Predictions for the Economy 2020

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Health Warning: These are only my personal assumptions and as with all predictions cannot be relied upon but they are based on my experience in politics and an understanding of the global debt crisis.

As an ordinary Joe with his feet firmly within the community I can see the hidden problems that are stressing the coping classes. These are already manifesting themselves with protests throughout the indebted West. People have eaten into their savings if not reliant on evermore debt to maintain living standards. There is very little savings buffer so Govts are faced with huge fiscal pressures to maintain the fabric of society.

For the US the Fed will make further rate cuts in the absence of Govt fiscal stimulus before the autumn elections. If the Fed gets towards nominal zero there will be financial chaos as fear of negative rates triggers serious stagflation. http://www.money-liberty.com/gallery/costofsafety.pdf

The Bank of England will make a small cut in tandem with the Fed post Brexit January 31st and may well introduce its form of 'Not QE' to maintain demand for UK Gilts to fund fiscal expansion as promised by the Conservative Govt.

The ECB will maintain QE that was restarted by Draghi in 2019. This may be extended to aid fiscal expansion under the cloak of a 'green agenda'. France and others will continue attempts at structural reform whilst pumping this money into the real economy.

Bitcoin will rise dramatically to break through the $20000 value once the Fed makes further cuts or Govt fiscal stimulus arrives. Gold will continue its trend to rise against the dollar and may break the $3000/oz level and much higher as central banks lose control of the stagflation. Without the buffer of substantial savings that can maintain purchasing power there is a danger that the stagflation could spiral out of control. This spells catastrophe for the bond market, pensions and other fixed income financial products.

This is the year that Main Street will see inflation taking off as fiscal stimulus feeds into wages. Govts in Europe and US states are already legislating for higher minimum wages with the consequence of significant bottom up inflation. Whilst Union power is not as significant we could have a wage spiral crisis similar to that in the UK during the 1970s. This time the whole of the indebted West will be vulnerable to inflation and we may reach the Minsky moment for fiat currencies where a new international Bretton Woods type agreement is reached for a gold standard currency. In this scenario gold could easily reach valuations beyond $10000*.

- This is based upon the fact that there is about 150 000 tonnes of gold above ground assuming a lower estimate of mined gold. However, due to the actual difficulty in verifying ownership and location of this gold we have to rely on official gold reserves in the possession of Governments which may be less than 50 000 tonnes. If gold reached $10000 per ounce the official reserves would amount to no more than $16trn – still just 20% of global GDP. At this value gold in Govt hands would be sufficient to cover global merchandised trade as detailed by the WTO (World Trade Organisation).