
WEEKLY MACRO

NOTES FROM OUR WEEKLY STRATEGY MEETING

20 OCTOBER 21

Forecast Review

- **In this weeks' Notes we decided to revisit the power of using money supply as a leading indicator**
- **We take a visual tour of our major forecasts from the last quarter of 2020 and earlier this year and compared these with the resultant outcomes**
- **We find that in general our methodology has been successful in predicting most of the major economic and market trends over the last year or so**

Economic forecasting

Clients typically choose our research for several reasons such as:

- Our approach brings a different perspective to that of the general body of economists and forecasters
- We have a focus on monetary variables which have become more "visible" since the episodes of money creation that have

followed the crises of 2008 and 2020 in particular

- We seem to have been be able to get the big picture broadly right

Feedback we receive tends to focus mostly, however, on the latter of these three factors and in this context we present a brief pictorial review of our forecasting record over the last year or so.

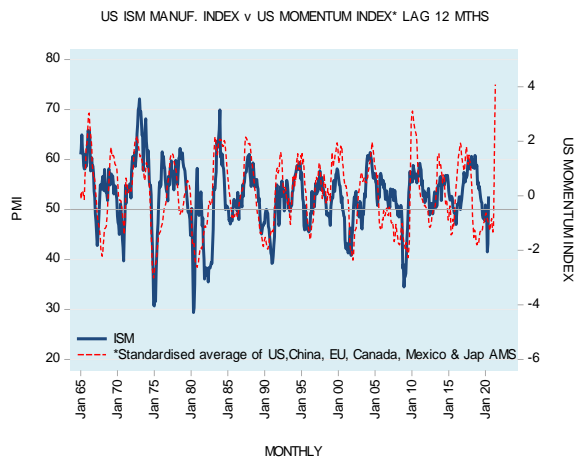
The approach is simple: we show our graphical forecasts for a number of key variables made earlier and we compare these with the real-world outcomes that we see today. The reason we have selected this roughly 12-month window is that many of our indicators are based on lags of around this magnitude between changes in the growth rate of Adjusted Money Supply (AMS) and subsequent changes in the target variable. Of course this lag is not uniform and can change from time to time, but many of our country and market analyses use this lag.

Output indicators

We begin with a focus on various output measures and the format is to show the visual forecast made in August of 2020 followed by the actual variable as it has evolved from then to the present.

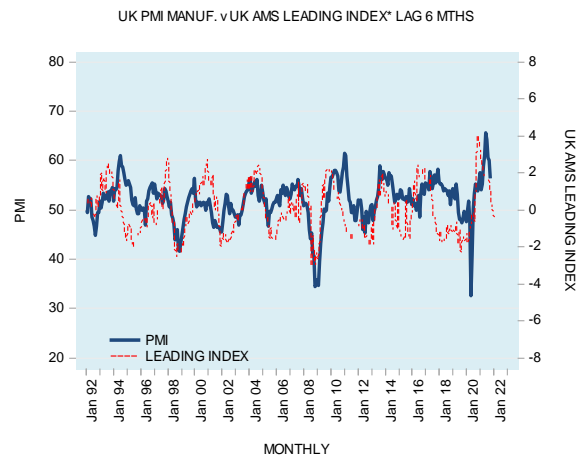
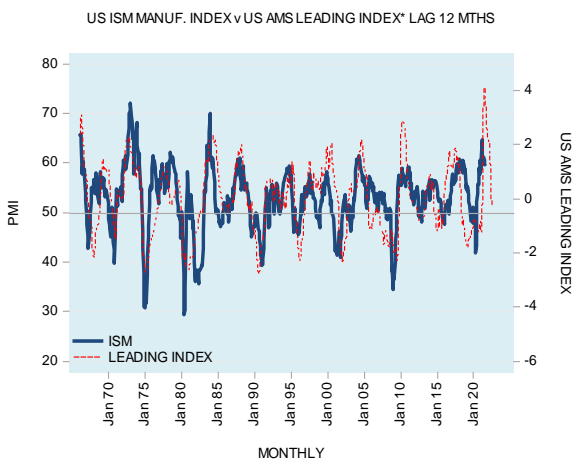
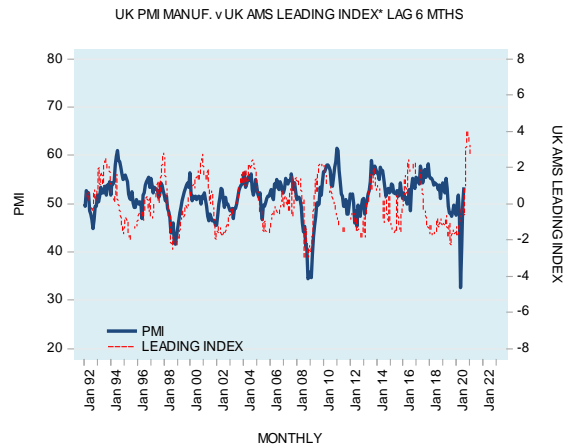
US manufacturing PMI

Below are the two charts of the US manufacturing PMI against yearly changes in real AMS lagged 12 months, the first being published in August 2020 and the second presenting the current situation.



UK manufacturing PMI

Below are the AMS charts showing the outlook for UK industrial production growth versus the outcome.

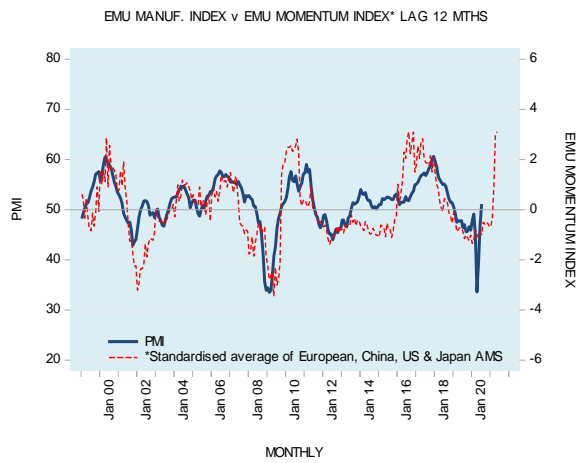


As is clear from the charts, the prediction was remarkably accurate.

Once again the results have been in line with expectations.

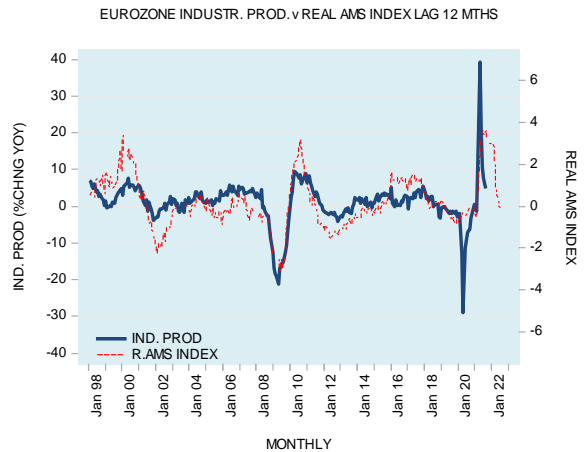
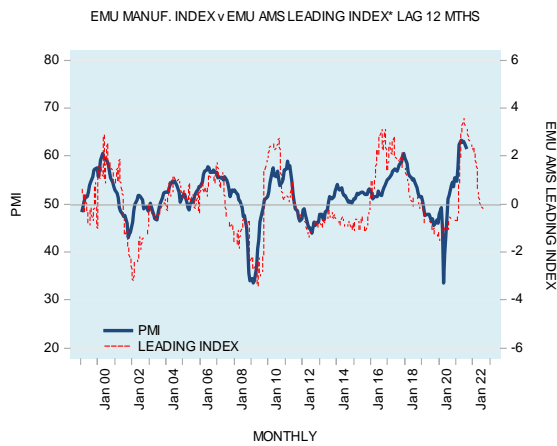
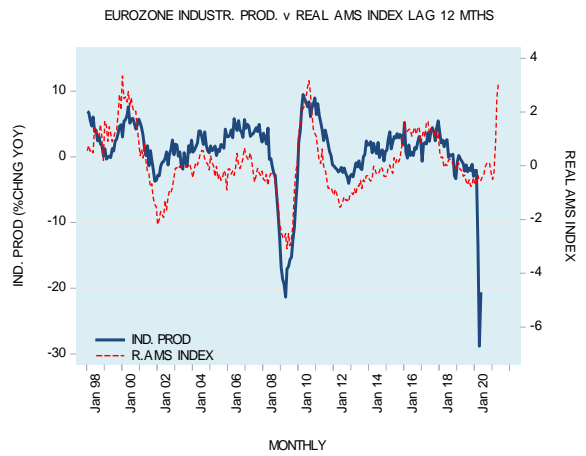
Eurozone PMI

Now we present the PMI for the Eurozone, again comparing the outlook presented last year with recent movements.



Eurozone industrial production

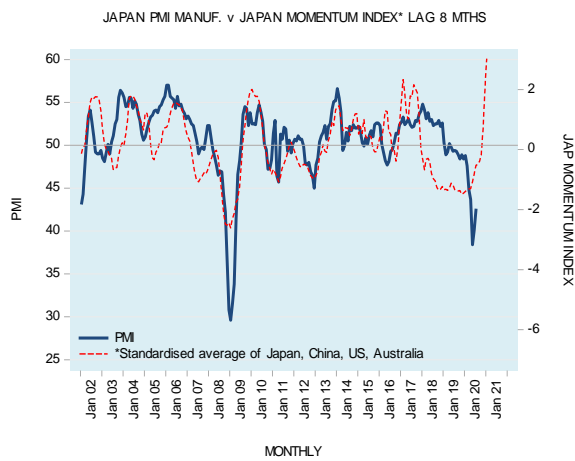
Below are the comparison charts once again, for the Eurozone.



A similar picture emerges.

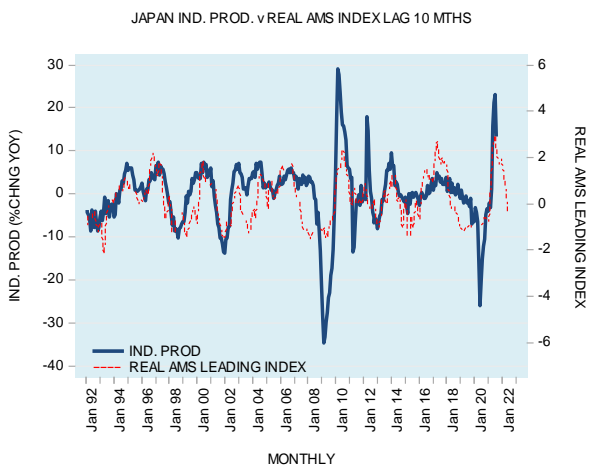
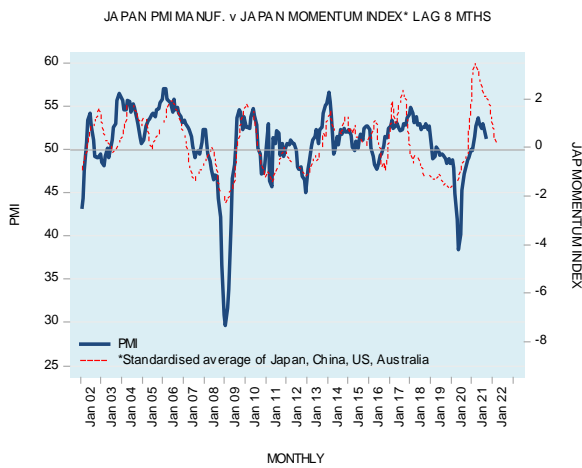
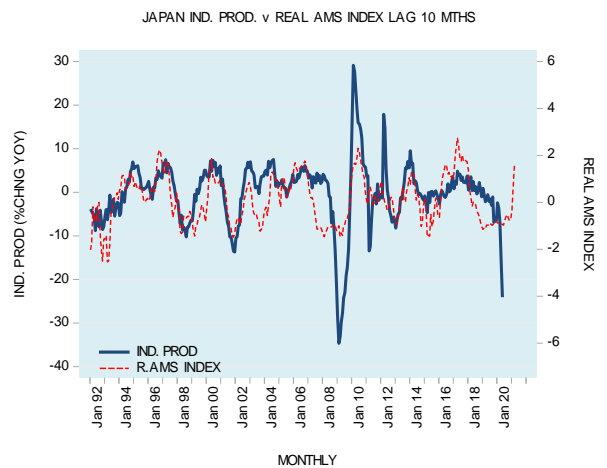
Japan PMI

Here are the comparative PMI charts for Japan.



Japan industrial production

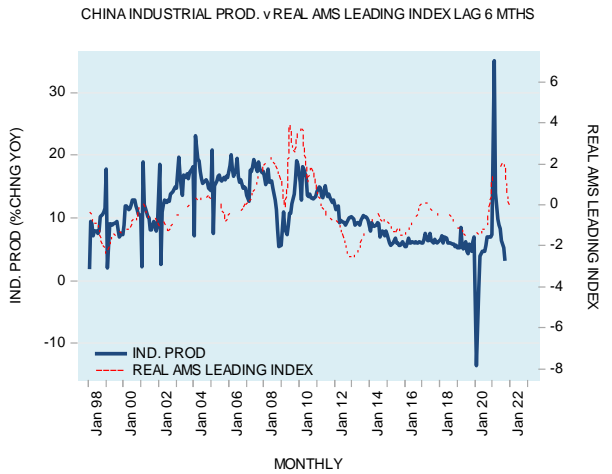
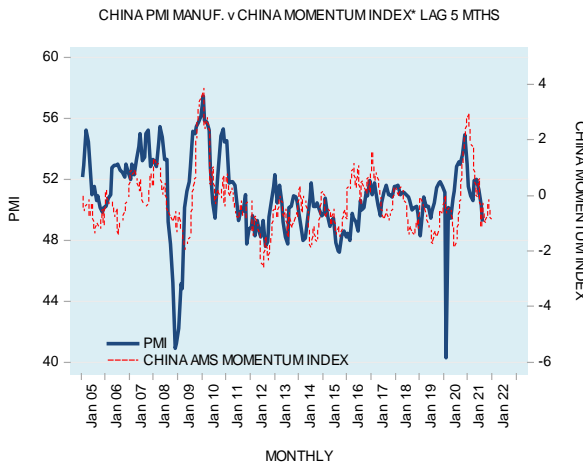
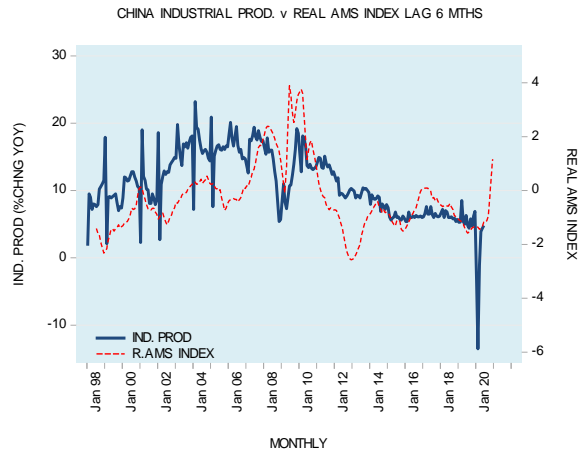
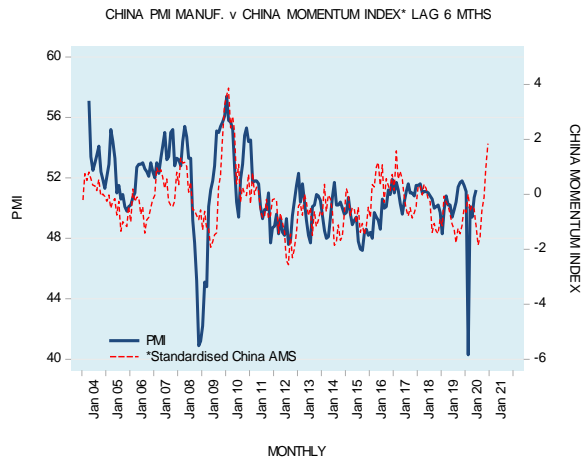
The comparison once again in relation to Japanese industrial production.



China PMI

Here are the same charts for China's PMI.

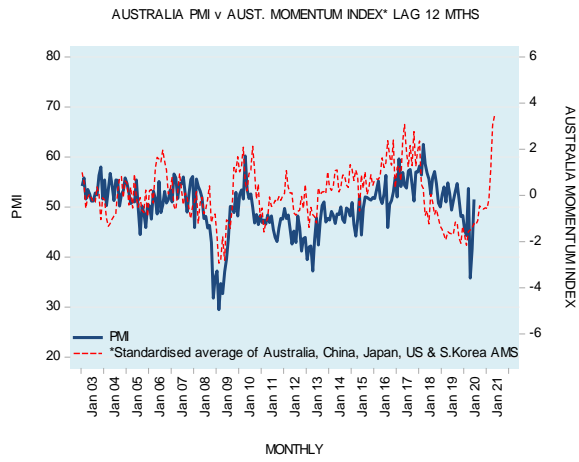
China industrial production



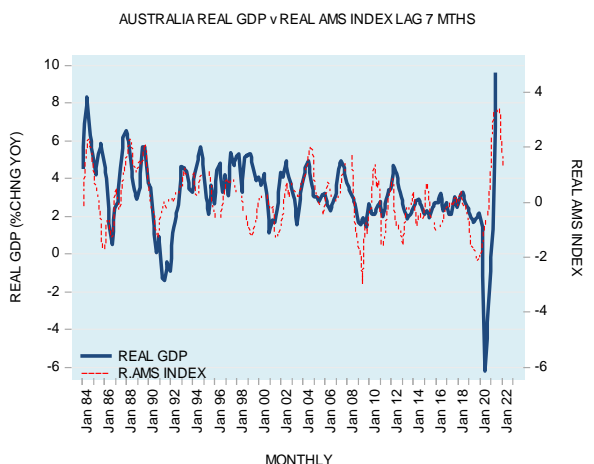
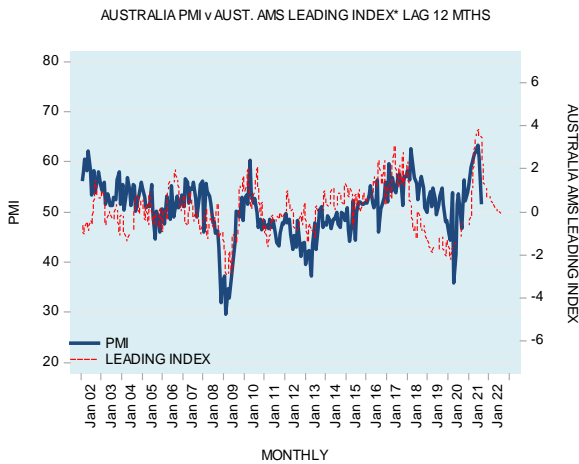
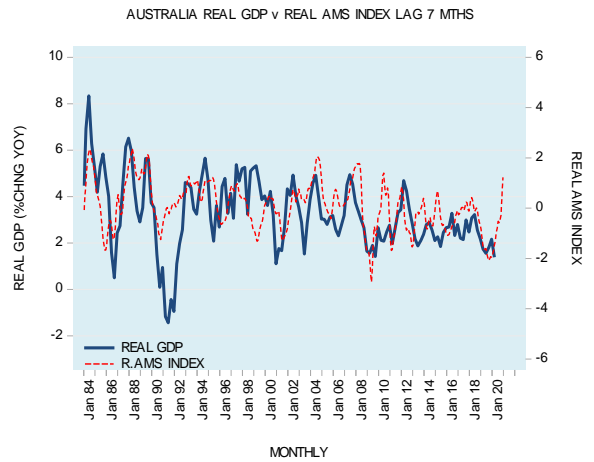
Again we see a high degree of accuracy with the forecasts.

Australia PMI

Below are the same charts for Australia.



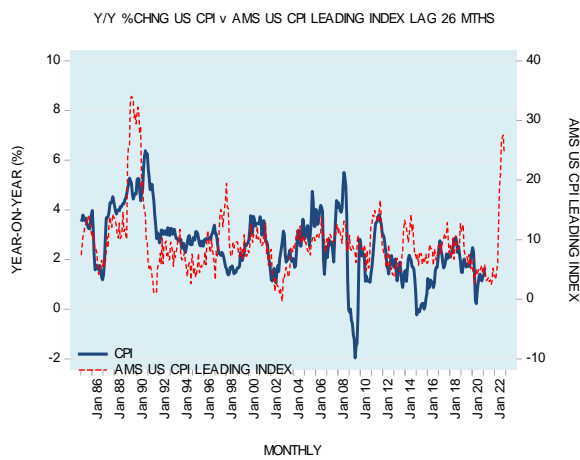
Australia real GDP



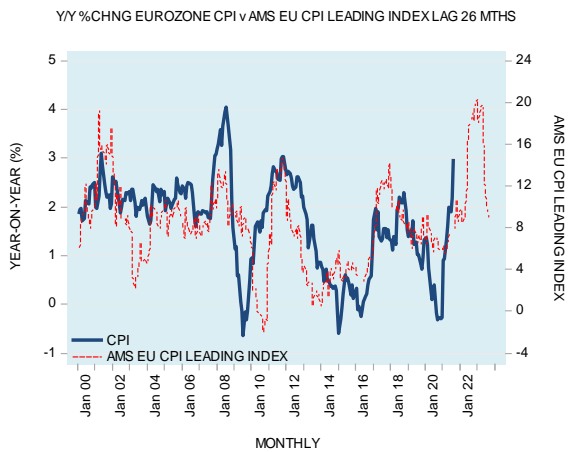
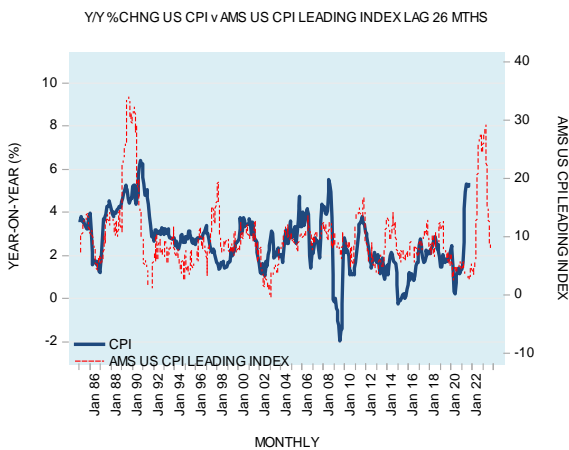
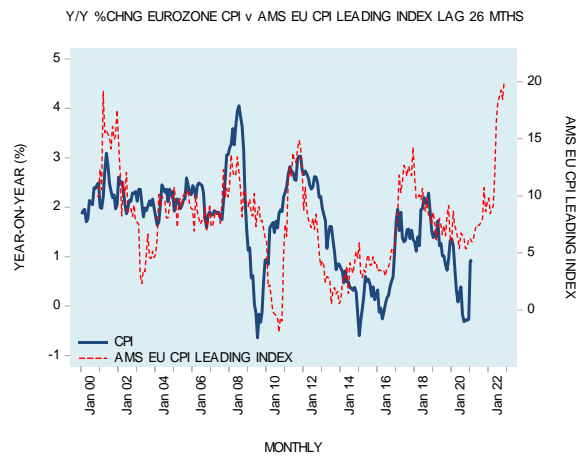
Inflation indicators

With regard to inflation we developed our AMS leading inflation indicators in March, 2021. We present the charts for these forecasts – versus outcomes – below.

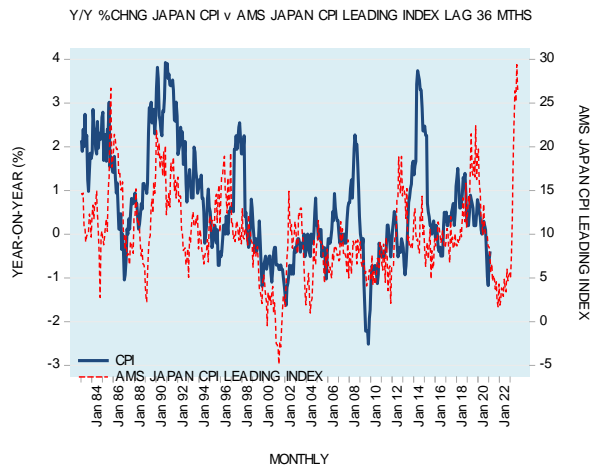
US inflation



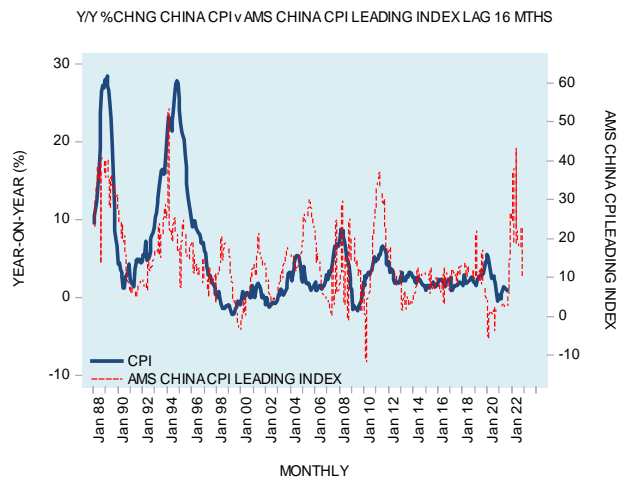
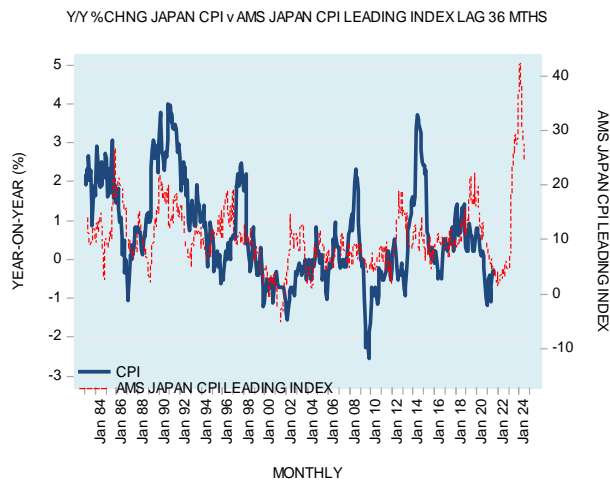
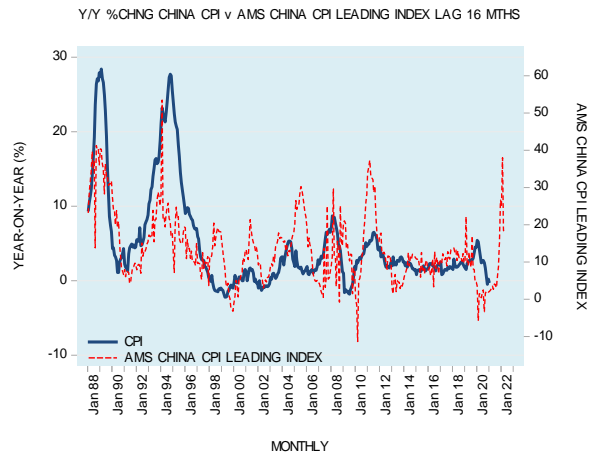
Eurozone inflation



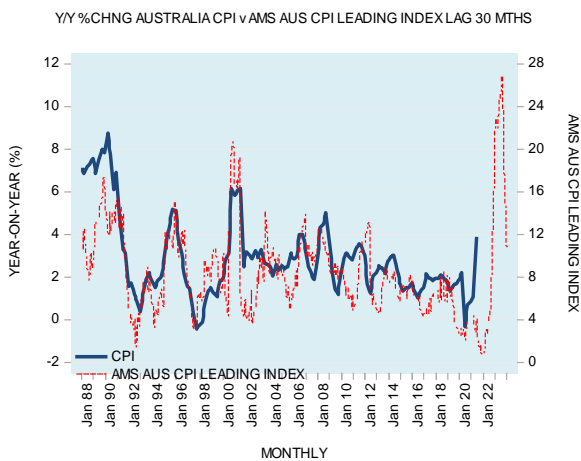
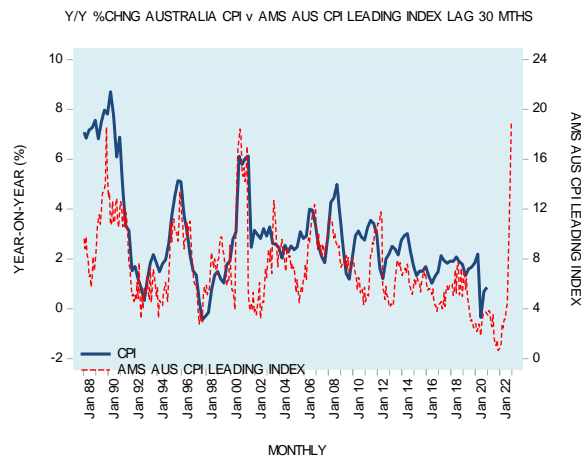
Japan inflation



China inflation



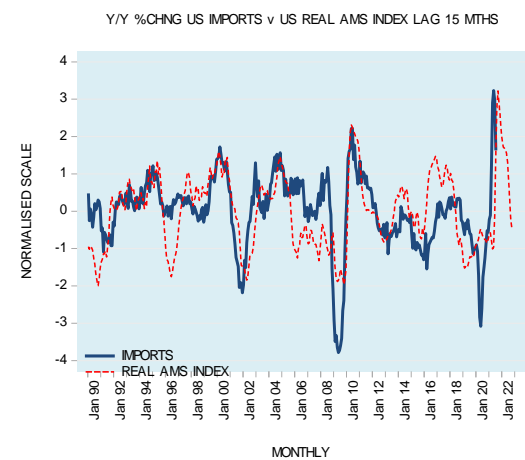
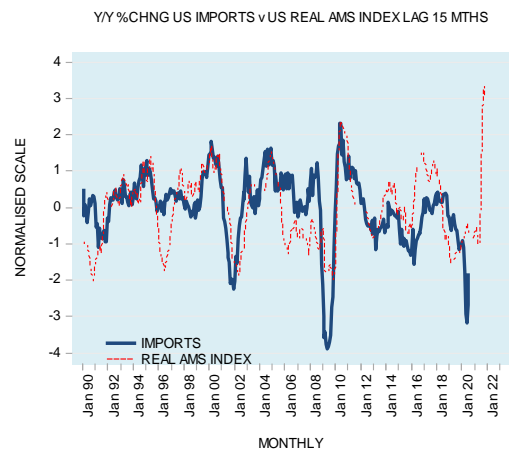
Australia inflation



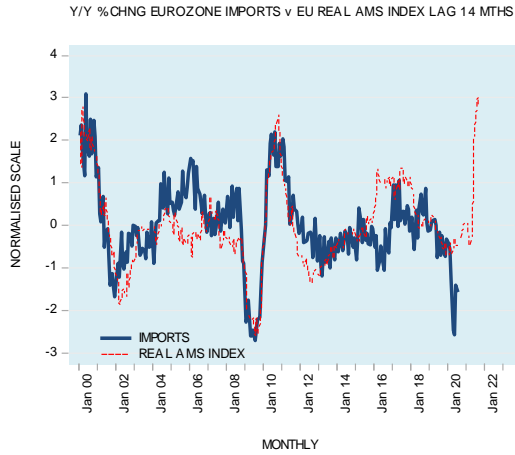
Global trade

Here are the comparisons of predictions for trade growth – as measured by import growth.

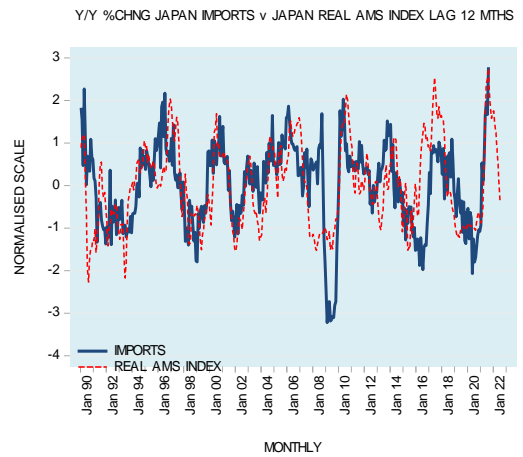
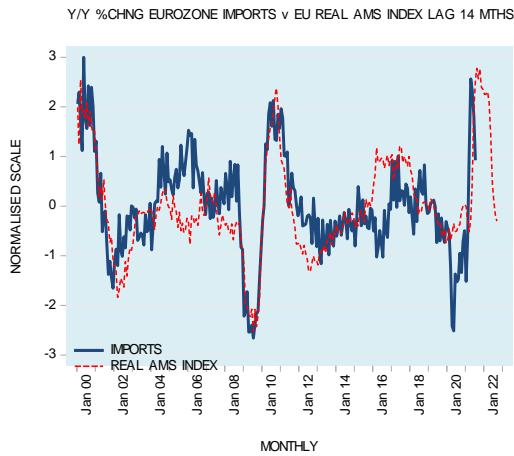
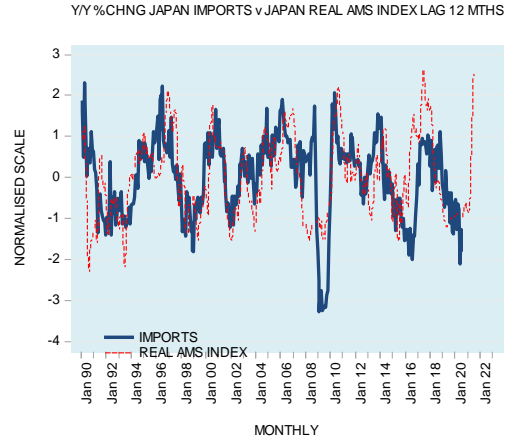
US imports



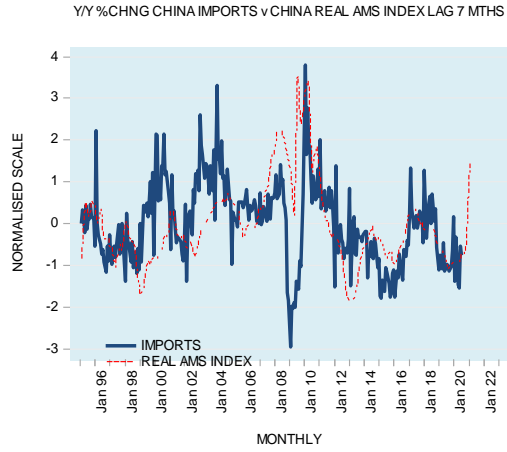
Eurozone imports



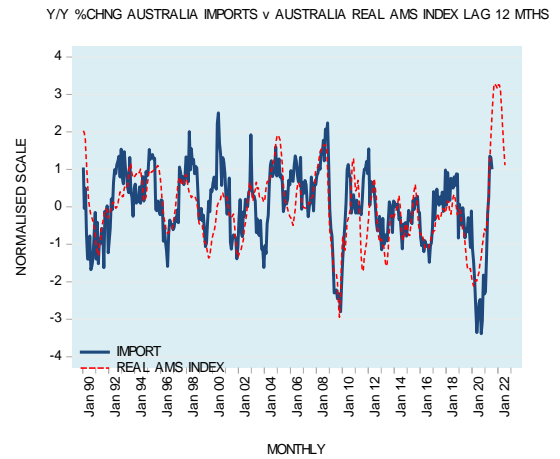
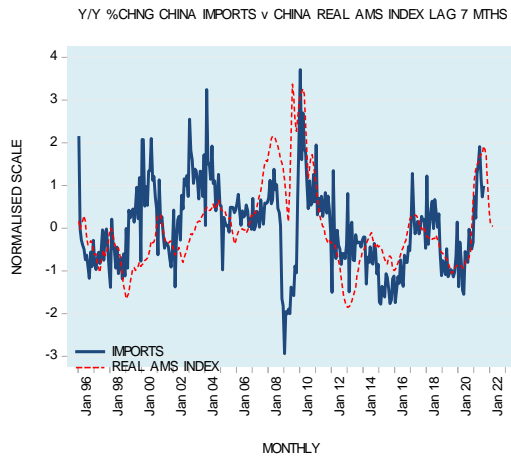
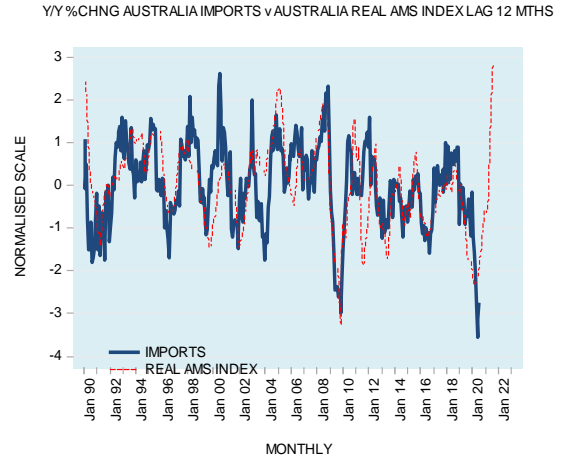
Japan imports



China imports



Australia imports



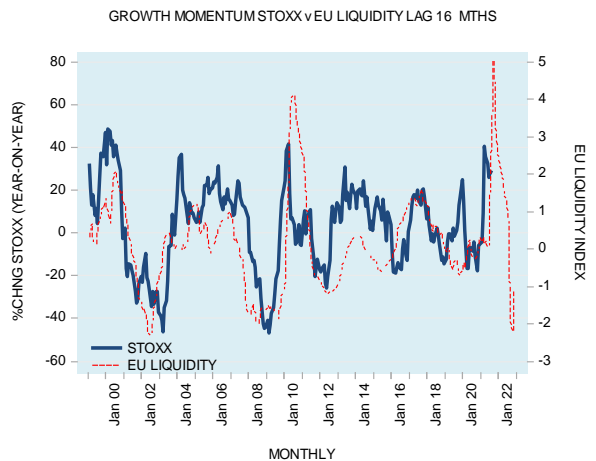
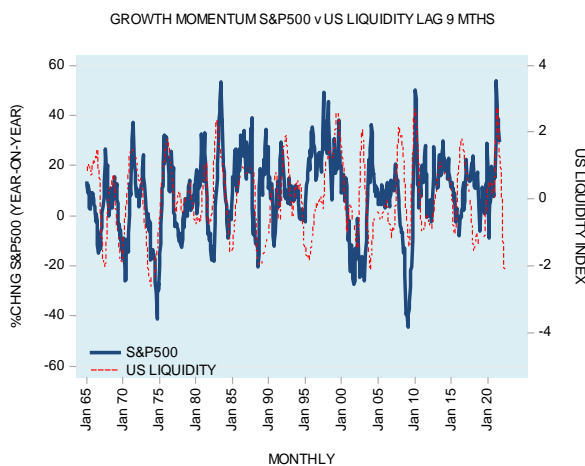
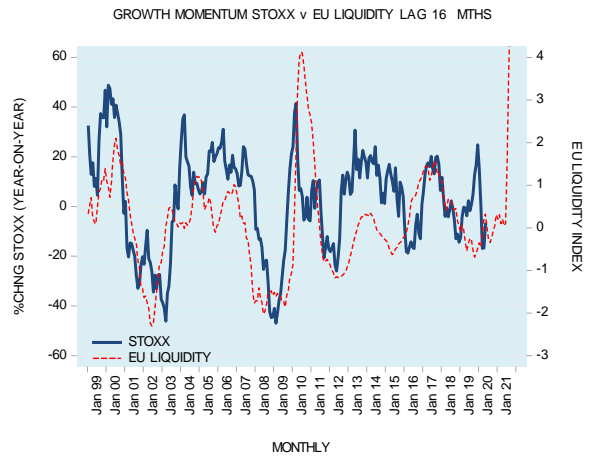
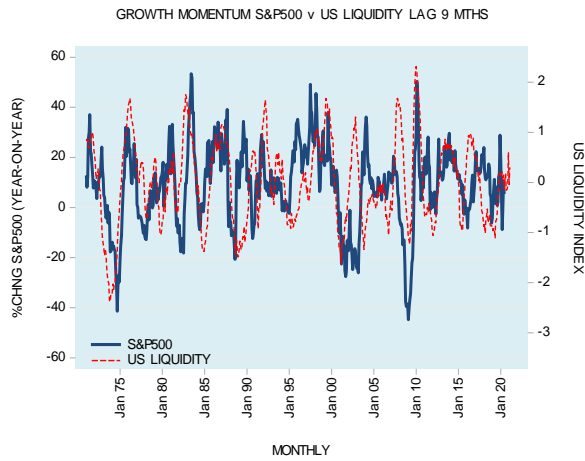
Stock markets

Here we use Liquidity – another AMS-based measure – as our predictor of stock market momentum and we compare August of last year with today.

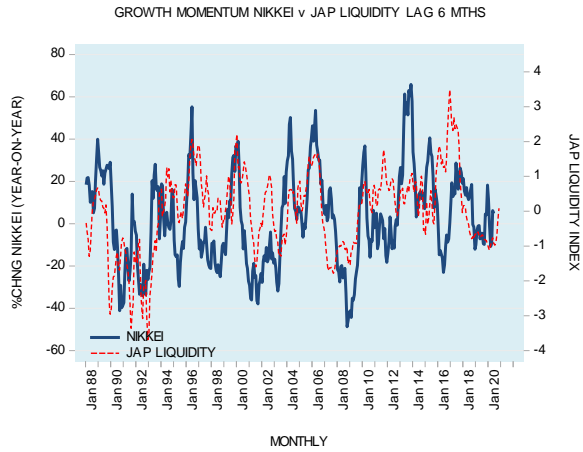
US market

Here is August last year versus today.

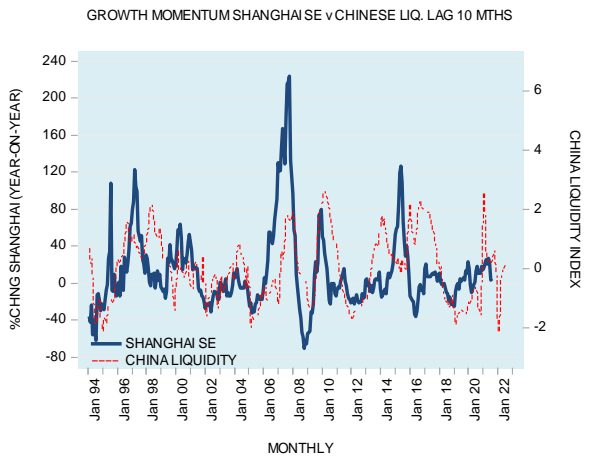
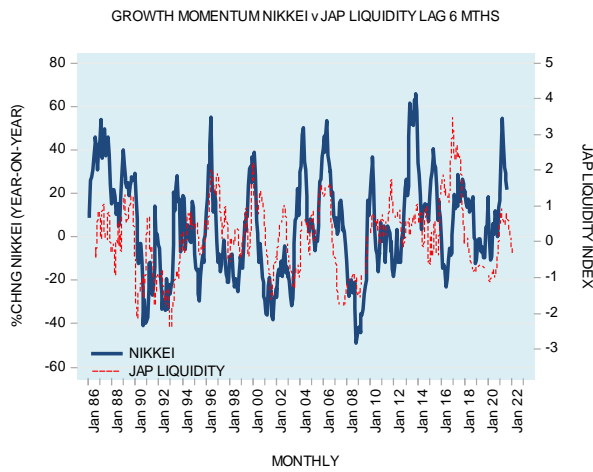
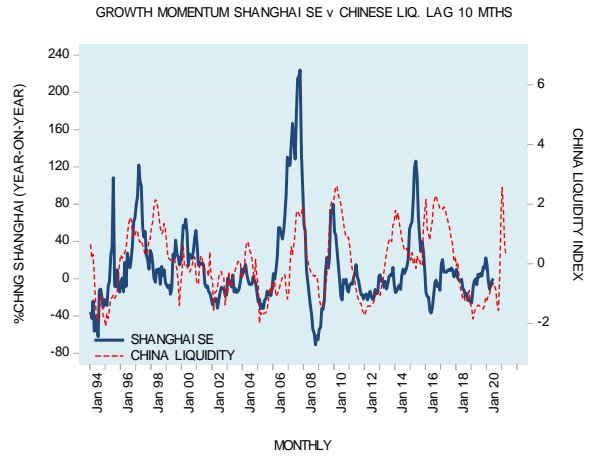
Eurozone



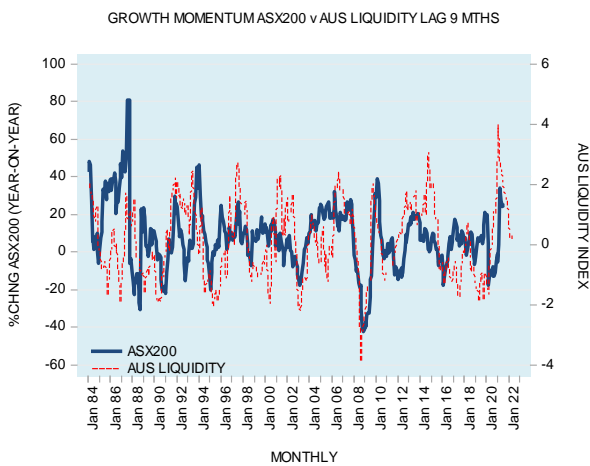
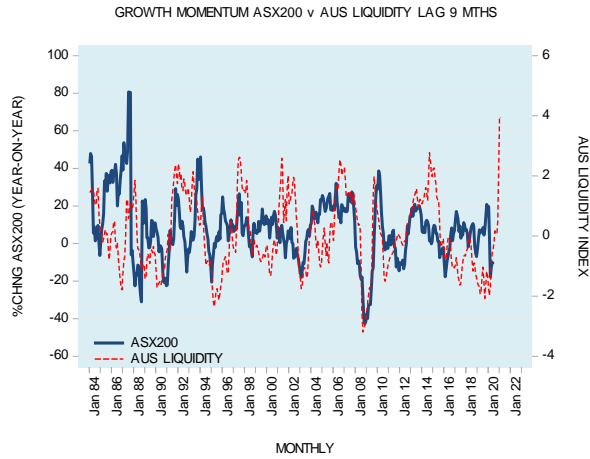
Japan



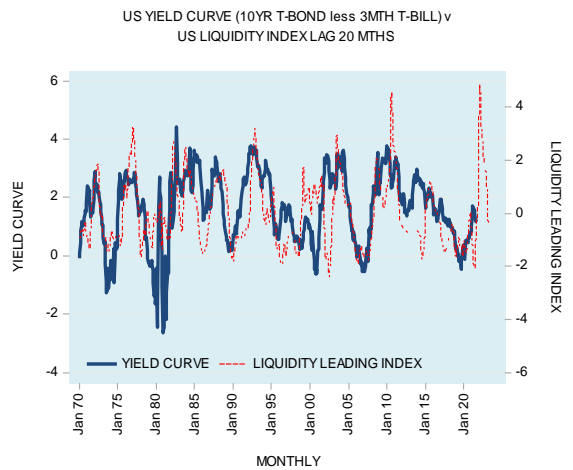
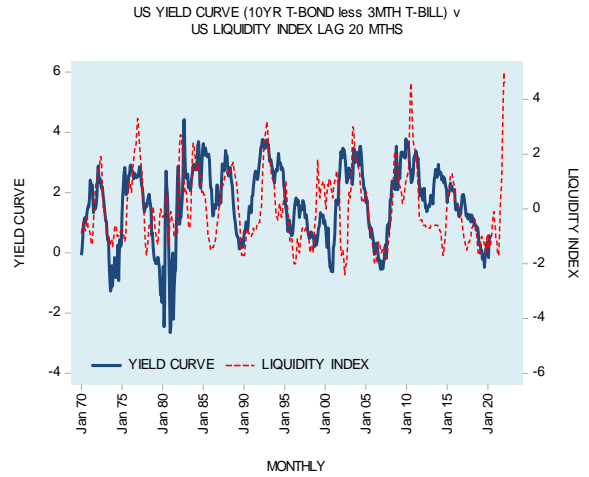
China



Australia



US yield curve

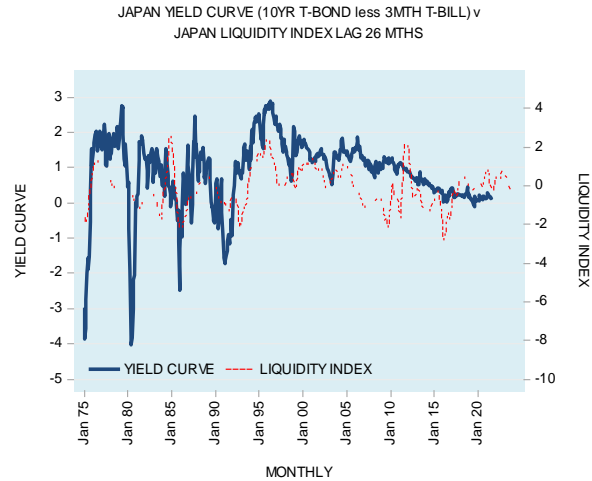
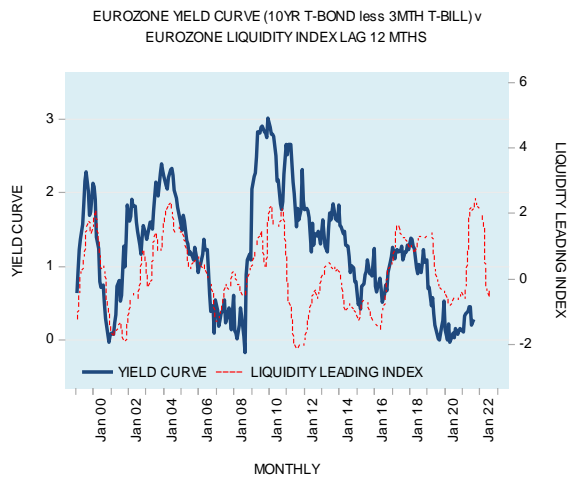
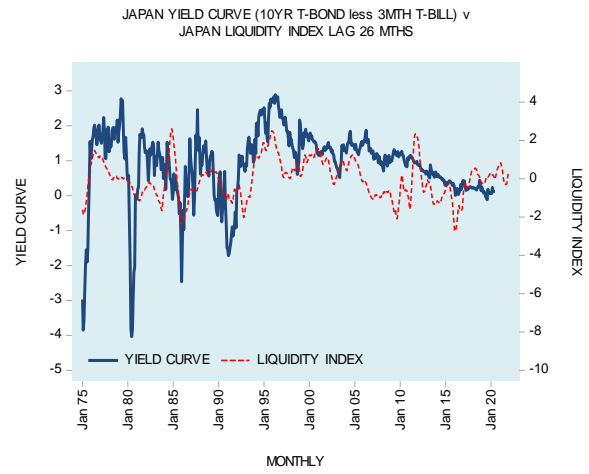
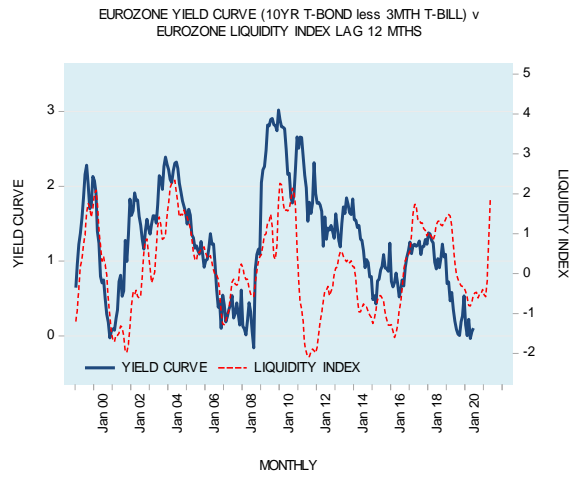


Yield curves

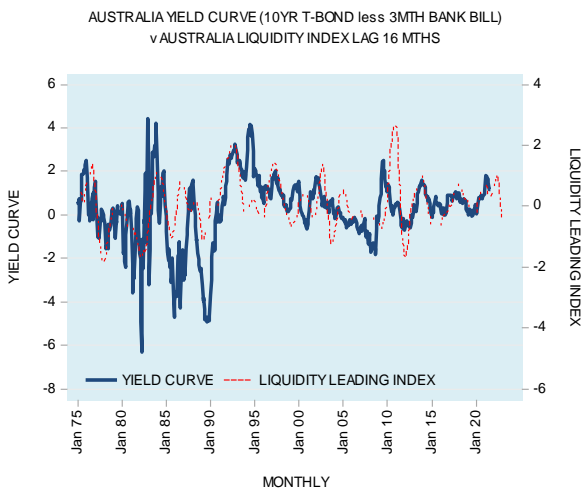
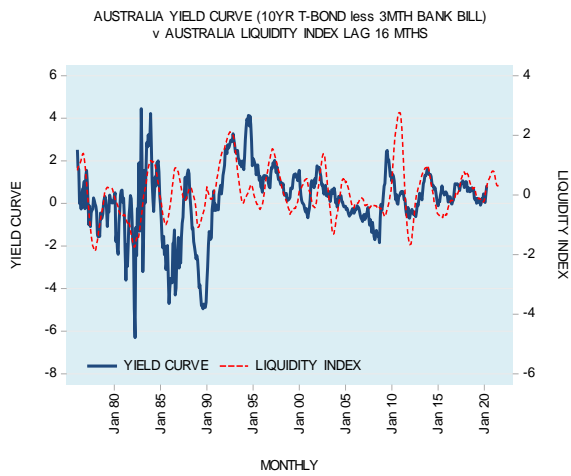
We also present regular analyses of the slope of the government bond yield curve across major economies. Here we compare our forecasts a year ago with the outcomes.

Eurozone (Germany)

Japan



Australia



commencing from the data and working backwards. We strongly believe that although the transmission lags may differ and may change over time the central driver of these cyclical fluctuations is the growth rate of AMS, which is in turn driven by central and commercial bank money creation.

Summary

We can see from the above examples that our use of AMS and its derivatives has resulted in a collection of relatively accurate forecasts of both economic and market outcomes. These are never 100% accurate but they evidence a level of robustness of the approach.

This is in turn a function of the logic behind the analysis rather than of fitting curves or