Australian Standfirst

The Sino-J'AUKUS Great Pacific War:
Triggered By '26/'27 Inflation Resurgence & MMT

Risk Management

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Under a rising, reflationary global backdrop, the value add of money managers is not simply to follow the upswings but to prepare for and ready portfolios for systemic shocks, domestic or foreign. To this end and borrowing from pure arithmetic, econometrics employs the concept of Standard Deviation to gauge imminent, proxy and potential risks, ensuring readiness, come what may.

With all eyes on international elections – from Indonesia, to India, to the European Union; more than half the world is eligible to vote in 2024 and the all-important US presidential elections are on 5 November – a three sigma (3σ) standard deviation risk is being underappreciated by money managers and pundits alike, that being the specter of a hot war in the Pacific.

According to Jeremy Grantham of GMO, "*A two sigma is the kind of deviation that should occur every 44 years. Because we're a little wilder and less efficient than we should be, it happens every 35 years. Every 35 years feels about right… one event in a career and twice in a lifetime. Three sigma events should occur once every 100 years. Now we, as I like to say, do crazy pretty well as a species. Therefore, three sigma events occur much more often than they should and they are out of kilter much more than two sigma events. With two sigma events, you can have some reasonably standard bubbles. They give you a certain amount of pain in the minus 30, 40 to 50% area. Three sigma events can pretty much wipe you out like 1929.*"

Beyond trite references to the concept of a *Thucydides Trap* and obvious rising geopolitical tensions between the two eminent global hegemons – China and the US – what ultimately triggered the great hot wars of the twentieth century were economic factors or in simple terms, whom controlled the value of money (Bismarck's failure to capture economic hegemony directly led to the first Great War and then pecuniary misery under the Weimar Republic which delivered the world Hitler and the ultimate hot war).

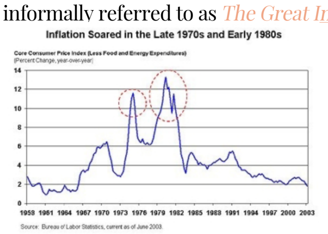
Listen:- Australian Standfirst Podcast Guest Professor Ezra Vogel, 06 May 2020
Cite:- Goodbye Hong Kong, 19 April 2020
Cite:- Military Conflict With China, 6 November 2019
Cite:- Australia's Impossible Choice: Taiwan, 13 December 2020
Cite:- Taiwanese War & Markets Fallout, 30 January 2019
Cite:- Taiwan's Looming Crisis Is A Much Bigger Threat Than Markets Realise, 20 June 2018
Cite:- Hong Kong Affects Backend Of Australian Wealth Management, 4 December 2019
Cite:- All Eyes On Taiwan: Microprocessors, Hypersonics & The Opportunity Set Across The Defence Complex, 20 May 2022
Cite:- Wolf Warrior Statecraft, 5 May 2020

Risk management in the twenty-first century must therefore presage the impact of unconventional monetary policies on domains beyond economic, what cause and effect Modern Monetary Theory or MMT, quantitative easing and helicopter money has had on the reserve currency status of the Greenback, *Pax Americana* and its relationship with the all-important Indo-Pacific theatre (which accounts for two-thirds of global trade plus a significant chunk of global GDP).

This domain beyond economic in this theatre has seen the largest military build up in any bloc since the Korean War with Japan likely to join the AUKUS technology triumvirate {"J'AUKUS"} *tête-à-tête* the People's Republic of China, or PRC, over the sovereignty of the Republic of China, or ROC, better known as Taiwan.

This issue is obviously well known by all and litigated by these missives since 2014; what is less well understood nor appreciated is what monetary and economic factors will push this standoff into belligerence and thereafter how global financial markets will react and be affected.

The reserve currency status of the US Dollar, or Greenback has remained preeminent since Bretton Woods and this alone is not a catalyst for confrontation (yet) – even with China's A-share being included in MSCI in 2018 and October 2016's Chinese RMB joining the IMF's SDR basket (plus the three-month yield for China Treasury bonds was added to the basket used to set interest rates on SDR's) – what will stoke tensions is a second wave of pan-pacific inflationary pressures, echoing those seen post the 1971 Nixon Shock, the early 1970's *Poseidon Bubble*, OPEC crises of 1973 and also 1978-79, all informally referred to as *The Great Inflation*.



Cite:- (Mis)leading Indicators, 12 February 2014
Cite:- Back To The 70's Inflation Pushes Sydney Out Of Reach, 12 September 2015
Cite:- When The Prices Are Not Right: Is Inflation Really That Low?, 11 April 2015
Listen:- Bloomberg: Australian Standfirst Interview Discussing CFNAI Great Lead Indicator On Inflation, October 2017
Cite:- Cross Asset Inflation, 13 March 2019
Cite:- What Some Blanket As "Inflation" Is In Fact China Closing Its Factories To The West: Inflation In A US Election Year, Markets Impact & The *Sinosphere*, 6 January 2022

Acknowledging that in the United States, more money (liquidity) was printed since March 2020 up to the present than that all of the money every created throughout human history combined, what on reflection in 2024 has been learnt is that, objectively, MMT and unconventional monetary experiments have worked on a whole other than one key caveat – if too much liquidity is injected into the system too quickly, cost-push and also demand-pull inflation spikes and do so rapidly (ergo, 2022).

Moreover in defence of MMT, not only did the reserve currency status of the Greenback and Yen not waivered, they both respectively strengthened, seeing the Nikkei225 outperform any other index and asset bucket globally since March 2020, including outperforming the impressive bellwether US S&P500 index.

Cite:- Greenback Regains Place At The Top Of The Currency Pile, 14 March 2015
Cite:- CEEMEA & US Dollar Liquidity Crisis, 9 October 2018
Cite:- Australian Dollar Impaired By The Greenback: The Threat Of A 'Mnuchin Shock' In April 2020, 4 April 2020
Cite:- US War With Iran & The Greenback: Oscillations Between Denial, Panic & Bellicose, 2 August 2020

With Japan and the US economically succeeding, the *Sinosphere* faces mounting pressures on their international Rénmínbì, or RMB, and could not confront a second wave of pan-Pacific inflationary pressures without significant economic pain before the fourth plenary session of the CPC's Central Committee (yet to be announced date) >> Kissinger aptly warned that the encirclement of the PRC combined with erosion via exported inflationary pressures triggered the first and second Opium Wars, which this time around may likely end differently for all combatants and the *Realpolitik* of the region (again, a region that represents two-thirds of global trade).

As a pen ultimate, it is important to highlight that whomever wins the 5 November US election, either candidate will ramp-up spending like drunken sailors; both fiscally and via renewed unconventional monetary experiments, which in and of itself should concern inflation watchers the world over.

Cite:- Bidenomics, Slavery Reparations & The Global Reflation Supercycle: Atoning For America's Original Sin Recompensed Via Even More Money Printing (US$7-9 trillion), 23 March 2021
Cite:- Trump's Bull Rally, 22nd Amendment & How The First American Republic Ends, 19 December 2019
Cite:- Will The Instosdriven Donald Trump Rally Last Long, 6 December 2016
Cite:- Trumponics Gaining Attention But Its China That Matters, 4 February 2017

A Great Pacific hot war will unquestionably be a three sigma (3σ) standard deviation risk that would rock global financial markets up and down the capital stacks and across asset buckets and albeit still not inevitable, the specter of a Sino-J'AUKUS confrontation should not be forgotten by risk managers, pundits or the polity alike. ***Q.E.D.***

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