



Macroeconomic Risks Are Developed Markets Riskier Than Developing Markets?

AUGUST 2022





Risks Arise When What We Perceive is Different from What Actually is Existing



Most G7 Countries Enjoy Excellent Sovereign Credit Ratings

Country	Standard & Poor's	Moody's	Fitch
Canada	AAA	Aaa	AA+
France	AA	Aa2	AA
Germany	AAA	Aaa	AAA
Japan	A+	A1	A
UK	AA	B3	AA-
USA	AA	B3	AA-
Italy	BBB	Baa3	BBB
China	A+	A1	A+
India	BBB-	Baa3	BBB-
Brazil	BB-	Ba2	BB-
South Africa	BB-	Ba2	BB-
Russia	C	Ca2	BBB-



G7 Country



BRICS Country



But a Closer Look at their Economic Performance Tells Another Story



	10-year Average GDP Growth (%)	Current inflation - 20-year Average Inflation	10-year G-sec Yield - Current Inflation	Current Policy Rate - Current Inflation	General Government Gross Debt to GDP Ratio	Value of Trade as % of GDP	One year forward FXreserves to GDP Ratio	Population Growth Projection (2020-2030)
USA	2.1	6.9	-6.3	-6.8	132.6	23.0	0.0	0.4%
UK	1.6	7.3	-7.4	-7.7	93.4	55.0	0.0	0.3%
Italy	-0.2	6.3	-5.0	-7.5	150.9	63.0	0.1	-0.3%
Germany	1.0	6.0	-6.7	-7.1	70.2	89.0	0.2	-0.1%
Japan	0.5	2.3	-2.2	-2.1	263.1	31.0	0.3	-0.5%
Canada	1.6	6.2	-5.4	-5.6	112.1	61.0	0.1	0.7%
France	1.0	4.3	-4.4	-5.3	112.3	62.0	0.1	0.2%
India	5.6	0.7	0.3	-1.6	86.8	44.0	0.2	0.8%
China	6.7	0.2	0.3	2.0	73.3	37.0	0.2	0.1%
South Africa	1.0	1.9	2.9	-1.9	69.1	56.0	0.2	1.0%
Brazil	0.4	5.6	0.2	1.6	93.0	39.0	0.2	0.5%
Russia	1.4	6.5	-6.9	-7.9	17.0	52.0	0.5	-0.2%





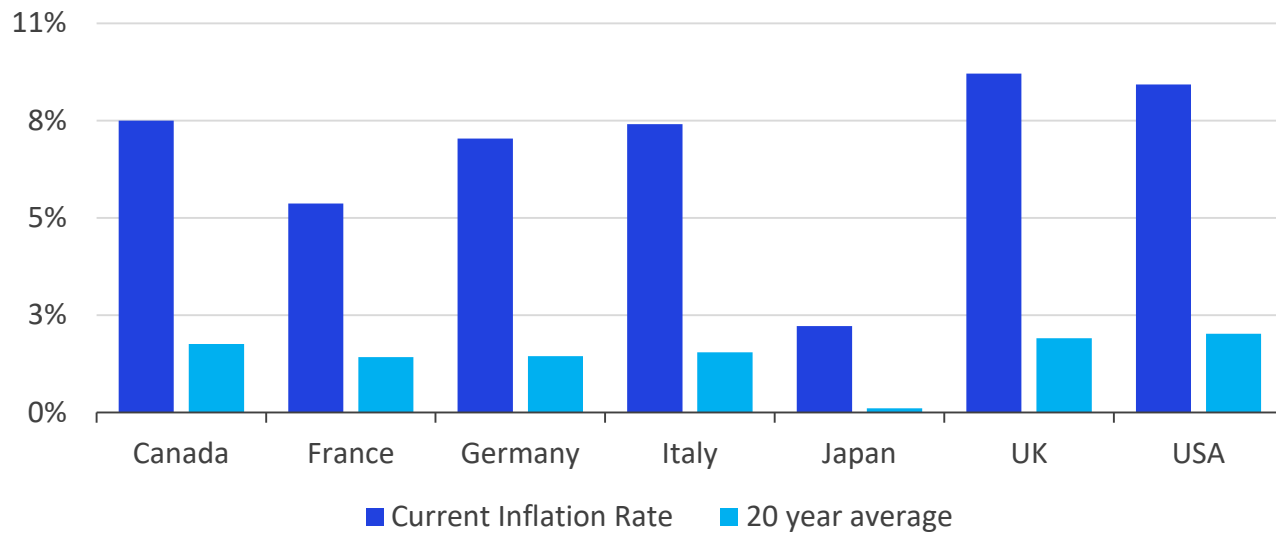
Mother of All Perfect Storms Waiting to Happen....!?



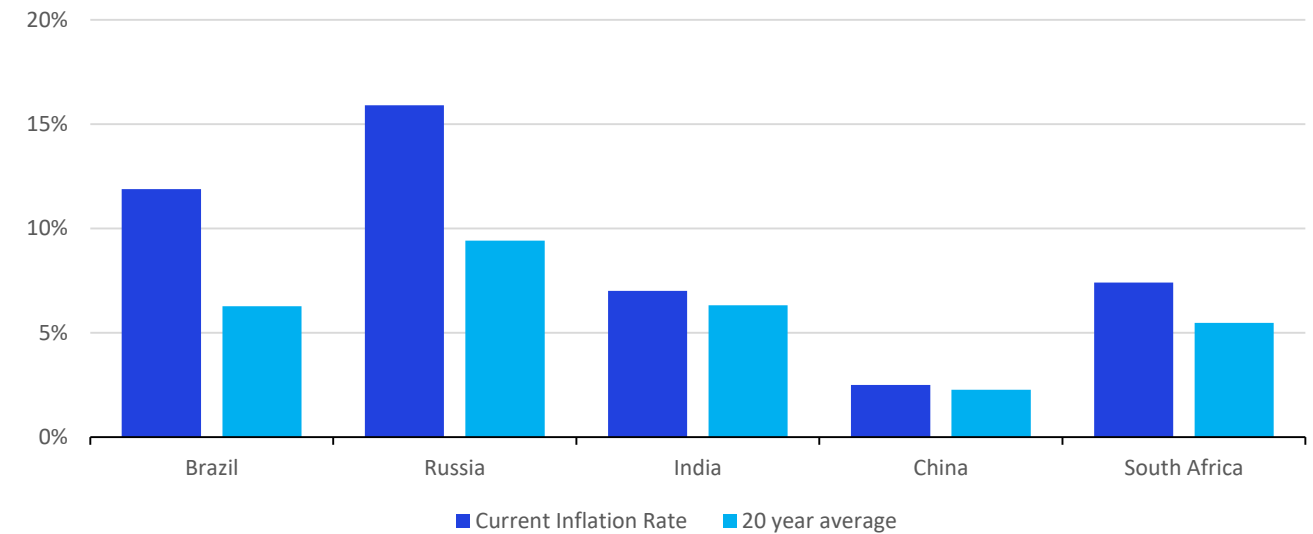
Inflation in G7 Countries has Spiked to Record Highs while BRICS have Managed to Sail the Boat



Developed Economies (G7)



Developing Economies (BRICS)



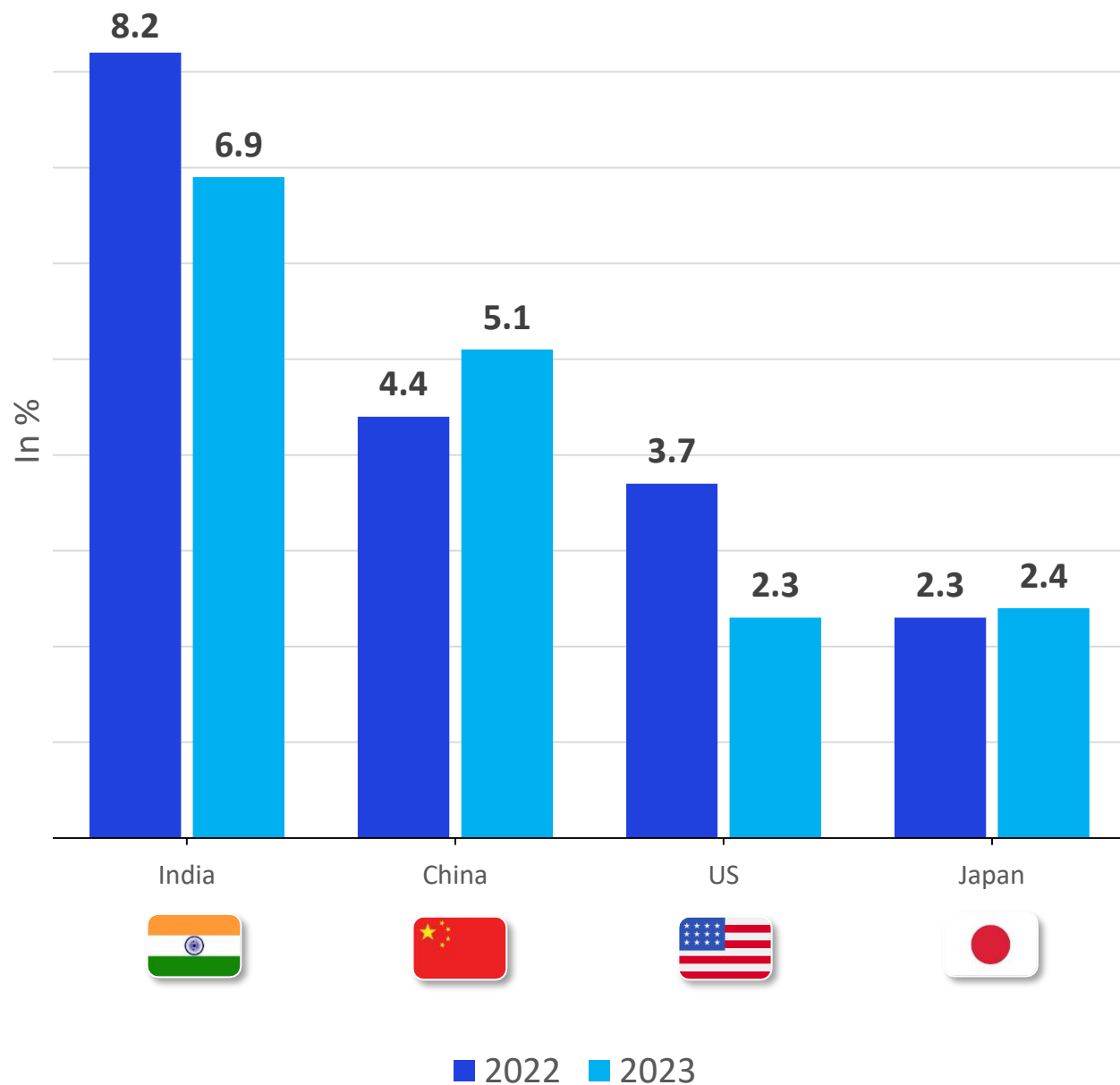
	Current Inflation Less 20-Year Average Inflation
UK	7.3
USA	6.9
Italy	6.3
Canada	6.2
Germany	6.0
France	4.3
Japan	2.3
Russia	6.5
Brazil	5.6
South Africa	1.9
India	0.7
China	0.2





G7 Countries' 10-year Average GDP Growth is Way Lower than BRICS & is Expected to Falter Further as per IMF Forecast

IMF GDP Growth Forecast



Country	10-year Average GDP Growth (%)
Italy	-0.2
Japan	0.5
France	1.0
Germany	1.0
UK	1.6
Canada	1.6
USA	2.1
Brazil	0.4
South Africa	1.0
Russia	1.4
India	5.6
China	6.7



G7 Countries are Battling Negative Real Policy Rate with Rapidly Hardening Inflation



Country	Current Policy Rate - Current Inflation
UK	-7.7
Italy	-7.5
Germany	-7.1
USA	-6.8
Canada	-5.6
France	-5.3
Japan	-2.1
Russia	-7.9
South Africa	-1.9
India	-1.6
Brazil	1.6
China	2.0



The Last Time the FED Fell this Far Behind the Curve on Inflation was in 1975 and it Took 8 Years to Bring Under Control

Core inflation and the real policy interest rate, percent



<https://www.piie.com/blogs/realtime-economic-issues-watch/why-i-worry-about-inflation-interest-rates-and-unemployment>



BRICS' Excellent Inflation Management is Reflected in Positive Real Yield on 10-year G-secs

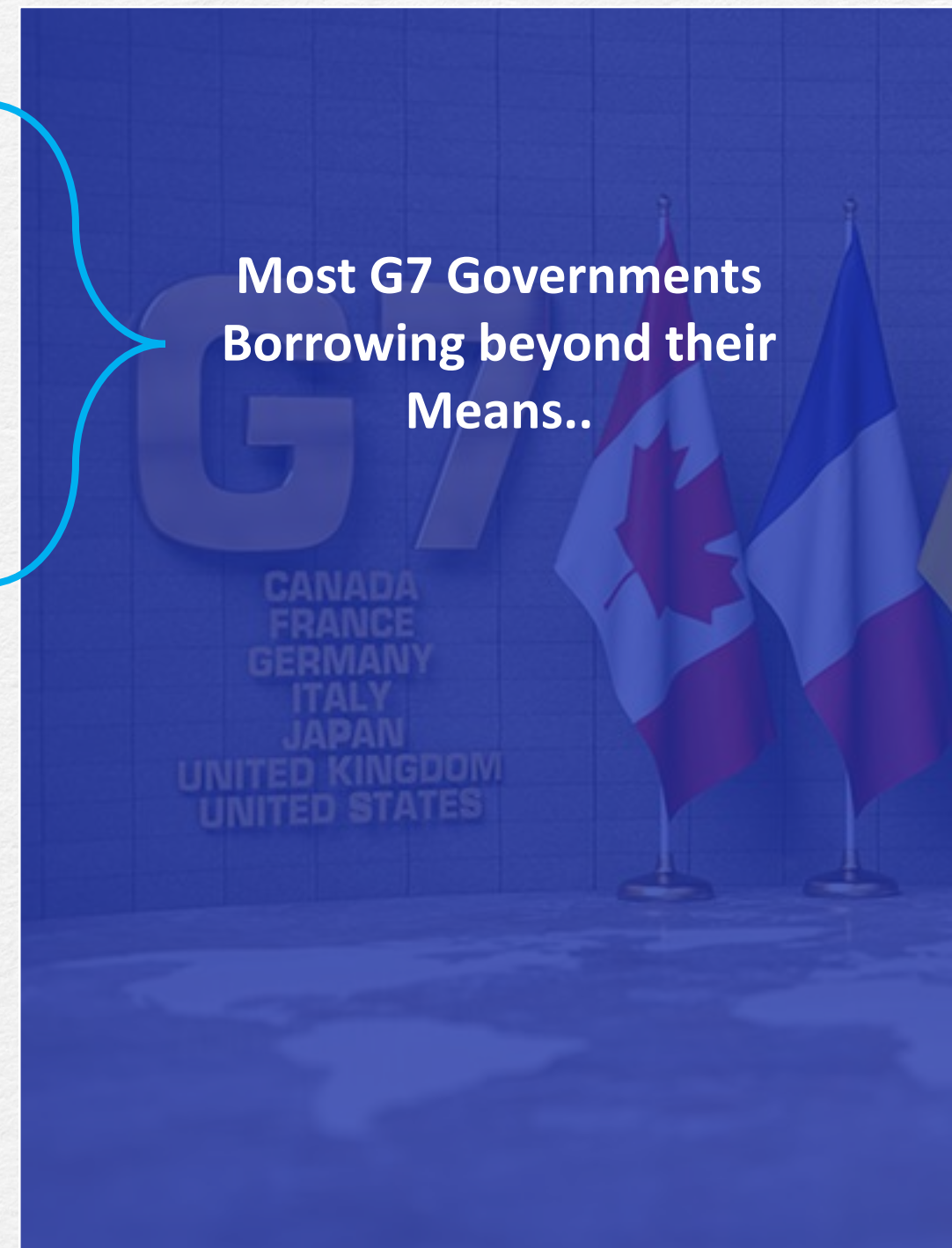
Country	10-year G-sec Yield - Current Inflation
UK	-7.4
Germany	-6.7
USA	-6.3
Canada	-5.4
Italy	-5.0
France	-4.4
Japan	-2.2
Russia	-6.9
Brazil	0.2
China	0.3
India	0.3
South Africa	2.9



Government Finances are Way Too Leveraged in Some G7 Countries Like Japan, Italy and USA



Country	General Government Gross Debt to GDP Ratio
Japan	263.1
Italy	150.9
USA	132.6
France	112.3
Canada	112.1
UK	93.4
Germany	70.2
Brazil	93.0
India	86.8
China	73.3
South Africa	69.1
Russia	17.0



Unlike G7, Most BRICS Countries have Enough Cushion to Finance their Near-term Current Account Deficit



Country	One year forward FX reserves/GDP
USA	-0.04
UK	0.03
Canada	0.1
France	0.1
Italy	0.1
Germany	0.2
Japan	0.3
Brazil	0.2
India	0.2
South Africa	0.2
China	0.2
Russia	0.5



And G7 Countries are Going to Face Unprecedented Crisis Due to Shrinking Population Growth*



Country	Population- 2020-2030 CAGR
Japan	-0.5%
Italy	-0.3%
Germany	-0.1%
France	0.2%
UK	0.3%
USA	0.4%
Canada	0.7%
Russia	-0.2%
China	0.1%
Brazil	0.5%
India	1.0%
South Africa	1.0%

Glimpses of Problems G7 Countries will Face:



Ageing Population

Shrinking Younger Population will be Supporting Larger number of Senior Citizens



Dependence on Migration

Countries like Canada & USA will Depend on Migration to Support Human Resource Requirements

Note: Projections Data Factors in Assumptions of Mortality, Fertility and Migration



The Only Solace for G7 Countries is their Strong Trade Ties with the World

Country	Value of trade as % of GDP
Germany	89
Italy	63
France	62
Canada	61
UK	55
Japan	31
USA	23
South Africa	56
Russia	52
India	44
Brazil	39
China	37





**Universe is a Novelty (Variance)
Producing Machine...**

And

**Wars are Variance Amplifier
Machines**



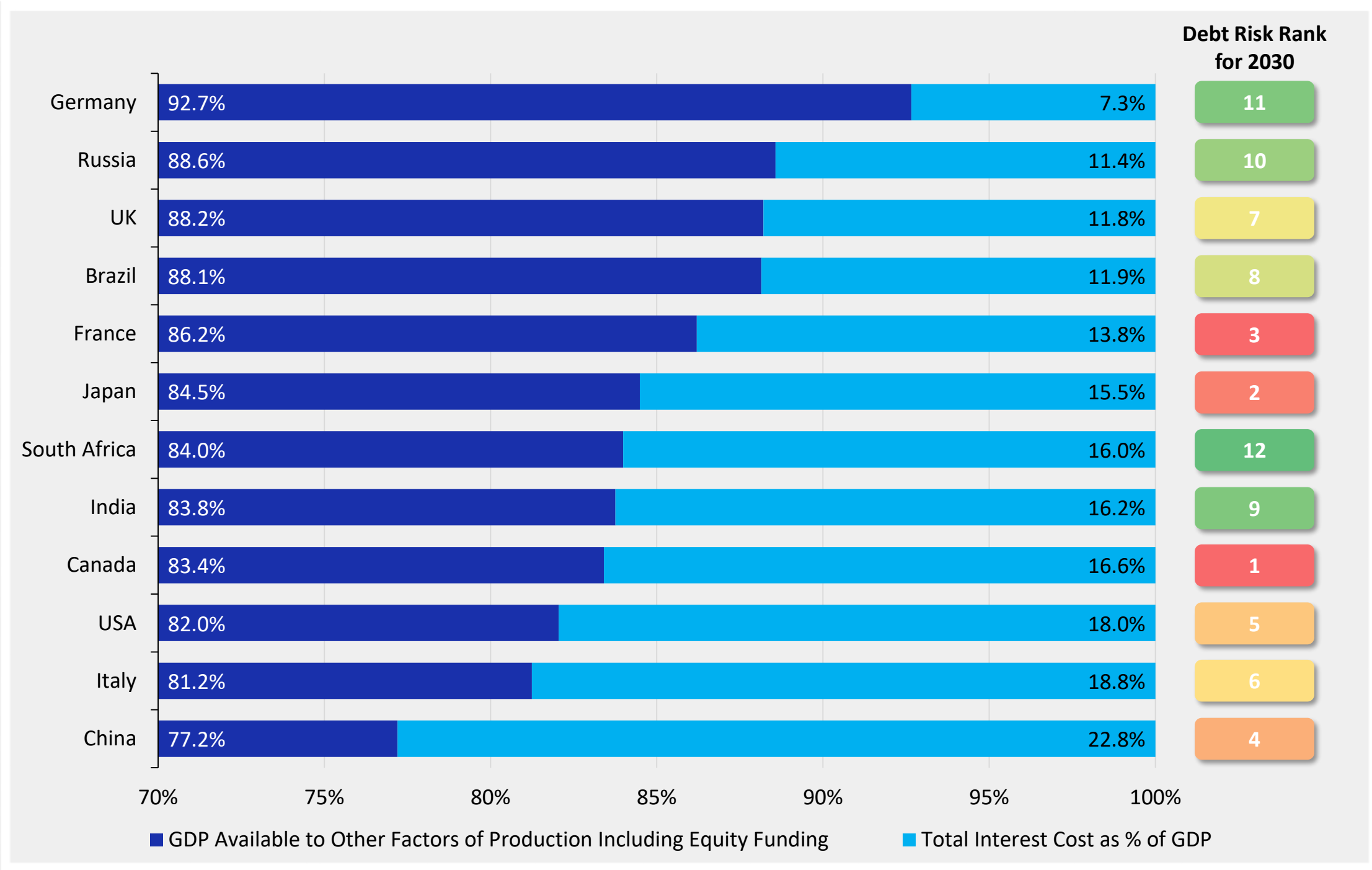
Next Market Turbulence will Arise when G7 Gets Repriced at EM Levels





Resource Allocation between Interest Costs and Other Factors Indicate Social Stress...

These Costs are at Deep Negative Real Rates.. If Markets Reprice G7 Real Rates, then all G7s will get to China Levels or Worse in Interest Cost / GDP





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Contact Us



India: Mumbai Head Office



5A- B Wing, Trade Star, Andheri (East), Mumbai - 400 059,
Maharashtra, India

+91 9967066333

info@decimalpointanalytics.com

India: Nashik Corporate Office



Tilakwadi, Nashik - 422 002,
Maharashtra, India

+91 88056 99353

India: GIFT City Corporate Office



D-601, World Trade Center, GIFT City,
Gujarat, 382355, India

+ 91 99670 66333

United Kingdom London



160 London Road, Barking, Essex
IG11 8BB, United Kingdom

+44 20 3239 7604

USA New York



17 State Street, Suite 4000,
New York, NY 10004, U.S.A

+1 917 310 1906

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YOU!

www.decimalpointanalytics.com