SAXO BANK

PRESS RELEASE

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Saxo Bank's 10 Outrageous Predictions for 2019:

Will this be the year when Germany enters recession, Apple "secures funding" for Tesla, Trump tells Powell "you're fired" and Labour sweeps to a resounding victory and names Jeremy Corbyn as prime minister sending GBPUSD to parity?

Saxo Bank, the leading Fintech specialist focused on multi-asset trading and investment, has today released its 10 'Outrageous Predictions' for 2019. The predictions focus on a series of unlikely but underappreciated events which, if they were to occur, could send shockwaves across financial markets.

While these predictions do not constitute Saxo's official market forecasts for 2019, they represent a warning of a potential misallocation of risk among investors who typically see just a one percent likelihood to these events materialising.

The Outrageous Predictions for 2019 are:

1. EU announces a debt jubilee
2. Apple "secures funding" for Tesla at $520/share
3. Trump tells Powell "you're fired"
4. Prime Minister Corbyn sends GBPUSD to parity
5. Corporate credit crunch pushes Netflix into GE's vortex
6. Australian central bank launches QE on housing bust Down Under
7. Germany enters recession
8. X-Class solar flare creates chaos and inflicts $2 trillion of damage
9. Global Transportation Tax (GTT) enacted as climate panic spreads
10. IMF and World Bank announce intent to stop measuring GDP, focus instead on productivity

Commenting on the Outrageous Predictions, Chief Economist at Saxo Bank, Steen Jakobsen said:

"We have been publishing Outrageous Predictions for more than a decade and think this year's list is both fascinating and shocking while encouraging investors to think outside the consensus box. It is important to underline that the Outrageous Predictions should not be considered Saxo's official market outlook, it is instead the events and market moves deemed outliers with huge potential for upsetting consensus views.

"This year's edition has a unifying theme of "enough is enough". A world running on empty will have to wake up and start creating reforms, not because it wants to but because it has to. The signs are everywhere. We think 2019 will mark a profound pivot away from this mentality as we are reaching the end of the road in piling on new debt and next year will see us all beginning to pay the piper for our errant ways. The great credit cycle is already showing signs of strain in late 2018 and will rip through developed markets next year as central banks are sent back to the drawing board. After all, their money printing efforts since 2008 have only dug a deeper debt hole, and it has now grown beyond their mandate to manage.

“If some of these outrageous predictions see the light of day, we might finally see a healthy shift toward a less leveraged society, with less focus on short-term gains and growth, and a new focus on productivity and new economic revolution back toward globalisation with a fairer playing field after the immediate moment of crisis. On the negative side, we could see considerable worsening of central bank independence, a credit crunch, and big losses in the asset where everyone is too long: real estate.”

The Outrageous Predictions 2019 publication is available here and the full list of Saxo Bank’s Outrageous Predictions for 2019 reads:

1. EU announces a debt jubilee

In 2019, the unsustainable level of public debt, a populist revolt, rising interest rates from European Central Bank tapering/lower liquidity, and sluggish growth reopened the European debate on how to get ahead of a new crisis. Italian contagion sickens Europe’s banks as the EU lurches into recession. The ECB resorts to new TLTRO and forward guidance to limit the carnage, but it’s not enough and when contagion spreads to France, policymakers understand that the EU faces the abyss. Germany and the rest of core Europe, which refuses to let the Eurozone fall apart, have no other choice than to back monetisation. The Economic and Monetary Union extends a debt monetisation mandate to the ECB for all debt levels over 50% of GDP and guarantees the rest via a Eurobond scheme while moving the controversial Growth and Stability goalposts. A new fiscal rule allowing the first 3% of GDP in deficits to be mutualised in 2020 is adopted by EMU countries, with everything beyond subject to a periodic review by the European Commission linked to the state of the EU economy.

2. Apple “secures funding” for Tesla at $520/share

Apple realises that if it wants to deepen its reach into the lives of its user base, the next frontier is the automobile as cars become more digitally connected. After all, the late Steve Jobs showed that a company needs to bet big and bet wild to avoid complacency and irrelevance. Acknowledging that Tesla needs more financial power and Apple needs to expand its ecosystem to the car in a more profound way than that represented by the current Apple CarPlay software, Apple goes after Tesla. It secures funding for the deal at a 40% premium of $520 dollars a share – acquiring the company at $100/share more than Elon Musk’s errant “funding secured” tweet.

3. Trump tells Powell "you're fired"

At the December 2018 Federal Open Market Committee meeting, Federal Reserve chair Jerome Powell signs on with a slim majority of voters in favour of a rate hike - one too many and the US economy and US equities promptly drop off a cliff in Q1 2019. By the summer, with equities in a deep funk and the US yield curve having moved to outright inversion, an incensed President Trump fires Powell and appoints Minnesota Fed President Neel Kashkari in his stead. The ambitious Kashkari was the most consistent Fed dove and critic of tightening US monetary policy. He is less resistant to the idea of the Fed serving at the government's pleasure and is soon dubbed 'The Great Enabler', setting President Trump up for a successful run at a second term in 2020 by promising a $5 trillion credit line to buy Treasury Secretary Mnuchin's new zero-coupon perpetual bonds to fund Trump's "beautiful" new infrastructure projects and force nominal US GDP back on the path it lost after the Great Financial Crisis. Inflation reaches 6%, is reported at 3%, and the Fed policy is stuck at 1%. That's deleveraging you can believe in via financial repression to the great detriment of savers.

4. Prime Minister Corbyn sends GBPUSD to parity

Labour sweeps to a resounding victory and names Jeremy Corbyn as prime minister on the promise of comprehensive progressive reform and a second referendum on a "to-be defined" Brexit deal. With a popular mandate and strong majority in Parliament, the Corbyn Labour government embarks on a mid-20th century-style socialist scorched earth campaign to even out the UK's gross inequalities. New tax revenue streams are tapped into as Corbyn brings the UK's first steeply progressive property tax into being to soak the wealthy and demands the Bank of England help finance a new "People's quantitative easing", or universal basic income. Utilities and the rail networks are re-nationalised and fiscal expansion sees deficits yawn wider to the tune of 5% of GDP. Inflation rises steeply, business investment languishes, and non-domiciled foreign residents run for cover, taking their vast wealth with them. Sterling is crushed on the double trouble of ugly twin deficits and lack of business investment on the still-unresolved Brexit issue. Cable goes from the 1.30 area where it spent most of the second half of 2018 and all the way down to parity at 1.00, a move of over 20% - with one dollar being equal to one pound for the first time ever.

5. Corporate credit crunch pushes Netflix into GE's vortex

2019 proves the year of credit dominos toppling in the US corporate bond market. It starts with General Electric losing further credibility in credit markets, pushing the credit default price above 600 basis points as investors panic over GE's $100 billion in liabilities rolling over in the coming years at the same time as the firm sees deteriorating cash flow generation. The carnage even spreads as far as Netflix where investors suddenly fret the firm's fearsome leverage, with a net debt to EBIDTA after CAPEX ratio of 3.4 and over $10bn in debt on the balance sheet. Netflix's funding costs double, slamming the brakes on content growth and gutting the share price. To make things worse, Disney's 2019 entrance into the video streaming industry trims Netflix growth further still. The negative chain reaction in corporate bonds sets off massive uncertainty in high-yield bonds leading to a Black Tuesday for exchange-traded funds tracking the US high-yield bond market where ETF market makers are unable to set meaningful spreads, forcing a complete withdrawal from the market during a tumultuous trading session. The fallout in the ETF market becomes the first warning shot of passive investment vehicles and their negative impact on markets during turmoil.

6. Australian central bank launches QE on housing bust Down Under

In 2019, the curtains close on Australia's property binge in a catastrophic shutdown driven most prominently by plummeting credit growth. In the aftermath of the Royal Commission, all that is left of the banks is a frozen lending business and an overleveraged, overvalued mortgage-backed property ledger and banks are forced to further tighten the screws on lending. Australia falls into recession for the first time in 27 years as the plunge in property prices destroys household wealth and consumer spending. The bust also contributes to a sharp decline in residential investment. GDP tumbles. The blowout in bad debt squeezes margins and craters profits. The banks' exposure is too great for them to cover independently and bailout would be required from the RBA, perhaps recapitalising and securitising mortgages onto the RBA's balance sheet.

7. Germany enters recession

A global leader for decades, Germany is struggling to upgrade its leveraging of modern technology. The crown jewel of the German economy, representing a cool 14% of GDP, is its car industry. The German car industry was supposed to be a growth juggernaut, registering 100 million sold cars in 2018. In the end, it only managed to unload 81 million cars, a mere 2% more than 2017 and well down from the 5-10% yearly growth rates from 2000s and forward. By 2040, 55% of all new global car sales and 33% of the stock will be EVs. But Germany is only just starting the transformation to EV and is years behind, and stiffer US tariffs won't make things any better for German supply chains or exports. 2019 will be the peak of anti-globalisation sentiment and will create a laser-like focus on costs, domestic markets and production, and the further use of big data and reduced pollution footprint – the exact opposite of the trends that have benefitted Germany since the 1980s. As such, we see a recession arriving as early as Q3 2019.

8. X-Class solar flare creates chaos and inflicts $2 trillion of damage

All life on earth exists thanks to the stable bounty of energy hurled our way by the sun, but Sol is not always a serene and beneficent ball of burning hydrogen. As solar astronomers are well aware, the sun is also a seething cauldron of activity capable of producing incredible violence in the form of solar flares, the worst of which see the sun vomiting actual matter and radiation in the form of Coronal Mass Ejections, or CMEs. In 2019, as solar cycle 25 kicks into gear, the earth isn't so lucky and a solar storm strikes the Western hemisphere, taking down most satellites on the wrong side of the earth at the time and unleashing untold chaos on GPS-reliant air and surface travel/logistics and electric power infrastructure. The bill? Around $2 trillion, which is actually some 20% less than the worst-case scenario estimated by a Lloyds-sponsored study on the potential financial risks from solar storms back in 2013.

9. Global Transportation Tax (GTT) enacted as climate panic spreads

The world suffers another year of wild weather with Europe again experiencing an extremely hot summer, setting off panic alarms in capitals around the world. With the international aviation and shipping industry enjoying substantial tax privileges, they become the targets of a new Global Transportation Tax (GTT) that introduces a global ticket tax on aviation and a capital "tonnage" tax on shipping with the price linked to carbon emission footprints. The new tax charge is set to $50/ton of CO_2 emissions which is twice previous proposed levels and significantly above the 2018 average of €15/ton under the European Union's Emissions Trading System. The new GTT pushes up air travel ticket prices and maritime freight, increasing the general price level as the new tax is passed on to consumers. The US and China have previously contested fuel taxes on aviation, citing the 1944 Chicago Convention on International Civil Aviation, but China changes its stance as a natural progression of its fight against pollution. This forces the US to reluctantly join forces in a global transportation tax on aviation and shipping. Stocks in the tourism, airline, and shipping industries plunge on increased uncertainty and lower growth.

10. IMF and World Bank announce intent to stop measuring GDP, focus instead on productivity

In a surprising move at the International Monetary Fund and World Bank spring meetings, chief economists Pinelopi Goldberg and Gita Gopinath announce their intent to stop measuring GDP. They argue that GDP has failed to capture the real impact of low-cost, technology-based services and has been unable to account for environmental issues, as attested by the gruesome effects from pollution on human health and the environment in India and elsewhere around the world. Productivity is certainly one of the most popular, and yet least understood, terms in economics. Simply defined, it refers to output per hour worked. In the real world, however, productivity is a much more complex notion. In fact, it can be considered as the greatest determinant of the standard of living over time. If a country is looking to improve people's happiness and health, it needs to produce more per worker than it did in the past. This unprecedented decision by the IMF and the World Bank also symbolises the transition away from the central bank-dominated era that has been associated with the collapse in global productivity since the global financial crisis.

To access the full publication of Outrageous Predictions for 2019 please go to the Saxo Bank website:

https://www.home.saxo/outrageous-predictions

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About Saxo Bank

Saxo Bank Group (Saxo) is a leading Fintech specialist focused on multi-asset trading and investment and delivering 'Banking-as-a-Service' to wholesale clients.

For more than 25 years, Saxo's mission has been to democratize investment and trading, enabling clients by facilitating their seamless access to global capital markets through technology and expertise.

As a fully licensed and regulated bank, Saxo enables its direct clients to trade multiple asset classes across global financial markets from one single margin account and across multiple devices. Additionally, Saxo provides wholesale institutional clients such as banks and brokers with multi-asset execution, prime brokerage services and trading technology, supporting the full value chain delivering Banking-as-a-Service (BaaS).

Saxo's award winning trading platforms are available in more than 20 languages and form the technology backbone of more than 100 financial institutions worldwide.

Founded in 1992 and launching its first online trading platform in 1998, Saxo Bank was a Fintech even before the term was created. Headquartered in Copenhagen Saxo Bank today employs more than 1500 people in financial centers around the world including London, Paris, Zurich, Dubai, Singapore, Shanghai, Hong Kong and Tokyo.