



**WHICH ECONOMIC IMBALANCE  
WILL BE THE FIRST TO CRUMBLE?**



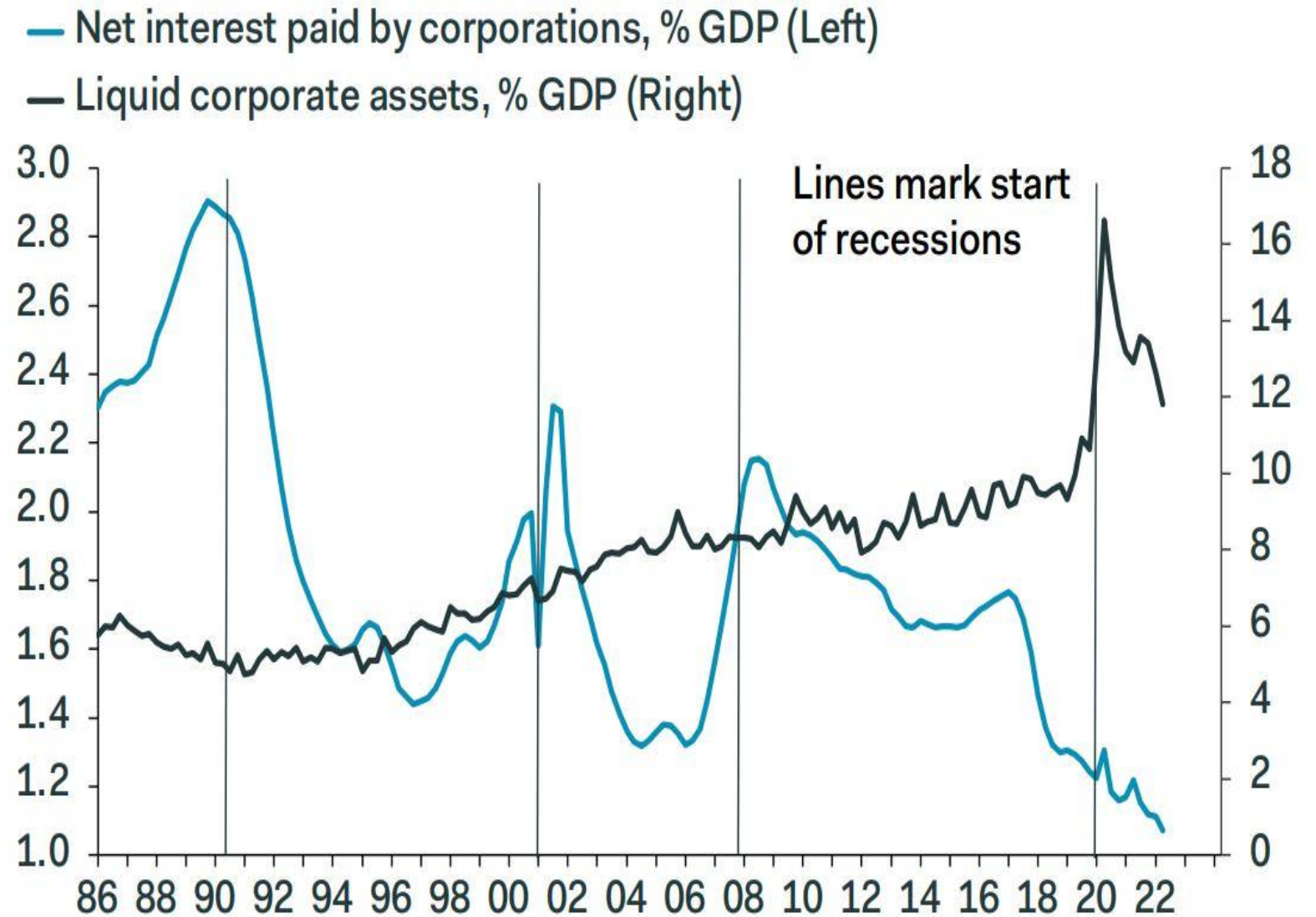
# Agenda: Where is the next Lehman moment?

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- US imbalances
- European imbalances
- Chinese imbalances
- Emerging market imbalances
- Australian imbalances
- Market implications

# US Corporate Lending

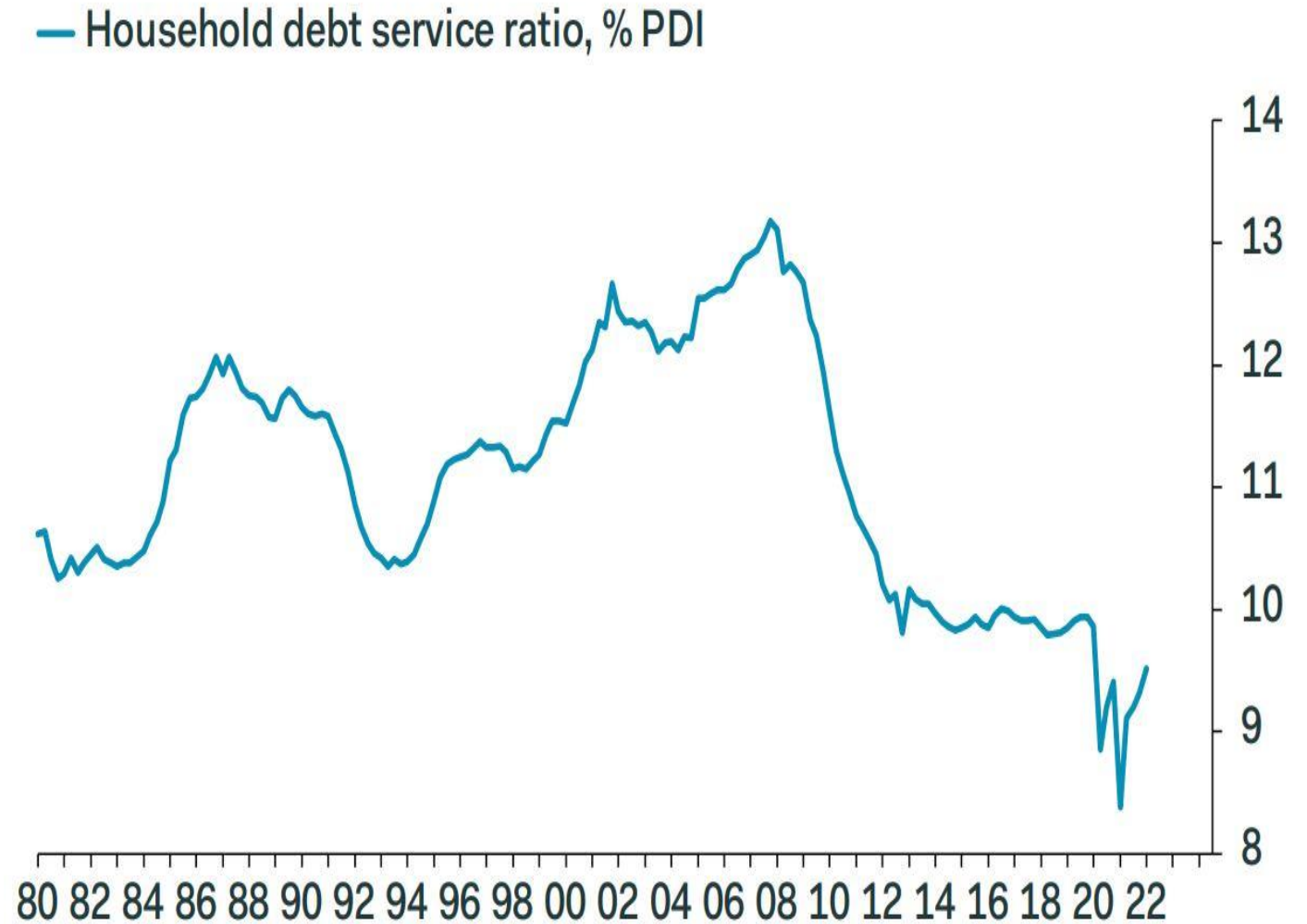
- Low interest burden despite high debt levels
- COVID fiscal transfers mitigated leverage





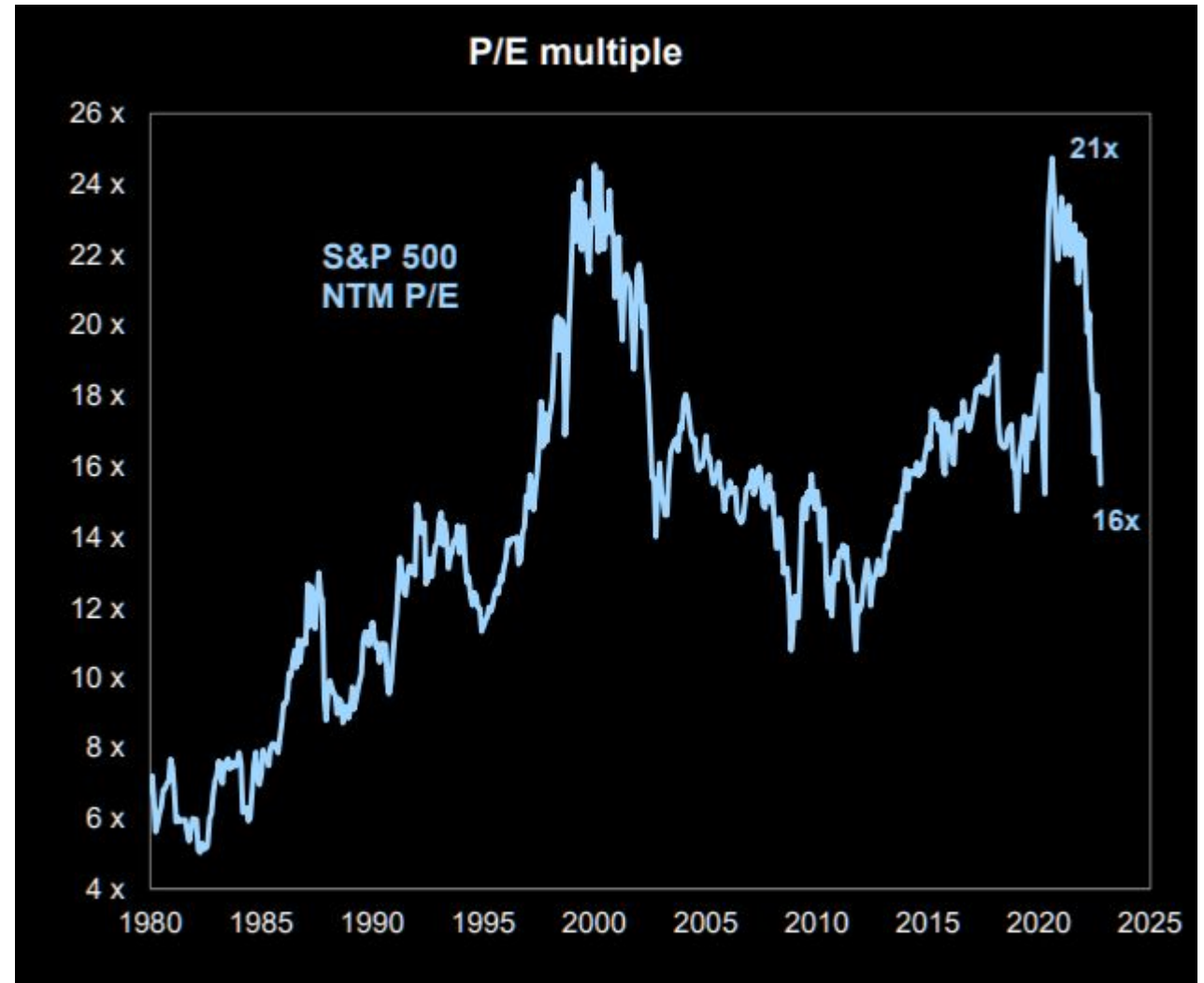
# US households

- Low debt since the great deleveraging
- Even house price tear did not lift it much



# US stock market

- Monetary equities bubble
- Good correlation with confidence and consumption
- Falling house prices to exacerbate



# US: Inventory glut

- Huge inventories from supply side squeeze and hoarding
- Supply side squeeze over
- Cyclical imbalance that will unwind with any shock



# Europe

- War and energy shock. Trade risk
- Political pressure
- Italy risk
- Banking system risk

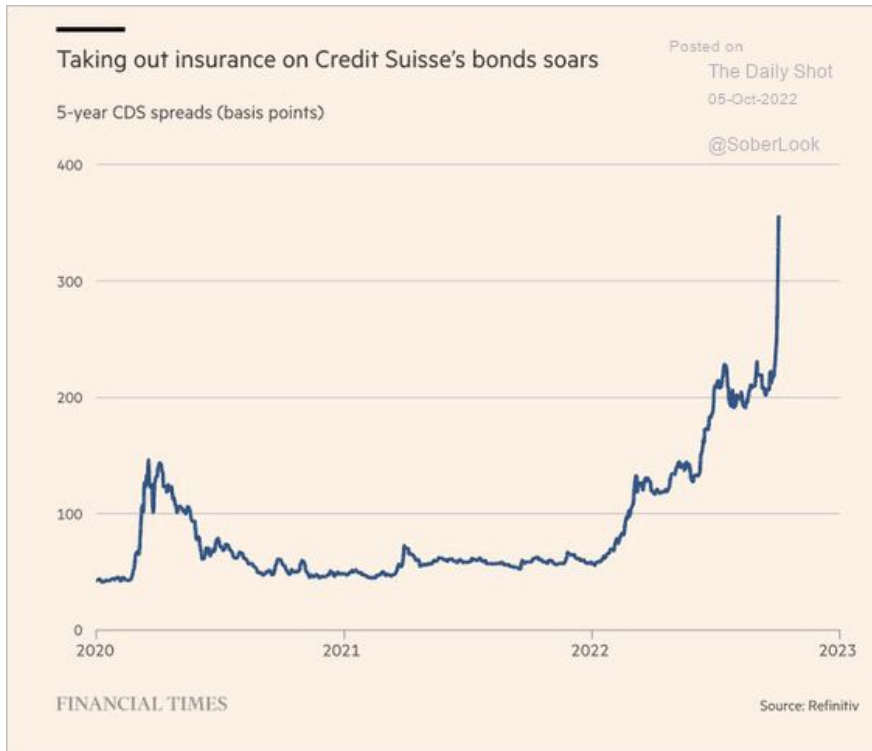
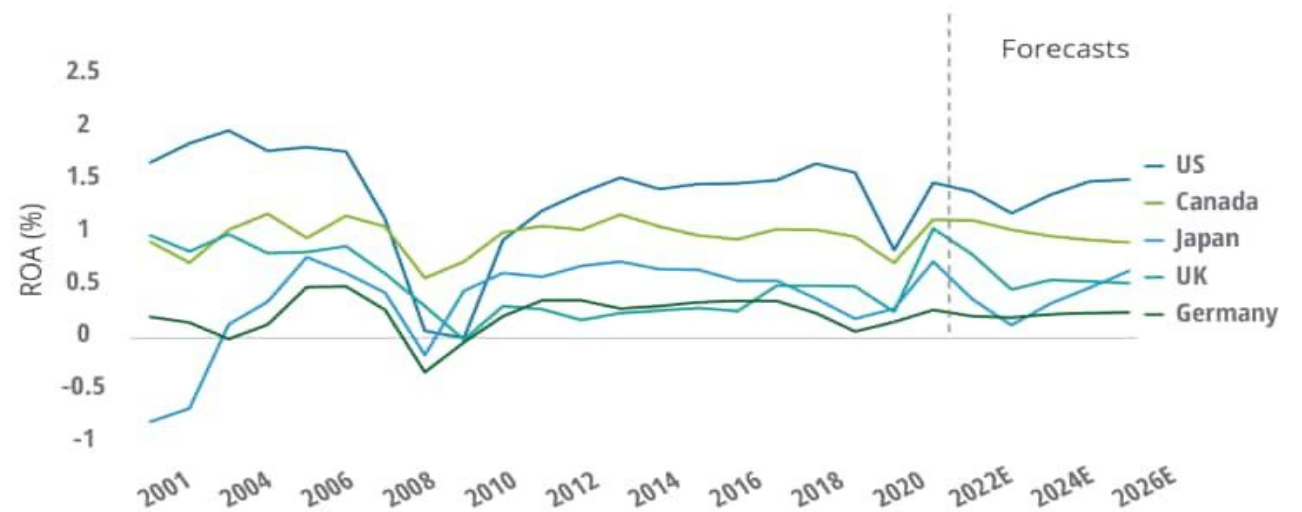


FIGURE 1

## Bank profitability will remain subdued and vary by country

ROA forecasts for different geographies

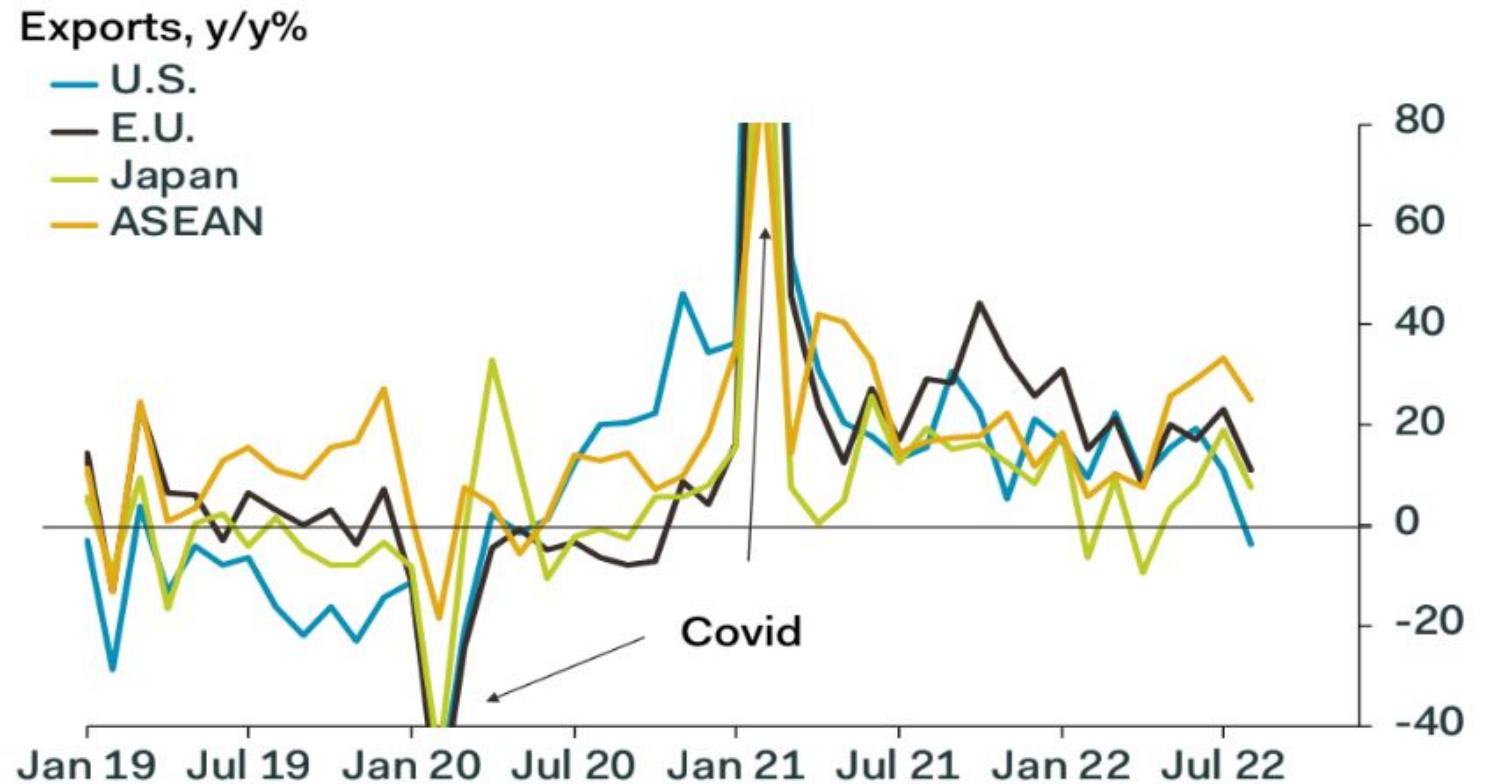


Source: Deloitte Center for Financial Services forecast using Economist Intelligence Unit database.

# Chinese imbalances

- Huge COVID export boom
- Used to deleverage property
- Overshot delivering weak domestic demand
- Vulnerable to trade shock

## 23. SLOWING GLOBAL DEMAND LOOKS BROAD BASED





# Chinese property bust

- Aaaand...property bust
- Impossible trinity unwind
- Leads to CNY crash
- Funding crisis and YCC?



# Emerging Markets

Figure 2: 10-year nominal yield on EM local currency bonds vs. U.S. 10-year Treasury



Source: Bloomberg L.P. Data from 1/8/2010 to 7/1/22. GBI-EM is the J.P. Morgan GBI-EM Global Diversified Index.

# Australian Consumer Debt

## Sydney House: Affordability Measures

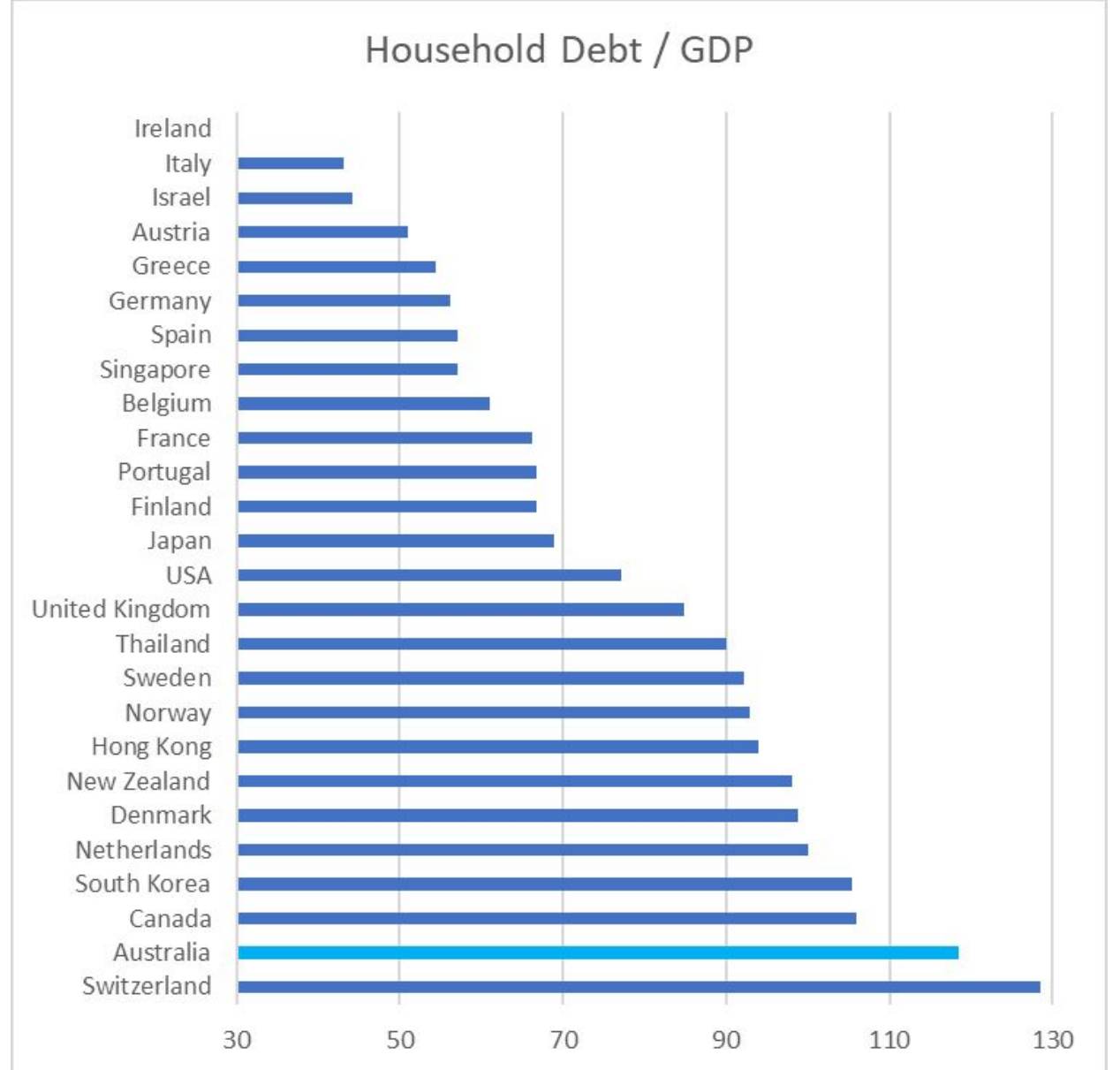


Mortgage cost vs wages or rent is higher than ever. Had to change the axis



# Australian Consumer Debt

- Expensive housing
- High household debt
- Lots of variable rates
- Low wage growth





# Market implications

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- Strong DXY and weak AUD.
- One more yield spike?
- Probable global recession.
- Lower equities.
- Lower house prices.
- Lower commodities.
- Deflationary 2023 base case.

Viewer question of the week:

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**Which Economic Imbalance is likely to crumble first?**

**Drop your answers in the comments**

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