved by secession? What does the support by the leader of France's National Front for "leave" tell us about the trend?***

***Investors positioning for new "Battle of Waterloo"***

*With regard to today's markets, we are seeing little change as investors position for what might be the next "Battle of Waterloo". The pound and global stocks are now marching in lockstep reflecting changes in systemic risk perceptions.*

***"Remain" victory little upside for global growth – Apple will no spend all of its cash!***

*We see as key that a "remain" victory shall have little upside for global growth – with the fundamental problems still firmly in place. Overcapacity, excess debt levels and overcapacity are not going to just fade away. It is unlikely that Apple and the other holders of US Dollars 3 trillion in cash shall go on a spending spree based on a "remain" victory.*

***This is a classical populist alliance!***

*We see little real upside to a confirmation of current forecasts of a "remain" victory and a lot of downside should a classical populist alliance of mostly right wing politicians and the new "damned of the earth – great displaced" triumph.*

***The author of these notes remembers well from his youth, how the neo-fascists in his home town of Rome used to "clean-up" in the richest neighborhood in town and the "neo-realist" barrack cities of the outer suburbs.***

***Focus on the Federal Reserve***

***Some light relief and distraction!***

***Is this "Mad" magazine's "Lighter Side of Central Banking"?***

*World coming to its senses or have they been listening to Janet Yellen? The head of the Federal Reserve is confirming our views on the US economy – it is basically going nowhere! The hiring collapse was not a statistical blip and productivity growth – not surprisingly in an increasingly low wage services driven economy – is quasi extinct.*

***US central bank shall not raise interest rates – not right now!***

*The central bank shall remain cautious in its monetary policy – sounds promising! The only surprise is that the tone is more measured and less reminiscent of a pep rally at a junior varsity basketball game. Economic growth is slowing and there is no causal link between employment, wages and growth.*

***Most recent additions to US labor market – steadily falling contribution to productivity and growth***

*We reiterate our view that excess labor absorption in the US economy started with the most productive – knowledge economy workers – and is gradually working its way down in terms of wages and productivity. As in the case of monetary policy the major part of the benefit is “front loaded”.*

***Inflation expectations low – and they shall keep falling!***

*Inflation expectations have collapsed – what a surprise! We see deflationary pressures as almost unstoppable. Rather than the result of “dumping” – they are the product of the global economy leveraging unlimited supplies of labor – like a plantation economy – and free trade.*

***US economy shall be a safe haven market!***

*Our assessment of the US economy as being increasingly left to its own devices is confirmed by the emphasis placed on domestic demand – there is no Plan B. The US economy shall seal its place in the new global firmament as a safe-haven market – all it has to do is not collapse.*

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His career has spanned the complete range of macro risk analysis - energy / commodities with ENI - Global Fortune 500 17 - leading global natural resources group, capital markets with Swiss Bank Corporation (now UBS) and insurance / reinsurance with the A.M. Best Company. Jean contributes regularly to international media commenting on key macro-economic issues.

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## Research Highlights

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