



PINETREE MACRO

Brave New World

Edition 6

CBDCs – Ripe for major disruption or still long way to go!!

- China quietly working on its own CBDCs (e-version of yuan) since 2014, could challenge the undisputed global reserve currency status for USD. This year, the PBOC launched a test of it's CBDC in more than 30 major cities to iron out any bugs.
- While China is at an advanced stage, policymakers in US have only committed to exploring the possibility of launching their own digital currency. It's difficult to say with certainty if & when a U.S. CBDC could be launched, but it's difficult to imagine world's largest economy & global reserve currency on CBDC sidelines.
- Real game changer though would be when the digital currency standards will be evolved enough to carry out cross border transactions. No remittance bank, no corresponding bank, no need for SWIFT system. One of the farfetched offshoots of such a change can be that the US Dollar loses its preeminence as the reserve currency of the world.
- One of the major benefits which the dollar system provides is the easy and well tested payment and settlement system. In case two countries come to a central bank supported digital platform, this dependence can go away. Hence, the cross border payment space is ripe for major disruption.

- CBDC - *It is a legal tender issued by the central bank in digital form. It is the same as the fiat currency & exchangeable 1 to 1 with it. So it is like a digital cash note.*

CBDCs mean one thing – control. Governments that deploy CBDCs will present them initially as a convenient “digital complement” to physical currency. The physical currency will be phased out overtime and stop being replenished so paper currency will ultimately wear out.



(Source : lowyinstitute.org)

France tests crypto assets in series of government bond deals

Digital currency issued by central bank was used in 10-month trial involving big banks and public debt office

(Source : [financialtimes.com](https://www.ft.com/content/2021/05/07/france-digital-currency))

The U.S. Is Losing the Global Race to Decide the Future of Money—and It Could Doom the Almighty Dollar

(Source : [time.com](https://www.time.com))



Insider trades at Fed – Will this affect reappointment of the Chair!!

Warren turns up the heat on Fed's Powell, saying he's failed as a leader in his response to insider-trading scandal

Published: Oct. 5, 2021 at 12:26 p.m. ET

(Source : [marketwatch.com](https://www.marketwatch.com))

- Warren called on SEC Chair Gary Gensler to look into "ethically questionable transactions" made by Fed Vice Chair Richard Clarida and regional Presidents Robert Kaplan and Eric Rosengren.

(Source : [cnbc.com](https://www.cnn.com))

Jerome Powell Sold More Than a Million Dollars of Stock as the Market Was Tanking

Disclosure documents reveal that the spectacle of Fed officials personally trading stocks extended to the chair himself.

BY ROBERT KUTTNER OCTOBER 18, 2021

(Source : [theprospect.org](https://www.prospect.org))

Jay Powell faces rockier path to second Fed term after tough week

Chair confronts criticism from progressives and trading scandal at central bank as Biden nears decision

(Source : [ft.com](https://www.ft.com))

- Powell's odds in betting markets have fallen following sharp criticism of his performance by progressive Democrats & a trading scandal among Federal Reserve officials. Just a month ago, the chances of Powell staying at the helm of the Fed after his term expires in February 2022 were bright.
- Online betting website PredictIt now gives Powell a 76% chance of being confirmed by the U.S. Senate, while the odds that Federal Reserve Governor Lael Brainard will be nominated have increased to 18% from a low of 6% in September. (Source: [reuters.com](https://www.reuters.com))
- Brainard, who was nominated to the Fed board by former President Barack Obama in 2014, is widely seen as more dovish than Powell in part because of her push to retain super-easy monetary policy until there is more progress on job recovery.

Should Brainard be chosen as the next Fed chair, the Fed could extend its dovish policies and push back the central bank's timeline for raising interest rates beyond 2022, but that could result in a series of rapid rate increases down the line if high inflation persists and the Fed is behind the curve....



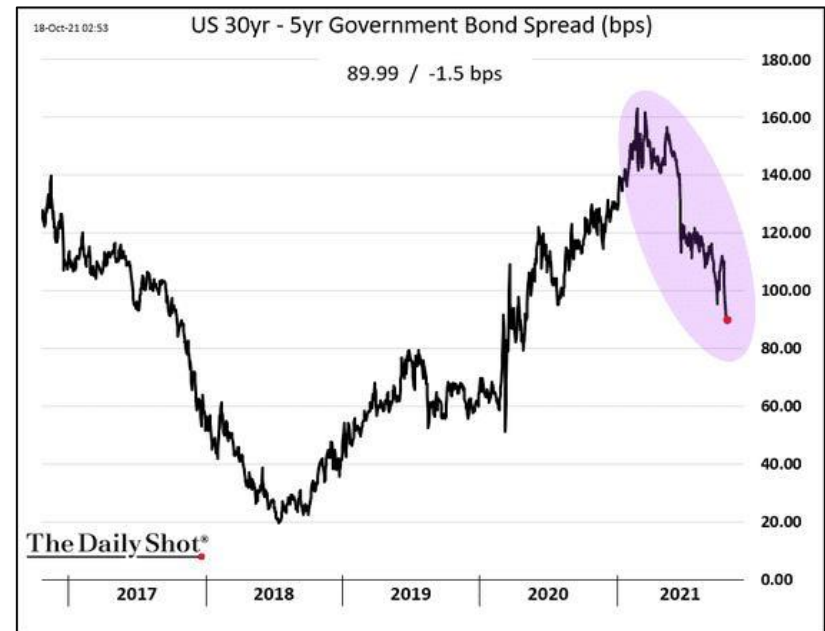
Are Central bankers too late in Tightening...

- Market participants often associate flattening of the yield curve with tightening in financial conditions. Historically, when the Fed raised the Fed Funds rate, the 5-year to 30-year yield differential has narrowed dramatically, sometimes falling below zero.
- Central Bankers will need to acknowledge the higher-than-expected rate of inflation and it is lasting longer than they previously envisioned.
- There are going to be even more price pressures in October with the flow-through from commodity prices into consumer prices and then potentially for supply-chain disruptions to actually show up more.
- This puts central bankers in a bind as they debate which risk they should prioritize. Targeting inflation with tighter monetary policy adds to the pressure on economies; but, trying to boost demand through continued monetary easing may ignite prices further.
- Meanwhile, bear flattening could signal upcoming Stagflation as rising inflation puts pressure on short end of the curve & slowing growth dampens the possibility of tightening.

Yield curves flatten in one of two ways: a bull flattener, where long-term interest rates fall quicker than short-term rates; and bear flatteners, where short-term rates rise more than long-term rates.

Bull flatteners tend to be a positive signal for equities, the US dollar & Growth versus Value. Conversely, bear flatteners are bad for equities, better for Value and good for gold.

Bear Flattening the curve – Markets lead CBs in tightening



Economics

Morgan Stanley Sees Concentrated U.S. Slowdown in Third Quarter

By Jill R. Shah + Follow
2 September 2021, 20:07 GMT+5:30

► Firm's economists revise GDP tracking estimate to 2.9% vs 6.5%

U.K. Rates Market Signals Any BOE Hikes May Be Short-Lived

Greg Ritchie & James Hirai

Published On 19 Oct 2021, 3:38 PM IST

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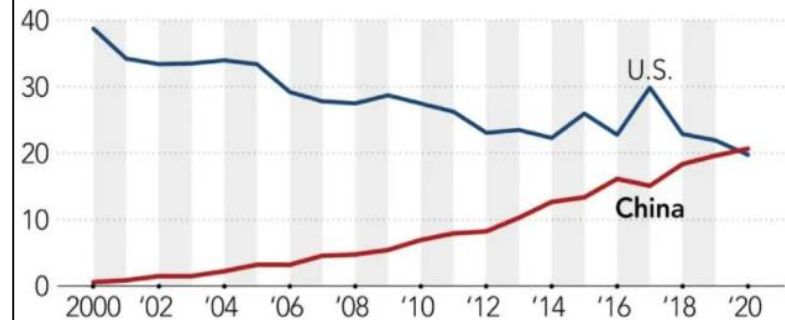


Shift of Focus for Yuan – from Cheap labor/Capital to AI/Tech dominance

- China is overtaking the U.S. in artificial intelligence research, setting off alarm bells as the world's two largest economies jockey for AI supremacy. By 2030, ~8 bn devices in China will be connected via the IoT used in a range of industries affecting nation's competitiveness and security.
- China views AI as a way to make up for labor shortages in anticipation of a shrinking population. Erstwhile, FDI typically flowed from advanced to developing countries due to technology and wage gaps, which got mobilized by opening up the coastal cities & SEZs, targeting export-oriented manufacturing etc.
- China's FDI strategy changed after Global Financial Crisis (GFC) due to slowdown, weak demand and lackluster export-led growth, evolving from rising labor and capital costs.
- The fact that the U.S. is shutting out Chinese companies out of the country when it comes to the use of personal data that determines the performance of AI is evidence of this. If the U.S. and China continue to develop their own AI, a global clash over competing standards may be inevitable.
- Irrespective of who wins this race, there is utmost certainty that the economies are moving from 'capital & labor' dominance to 'Tech/AI' dominance.

China challenging U.S. dominance in terms of AI quality

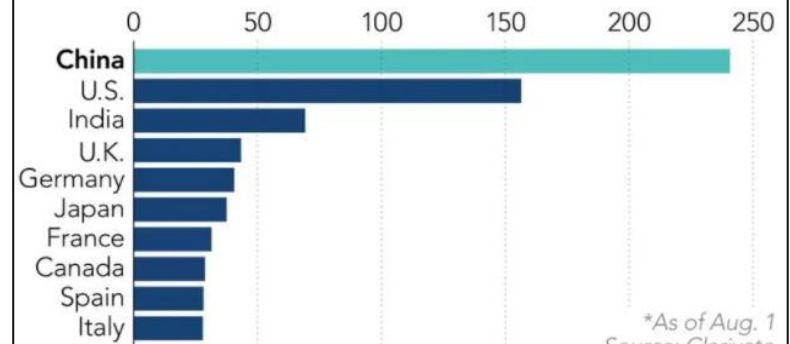
Share of AI paper citations (In percent)



Source: Stanford University's AI Index Report

China overtakes U.S. in volume of AI research

(Top 10 countries by number of published papers on AI, 2012-2021*; in thousands)



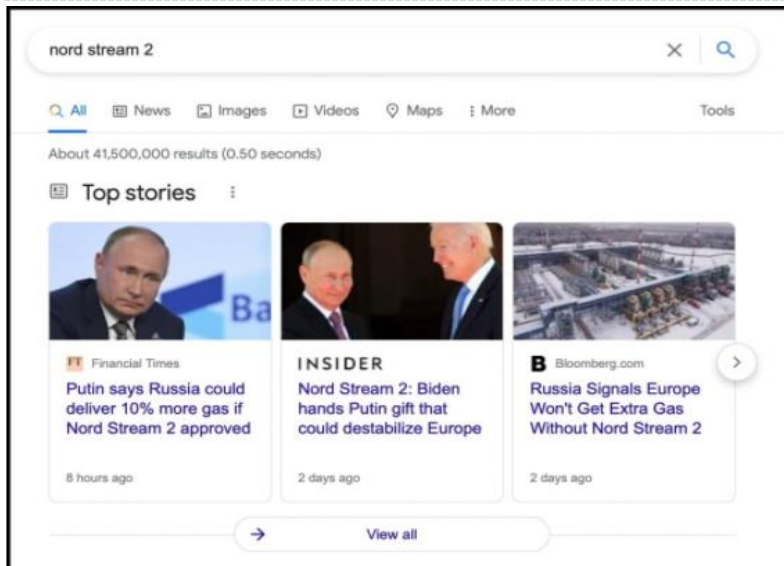
*As of Aug. 1
Source: Clarivate

With companies transitioning to digital platforms/leveraging technologies such as cloud & AI, the global cybersecurity market has grown exponentially & is only expected to increase in coming years. There are cybersecurity ETFs in US with focus on innovative companies combatting global cyber threats available for investment by Indian investors.



“Power” Politics

- If you live in continental Europe, the natural gas that heats your home this October is costing at least five times more than it did a year ago. Reasons : China’s attempt to clean up its air & Russian president Vladimir Putin’s power politics (*Europe imports 90% of its gas much of it from Russia*).
- The transition to cleaner energy such as wind and solar has had the effect of pushing up demand for gas — often viewed by the industry as a medium-term “bridging fuel” between the eras of hydrocarbons and renewables.
- Europe’s is an energy crisis with Russia now controlling their energy future. The deal here being inevitable go-ahead to begin operating Nord Stream 2 pipeline from Russia to Germany, an act that will conclude 1 year long struggle between the US & Russia in Putin’s favor.
- Running under the Baltic Sea, it will double Moscow's gas exports to Germany and circumvent Ukraine, which relies on existing pipelines for income.



Just like the *swift* takeover of Afghanistan by Taliban, American diplomacy will soon discover that the reality on ground supersedes empty rhetoric with Europe turning to East.



Team



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He has held many senior leadership roles including CIO – BNP Paribas Mutual Fund, where he was responsible for managing US\$1.2 billion of AUM and also has served as the CIO of Tata Mutual Fund, where he was responsible for managing AUM of 6 billion.

In 2019, LinkedIn rated him among the top three influencers in the world of Economy and Finance. He is also a recipient of numerous national and international awards in the field of fixed income and equity investments.



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She brings with her about 12 years of Industry experience spanning across verticals like Family Office Investment Advisory, Equity management, Investment banking, etc.

In 2020, AIWMI recognized her amongst the 'Top 100 women in Finance'. She has featured in the Audio talk series 'Show me the Money' by Meghna Pant (available on Audible Suno). Her article reflecting on 'What stops women from investing' was published in The Hindu Newspaper.



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