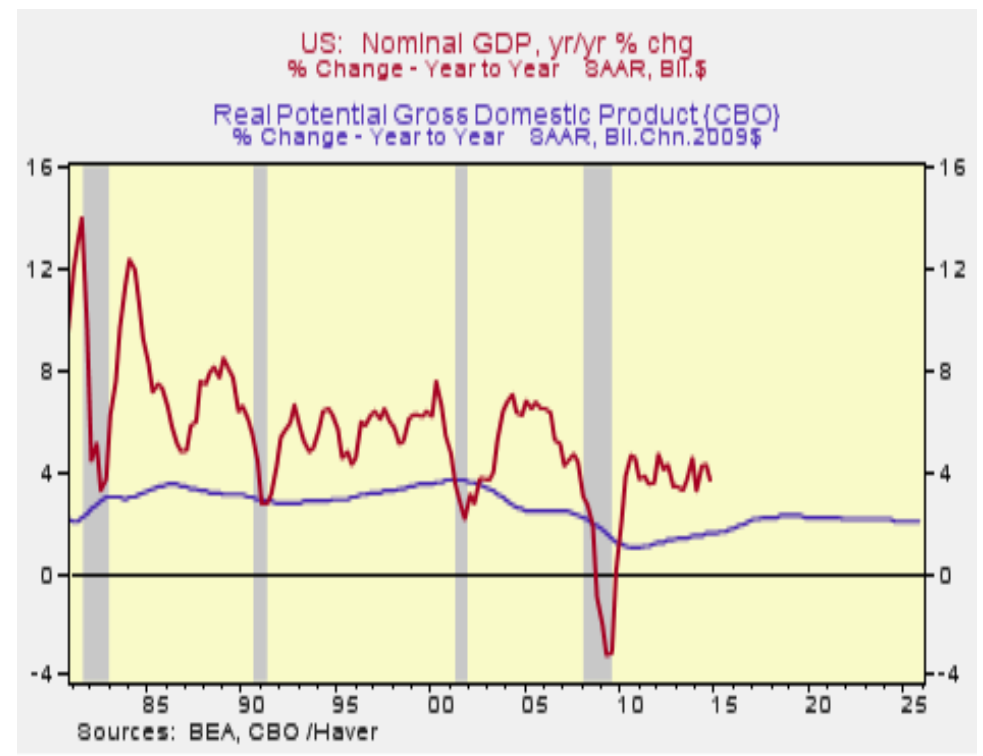
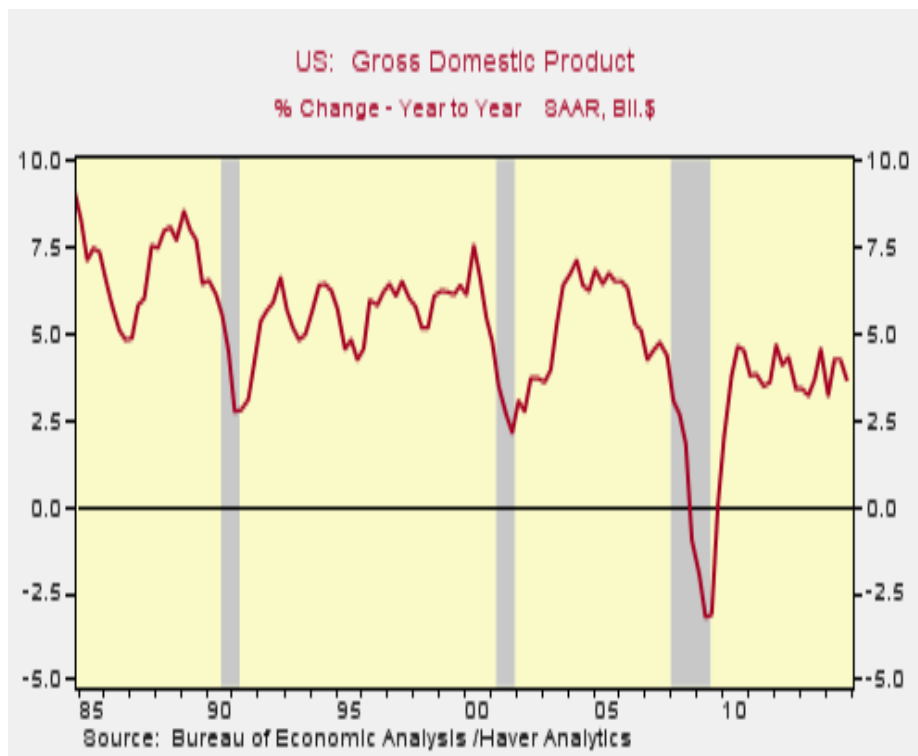


# Key Issues Facing the US Fed, ECB and BoJ

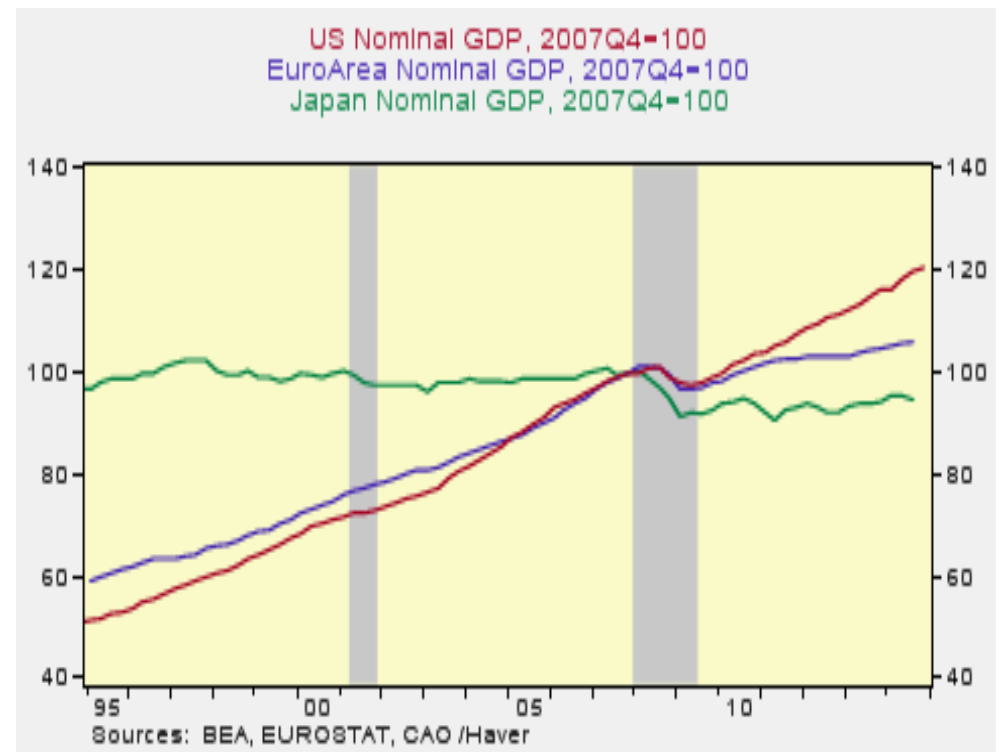
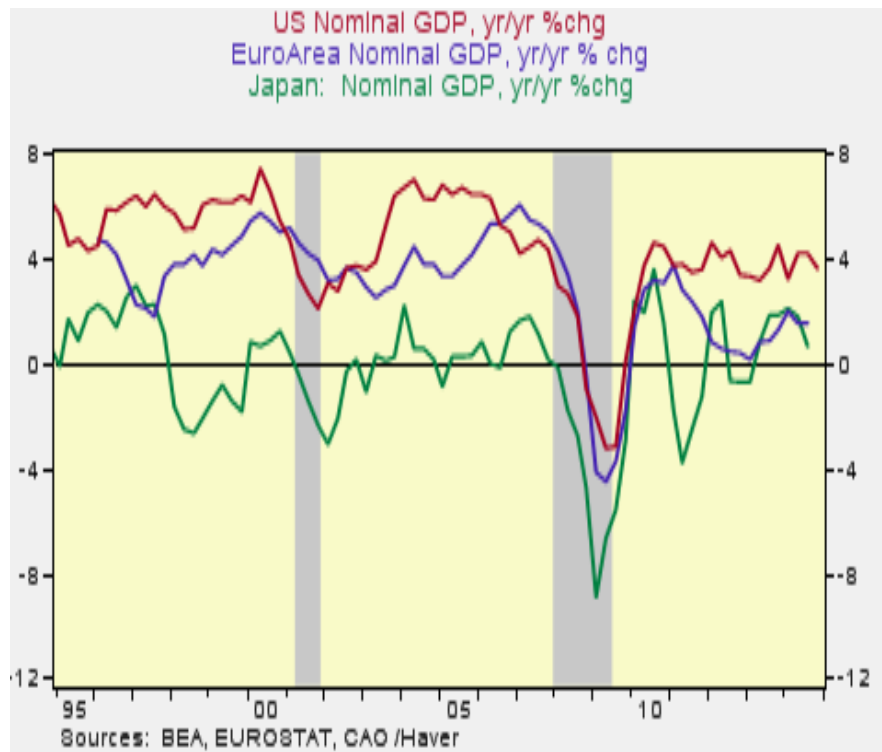
Mickey D. Levy  
Blenheim Capital Management

NABE Philadelphia Chapter  
Philadelphia, Pennsylvania  
February 4, 2015

# US Nominal GDP: Growth Comfortably Exceeds Real Potential Growth



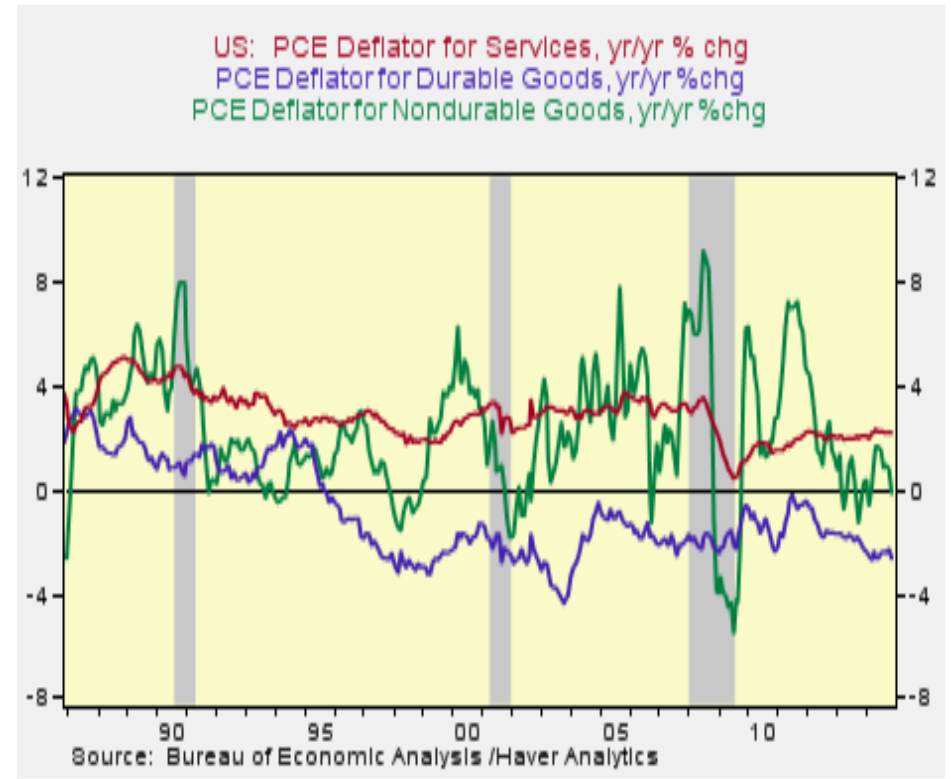
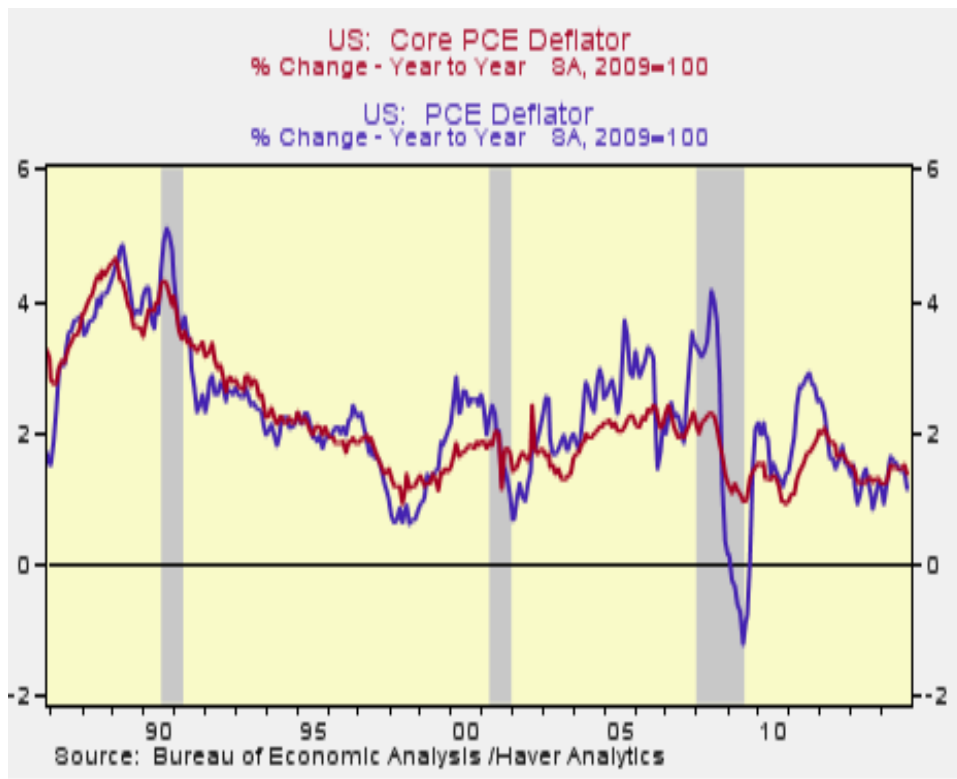
# EuroArea and Japan: Insufficient Nominal GDP Growth



# Trends in Global Inflation

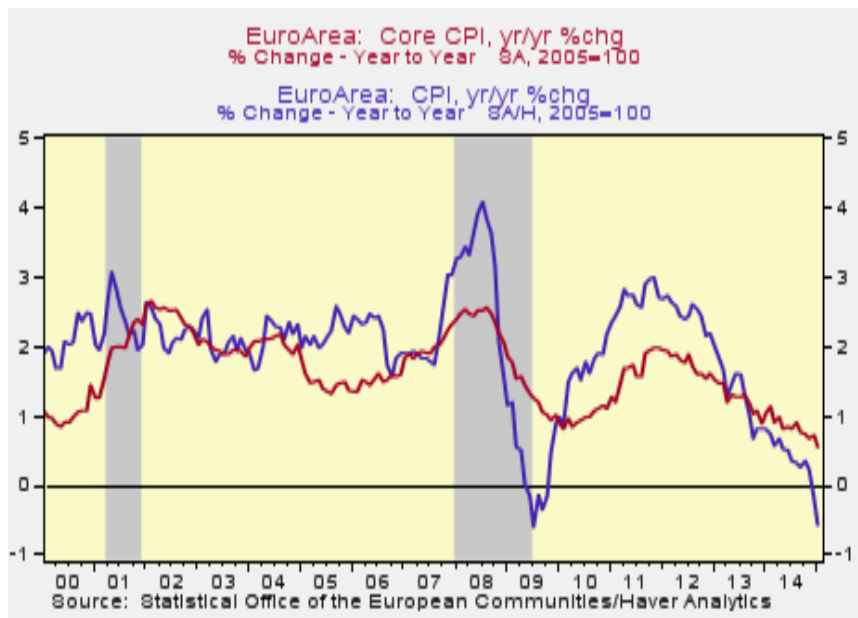
- US: Nominal GDP growth is consistent with moderate inflation and healthy real growth
  - Deflation probability near zero; accelerating nominal growth would generate inflation
  - Consistent with Fed's dual mandate, but Fed must be forward-looking
- EuroArea: Nominal GDP growth is only slightly faster than (diminishing) real potential growth
  - Consistent with near-price stability; risks of deflation (pre-QE, ECB policy was inconsistent with inflation mandate)
- Japan: Since the early 1990s, insufficient nominal GDP growth relative to low potential has generated bouts of deflation
  - The BoJ's QQE strives to generate growth and inflation...
  - But its efforts are sidetracked by the VAT hike and lack of economic reforms
- Positive oil price shock will temporarily lower inflation shares of nominal growth and raise real shares

# US Trends in Inflation

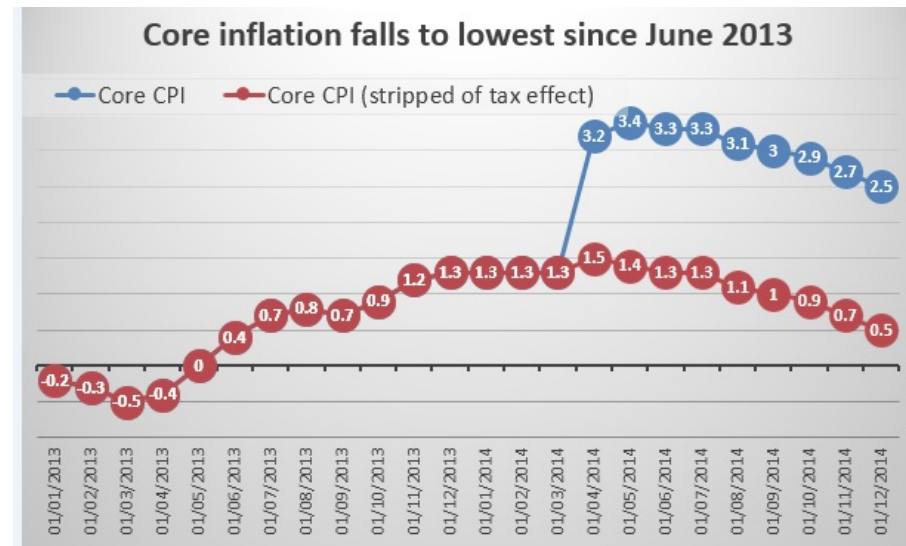


# EuroArea and Japan Inflation Trends

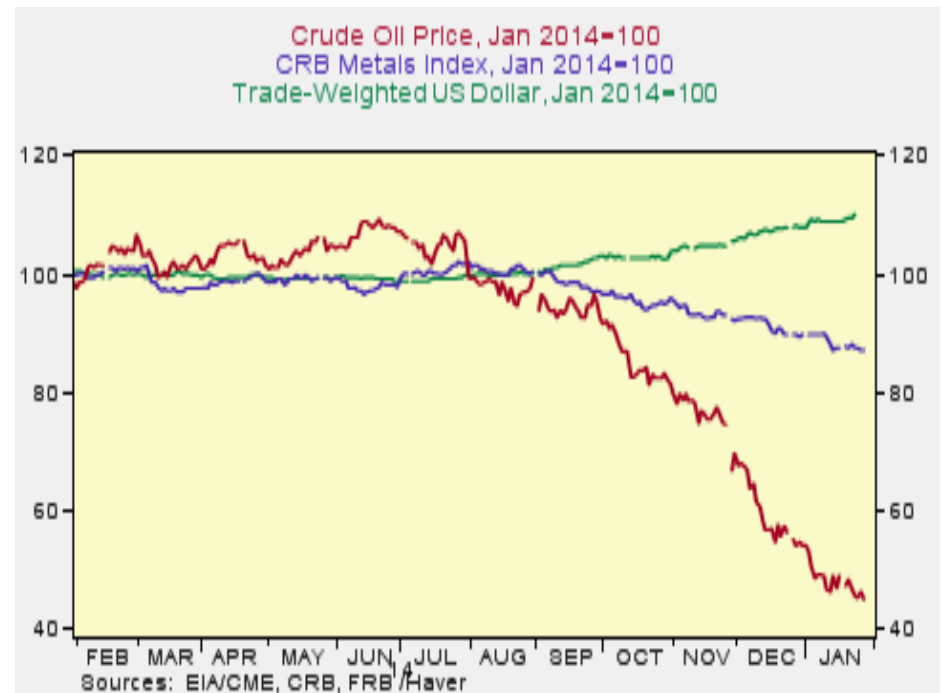
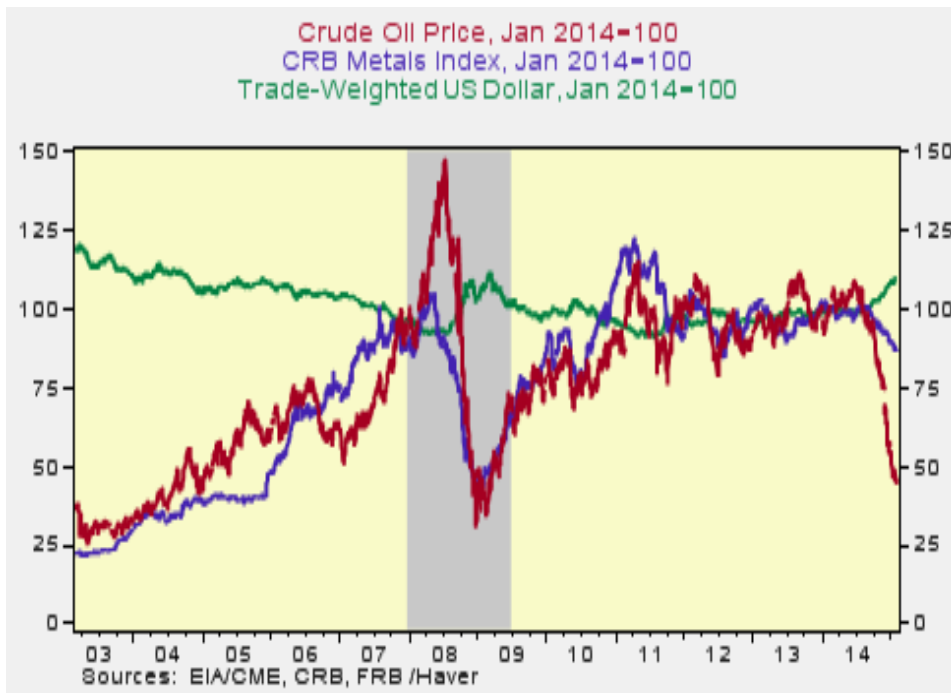
## EuroArea: Low Core Inflation



## Japan: Diminishing Core Inflation



# A Positive Oil Supply Shock

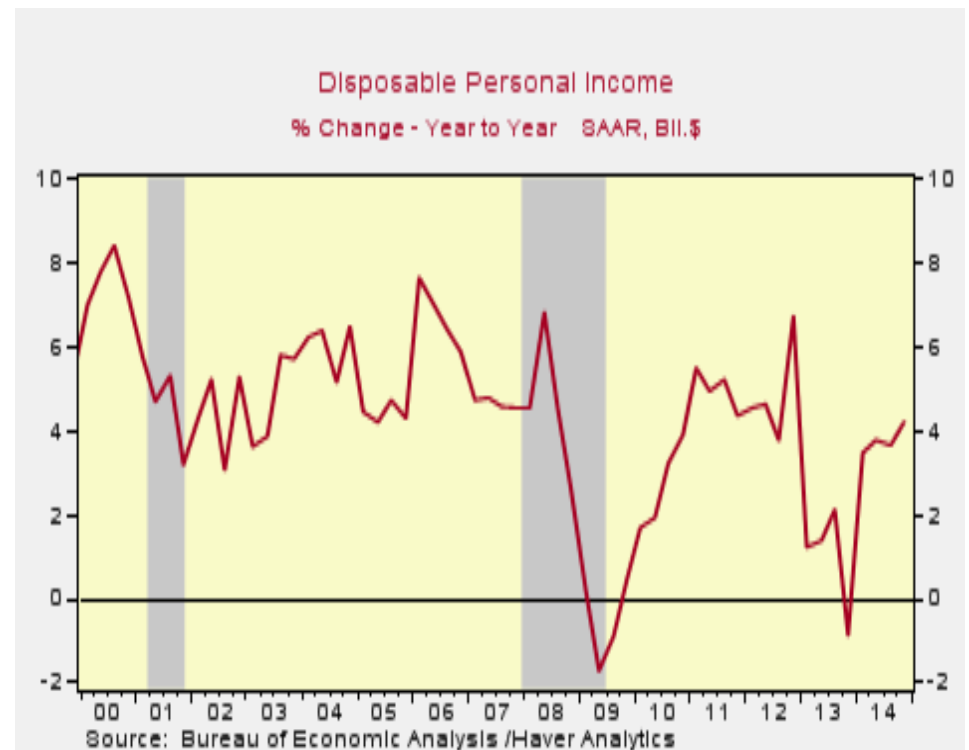
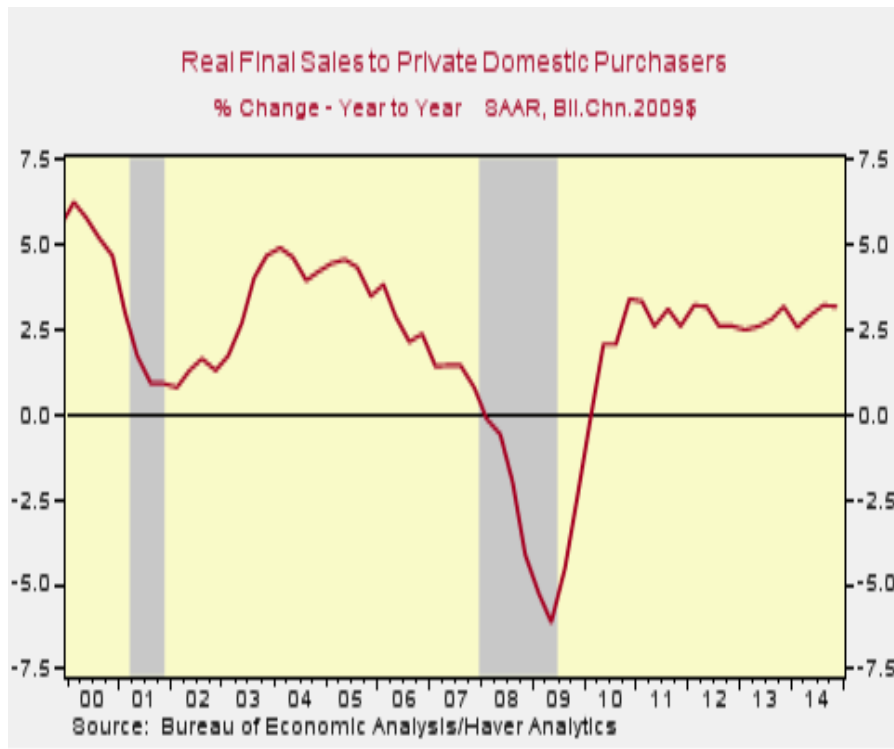


# US Economy Gathering Strength

- Economy is in 6<sup>th</sup> year of expansion, but in many respects it has characteristics similar to early-middle stage expansions
  - Potentially disruptive imbalances are absent in real and financial sectors
- Key post-crises adjustments have largely concluded
  - Thus, the factors that had inhibited growth are dissipating, while the Fed maintains its turbo-charged monetary stimulus
- The dramatic oil price decline is a positive supply shock that will enhance economic performance more than expected
  - Higher real purchasing power, lower operating margins to overwhelm widening net export sector stemming from lower oil prices



# Solid Gains in Incomes and Domestic Demand



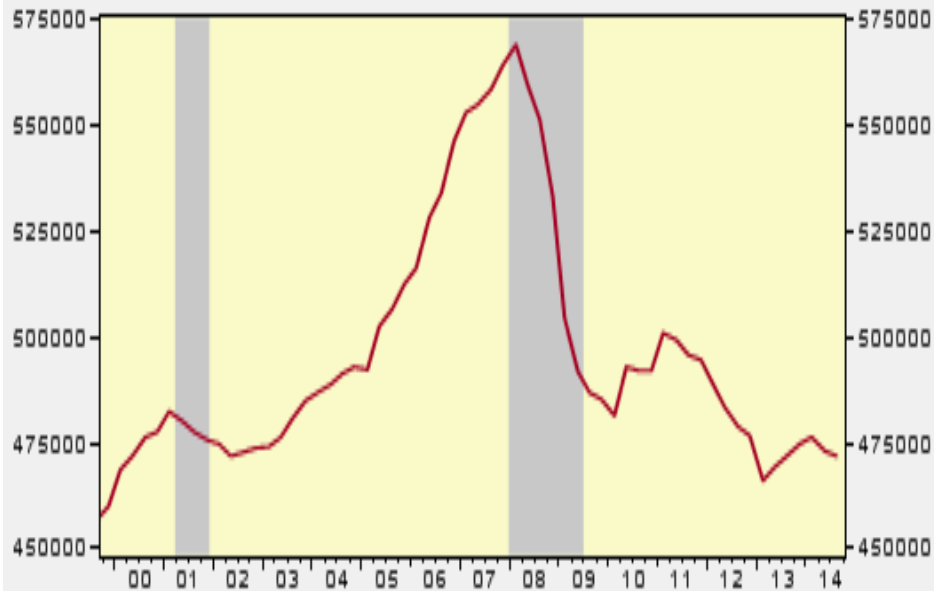
# EuroArea: Economic Malaise and Challenges

- EuroArea potential growth has diminished to about 1% from about 1.75% pre-crisis
  - Declining capital stock, weak growth of labor force and productivity
- Wide dispersion of economic performance among EuroArea nations
  - Germany and “reformers” (Ireland, Spain) are growing and improving; “non-reformers” (France , Italy) are languishing
- ECB’s massive QE is not a substitute for economic reforms in France, Italy and other laggards
  - Needed: labor market and economic reforms
  - Fiscal issues much more complex than “austerity” vs “delaying-austerity”

## EuroArea: Low Potential, Uneven Economic Performances

EuroArea: Gross Fixed Capital Formation

SAWDA, MII.Chn.2010.EUR



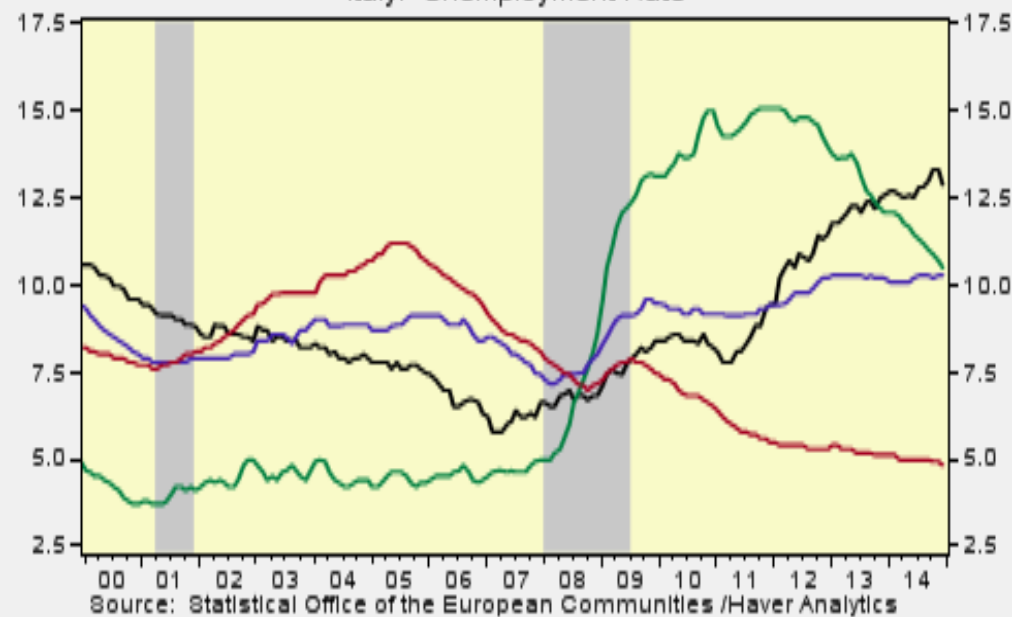
Source: Statistical Office of the European Communities /Haver Analytics

Germany: Unemployment Rate

France: Unemployment Rate

Ireland: Unemployment Rate

Italy: Unemployment Rate

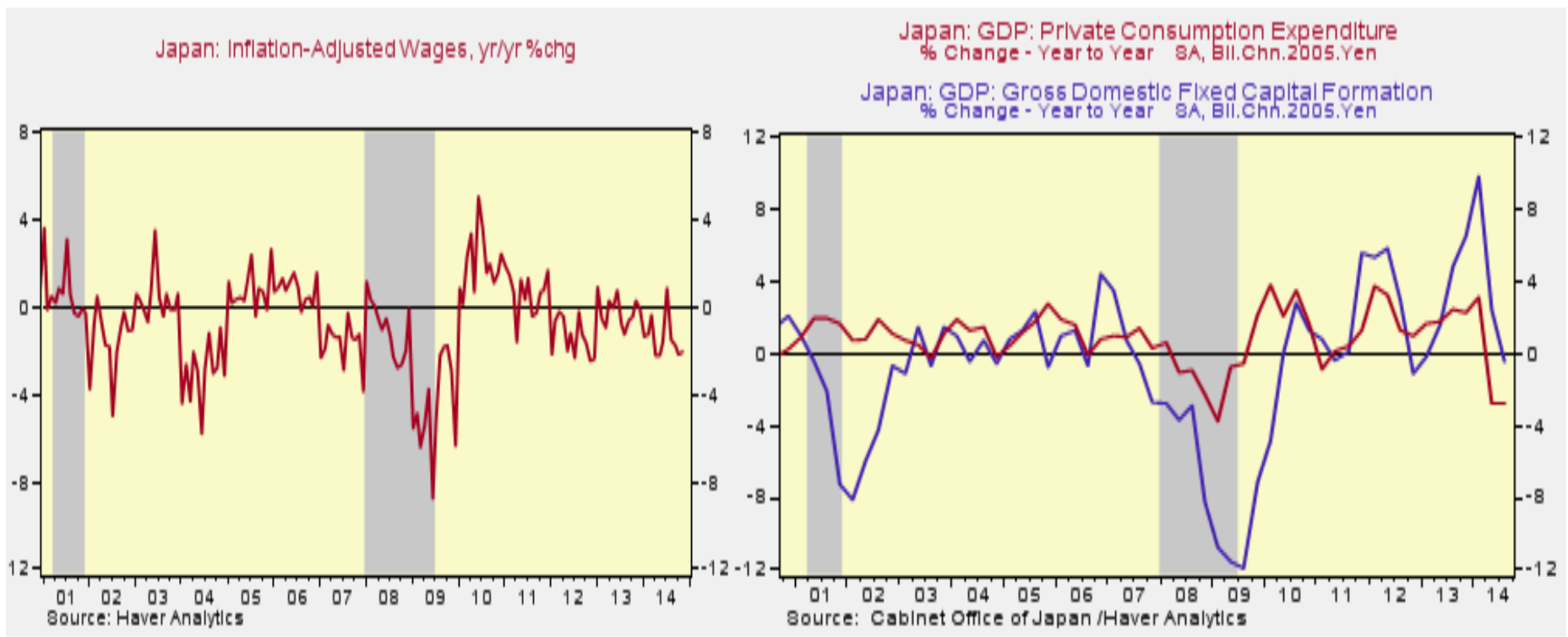


Source: Statistical Office of the European Communities /Haver Analytics

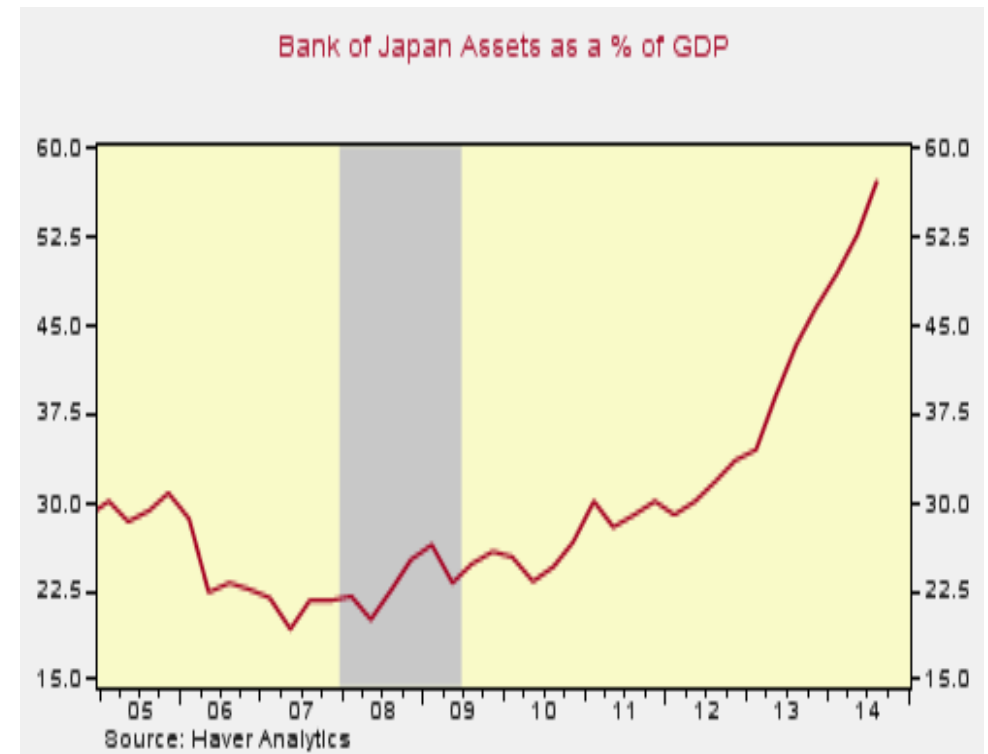
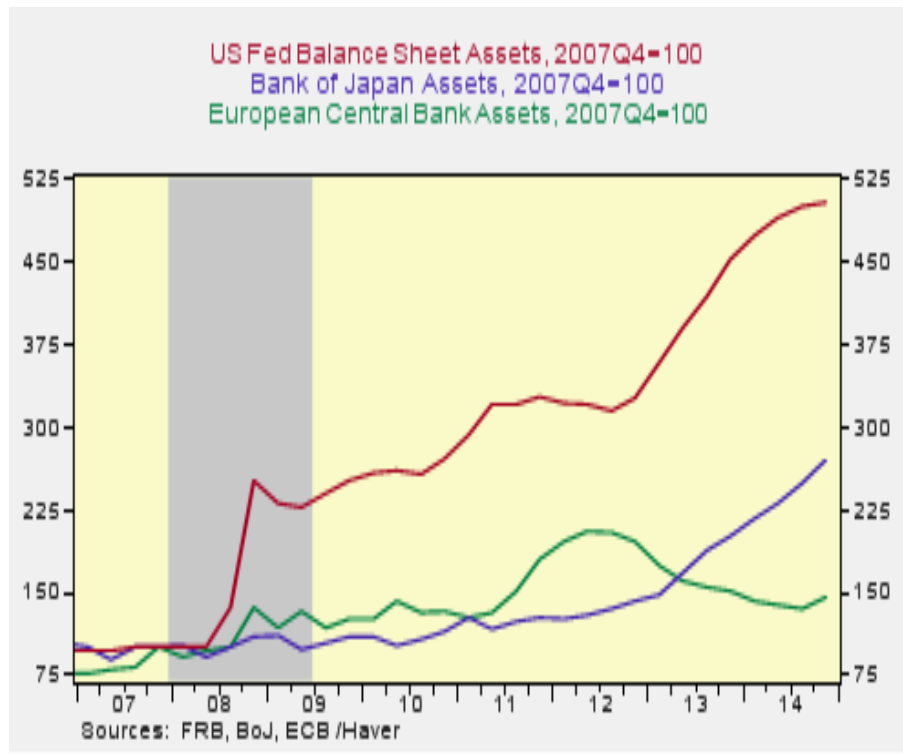
# Japan: High Debt, Low Potential; Reforms?

- BoJ's QQE depreciated the yen and boosted asset prices, generating growth in 2013
- The VAT hike in Spring 2014 side-tracked the positive economic momentum and depressed confidence
  - Household spending and business investment tentative
- Abe Administration refers to "third arrow" but specific reform proposals are largely absent
- Potential growth is officially estimated to be 0.5%
- Japan will get a boost from lower oil prices

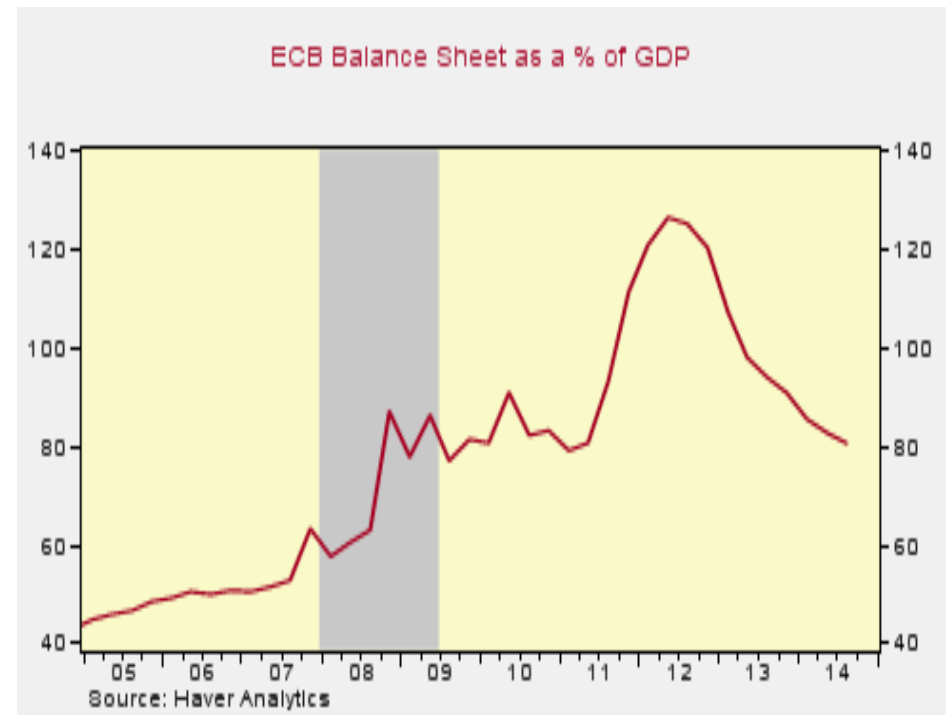
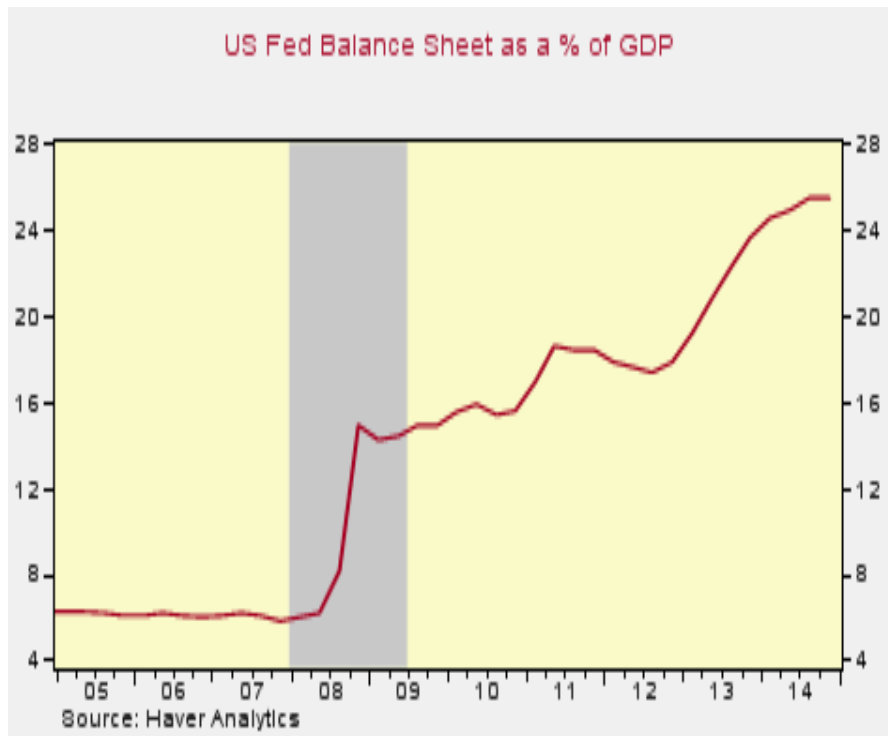
# Japan: Side-Tracked by VAT Hike



# Central Bank Balance Sheets with QE



# Central Bank Balance Sheets

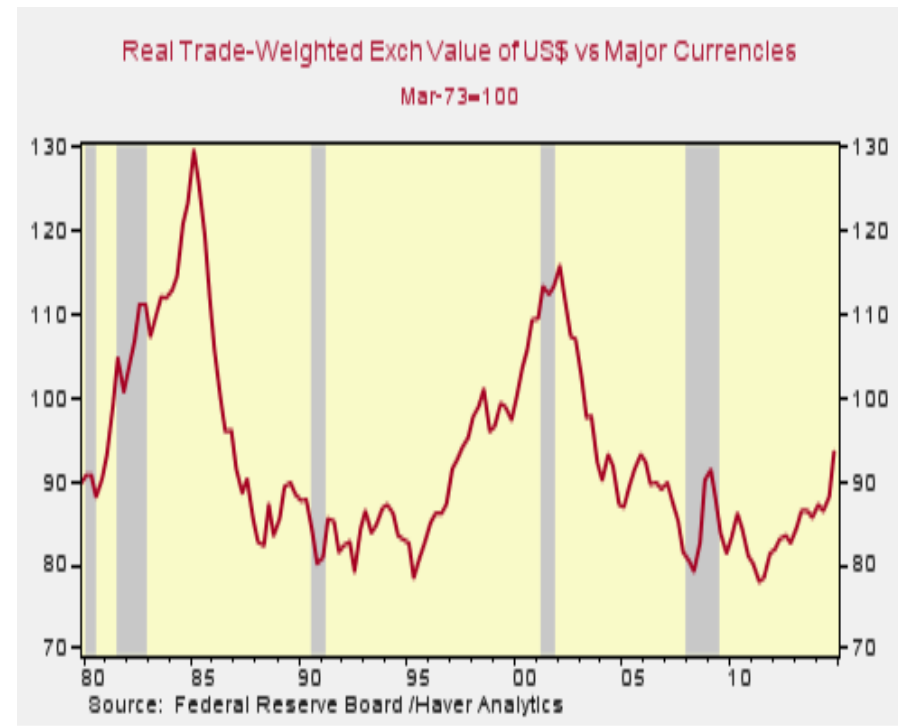
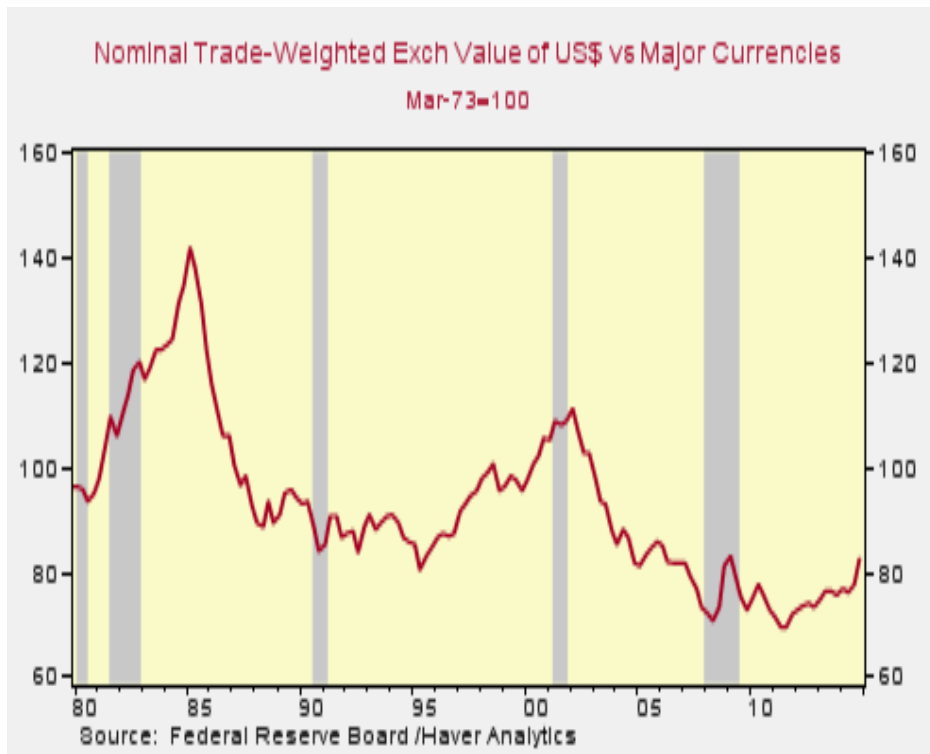


# US Dollar Appreciation





# Long-Term Trend in US Dollar



### **Important Notes**

The information presented herein expresses the personal views of the author and not necessarily those of the author's employer, Blenheim Capital Management, L.L.C. ("Blenheim"). This information is intended for informational purposes only and does not constitute an offer to sell or the solicitation of an offer to buy any securities or interest in any fund managed or operated by Blenheim or its affiliates. This document is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation.

The information, data and charts contained herein have been obtained and derived from a variety of third party sources that are believed to be reliable and accurate, but neither the underlying data and figures, nor the publicly available information, has been verified or audited for accuracy or completeness. No representation or warranty, express or implied, is being made as to such information's completeness or accuracy nor is any responsibility being assumed for any errors or omissions in such information and nothing contained herein should be relied upon as a promise or representation as to past or future performance.

This information contains forward-looking statements. These forward-looking statements include, without limitation, statements relating to market performance. Words like "believe", "estimate", "anticipate", "plan", "predict", "may", "hope", "can", "will", "should", "expect", "intend", "is designed to", "with the intent", "potential", the negative of these words or such other variations thereon or comparable terminology, may indicate forward-looking statements, but their absence does not mean that a statement is not forward-looking. These forward-looking statements are not historical facts. Rather, these forward-looking statements are based on the current beliefs, assumptions, expectations, estimates, and projections of the author about the markets and the economy. These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, and are difficult to predict. Consequently, the economy and the markets could perform materially different from what is expressed, implied or forecasted in these forward-looking statements. Factors that could cause actual results to differ materially from those reflected in these forward-looking statements include, but not limited to, possible negative effects of potentially new regulatory developments and global political and economic developments. Readers are cautioned not to place undue reliance on these forward looking statements. Neither the author nor Blenheim intend, or undertake any obligation, to update any forward-looking statements to reflect events or circumstances after the date of this document or the date on which any subsequent forward-looking statement is made to reflect the occurrence of unanticipated events.