Daily Note

THINGS THAT WON'T HAPPEN IN 2019

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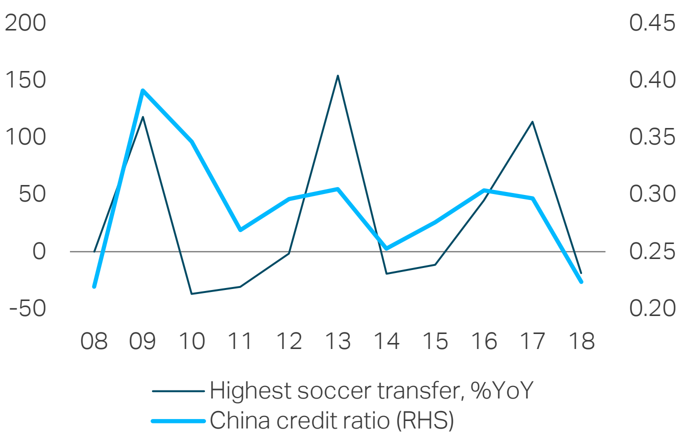
- **Our traditional (light-hearted) look at the year ahead**
- **How Trump settles the trade war and Mario Draghi saves the euro**
- **Plus a gloomy future for sellside research**

Monetarism with Chinese characteristics: The puzzle of China's leading indicator intensifies as economists discover even more things that are (sort of) correlated with Chinese monetary growth. With a little x- and y-axis manipulation, sellside strategists have long been able to 'predict' broad shifts in global demand based entirely on what Chinese M1 data were doing six-12 months earlier, but the sellside increasingly realises it can also offer more specialist forecasts – including in areas such as soccer transfers, box-office movie success and even Scottish dentistry (see charts). Forget the random US payroll generator, China suddenly has the most hotly anticipated data release in the world, with a growing fanbase of technical analysts and PBoC-watchers. But the infatuation with Chinese monetarism ends badly, amid accusations the authorities are weaponising their statistics in an effort to undermine US financial stability and win the trade war. With all US asset managers pursuing a massive leveraged bet on just one monthly data point, this particular reminder of Goodhart's law turns out to be rather costly.

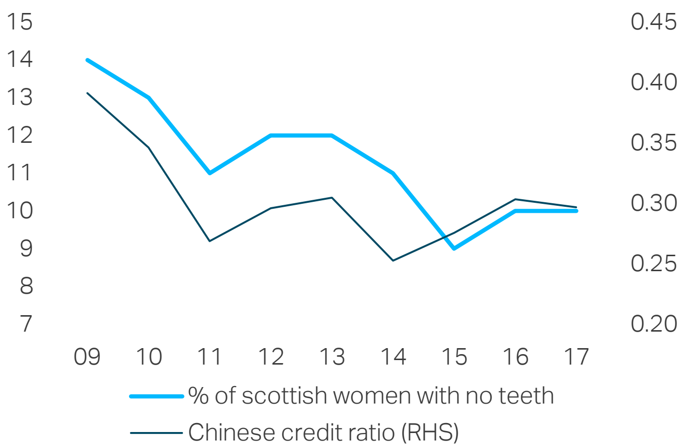
Get out of trade war free: Official US-China trade negotiations are failing to make sufficient progress, so Donald Trump and Xi Jinping decide to settle the matter over a G20 game of Monopoly. The US president makes a strong start and appears to be winning the game. Using just a small ($1m) loan from his father, The Donald uses his 'self-made' business acumen to buy up London property at an impressive rate, building hotels in all the top locations. But after some

Chart 1: Neymar to Paris via China?



Source: UEFA.com, TS Lombard

Chart 2: Toothless economic stimulus



Source: Statista, TS Lombard

trouble involving one of the other contestants and a beauty pageant, Mr Trump begins to struggle and needs a special loan from Mr Putin, controversially the game's banker. The competition takes another decisive twist when a second Monopoly board emerges. Dominated by Xi, this second board is almost indistinguishable from the first, except some of the names seem slightly off – Queen's Cross Station and Oxbridge Street cause particular confusion. Worse, Mr Xi appears to have an unhealthy control of this second board, demanding loans he can never hope to repay. After six hours of play, the game ends like Monopoly always does - with contestants too tired, bored or drunk to continue. Trump and Xi call a truce.

Auto firesales: With only a few months of his presidency of the ECB remaining, Mario Draghi unveils one final 'cunning plan' to save the euro. Inspired by the Gilets Jaunes protests in France, the ECB announces a generous new liquidity operation, this time for individuals who have lost their cars due to 'accidental' fire. Though the loans must be repaid in full, the ECB is prepared to pay a negative interest rate equivalent to the full value of the principal. The definition of 'accidental' is also kept deliberately loose and includes 'acts of violence, even by the owner, which are justified on the basis of unacceptable government policies or unavoidable public anger'. The policy is widely credited with saving Europe's auto industry, which otherwise would have been sunk by spiralling debts, new environmental rules and US tariffs. In his last press conference before stepping down, Mr Draghi announces inflation will rise to 2% and everyone believes him. Expectations grow that the ECB might even raise interest rates before 2045.

Bundesbonkers: Draghi's auto bailout is the final straw for German taxpayers, who demand that the next ECB president be either a German citizen or a "national hero". With Franz Beckenbauer and David Hasselhoff unavailable and no obvious alternatives, Angela Merkel concedes and eventually gives the job to Jens Weidmann. The former Bundesbank chief promptly abandons the 'QE-isn't-so-bad and I-actually-like-Italians' stance that has characterised his public statements since 2016, reverting to the 'real' Weidmann. Unveiling an Inflation First strategy, the new ECB head uses his opening statement to announce a special 'augmented Taylor rule', which includes a zero weight on the output gap, a coefficient on consumer prices that kicks in only when inflation is above 1.5% (rising exponentially thereafter) and a special new index of 'moral hazard'. Meanwhile, the ECB is widely criticised for adopting a new M3 target, especially as the precise nature of the target is kept secret. There is speculation that "M3" is actually a reference to exports of German BMWs. QE is immediately outlawed as part of the ECB toolkit, though Mr Weidmann reserves the right to short periphery debt if needed to ensure fiscal discipline.

Brexit dance-off: In a final attempt to break the political deadlock paralysing the UK, the government announces the "I'm Strictly a Politician, Get me out of the EU" Brexit dance-off competition. Another massive miscalculation sees Theresa May axed early on when her attempt at the floss doesn't appeal to young voters, who accuse her of being 'sooo 2017' (especially with her avocado-themed costume and new Taylor Swift-styled hairdo). Jacob Rees-Mogg fares better in the early stages of the tournament with his version of "I'm Too Sexy", but eventually loses out in the semi-final when his gangster rap rendition of 'Straight Outta Eton' – about his tough childhood growing up on the streets of Somerset – fails to resonate with the British public. Gary Lineker beats Jeremy Corbyn in the final to become Brexit dance king (and new prime minister) thanks to his revised version of the Euro96 anthem Three Lions (renamed "12 Stars"). He announces the UK will be staying in the European Union, immediately rescinding Article 50.

Sellside automation: Sell-side stock research becomes fully computerised in 2019 after a disgruntled former Goldman strategist reveals the secret "algorithm" that has guided his investment advice since the late 1990s. According to the code, a good sell-side analyst must always be bullish because: 1) if you're bullish and right you're a hero; 2) if you're bullish and wrong nobody will remember; 3) if you're bearish and right everyone will hate you; and 4) if you're bearish and wrong everyone will think you're a moron. It doesn't take long before there are also attempts to automate sell-side economists. A study from academics at Oxford University suggests Fed watchers ("The Fed will keep raising interest rates until there is a recession because they are not as smart as us") and ECB-watchers ("Nobody is smarter than Mario Draghi, the data will eventually do what he says") are most at risk.

And as wildcards, we wouldn't exclude:

- The yield curve inverts and the world literally ends (even as official blame 'distortions')
- EM securities become a safehaven from DM politics
- Scientists discover a link between QT and ~~asset prices~~ everything that goes wrong ever
- Italy enjoys a "90s renaissance", with a growing economy and a winning soccer team
- European equities rise, closing the 'valuation gap' with the US
- German banks become profitable
- TS Lombard's real forecasts actually outperform our 'things that won't happen' forecasts

The Daily Note will return on 2 January. Enjoy the holidays and happy New Year!