

The week in  
seven charts



**Are high real interest rates a concern?**

The Fed's monetary policy is increasingly restrictive. Kamala Harris has a 53% chance of winning the 2024 US election, and US oil production has risen 22% over four years, a 250% increase since 2008.

Each week, the Syz investment team takes you through the last seven days in seven charts.

**Charles-Henry Monchau**

*Chief Investment Officer*

Chart #1

### The Fed's monetary policy has become far too restrictive

Last week's July CPI report confirmed the disinflationary trend: core CPI rose by less than 0.2% on the previous month, in line with the Fed's pre-pandemic annualised inflation target of 2%.

At the level of the so-called "core" price index, i.e. adjusted for energy and food-related effects, the annualised figure is around 3%.

With nominal interest rates at 5.25%, the real rate (nominal rate minus core inflation rate) is therefore over 2%. This level is synonymous with a relatively restrictive monetary policy. Is the Federal Reserve playing with fire?

In fact, it's real rates that matter most for the economy:

- 1) Investors are interested in their (risk-free) return after taking inflation into account. A high real interest rate encourages them to take less risk;
- 2) Borrowers are interested in the inflation-adjusted cost of borrowing. High real interest rates clearly penalise them.

History shows that long-term real interest rates above 2% have often led to financial crises. Two recent examples:

- 1) In 1999-2000, the Fed kept real interest rates above 3% for an extended period, and a crisis broke out in 2001;
- 2) In 2007, the Fed kept real interest rates above 2% for some time, and a crisis broke out in 2008;

For several months now, the US Federal Reserve has been keeping real rates above 2%. To avoid another financial crisis, the Fed is likely to decide to cut rates very soon.



Source: Alfonso Peccatiello

Chart #2

### Kamala Harris is the favorite of online betting sites

According to Polymarket, online betting sites now indicate that Kamala Harris has a 53% chance of winning the 2024 election. These measurements differ from those provided by polling organisations in that the probabilities are based on real-money bets.

In 2016, polls gave Hillary Clinton a 70% chance of beating Trump, with some going as high as 98%. Trump's victory in 2016 resulted in one of the greatest failures of polling and election forecasting in history.

Source: The Kobeissi Letter

Chart #3

### Japan's central bank holds a mountain of sovereign debt... from Japan

The Central Bank of Japan (BoJ) holds ~80% of the country's equity index funds (ETFs) and 7% of the entire Japanese stock market, according to Morningstar and Tokyo Stock Exchange data.

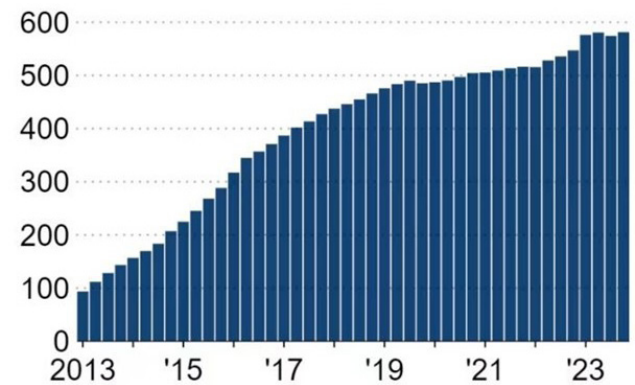
In addition, the BoJ holds ~55% of Japanese government bonds.

Is this manipulation of Japanese capital markets by the central bank sustainable over time?

Will those predictions prove correct this time around?

### The BOJ's mountain of bonds

(JGB holdings, trillions of yen)



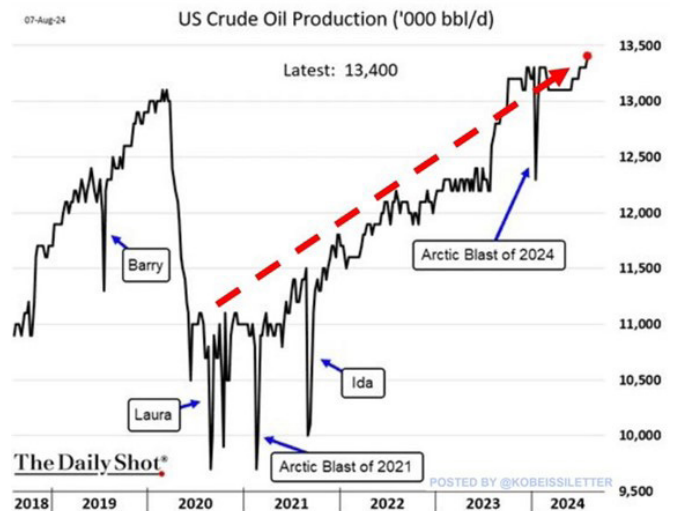
Source: Global Markets Investor, Bank of Japan

Chart #4

### US crude oil production has officially reached a record 13.4 million barrels per day

Daily oil production in the United States has risen by 22% over the past four years. Since 2008, production has exploded by 250%, from 3.8 million to 13.4 million barrels per day.

The United States is now the world's leading oil producer, outstripping Russia by 35% and Saudi Arabia by 38%.



Source: The Kobeissi Letter, The Daily Shot

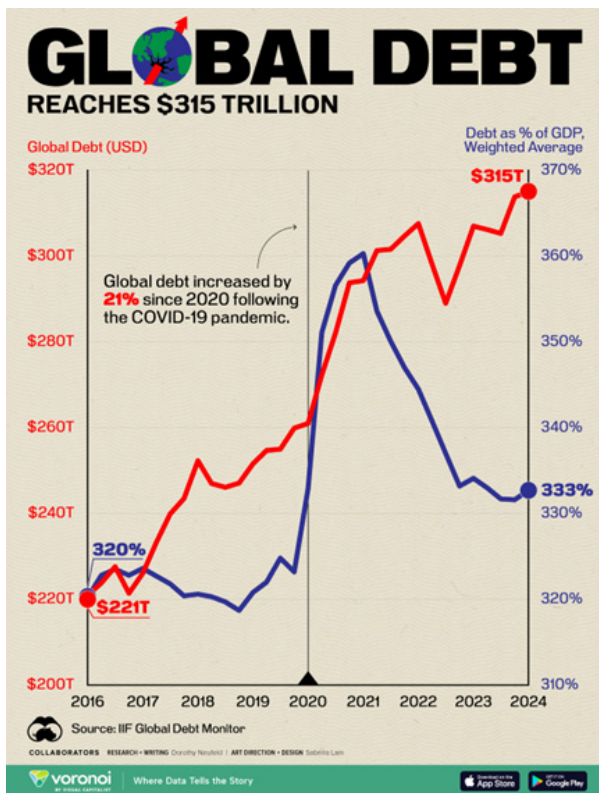
Chart #5

### Global debt hit a new record in the first quarter of 2024, increasing by \$1.3 trillion in just three months

This deluge of borrowing is a widespread trend across all economies. While the USA and Japan are the main contributors to global indebtedness in advanced economies, China, India and Mexico have accounted for the lion's share of the rise in emerging market indebtedness. Overall, the debt-to-GDP ratio has reached 333%, as debt servicing costs rise, and the debt burden continues to grow.

Since the start of the pandemic, debt has risen by 21%, adding \$54.1 trillion to the global total.

Today, the largest share of debt is held by non-financial companies, at \$94.1 billion, while government bonds follow closely at \$91.4 billion. The financial sector is indebted to the tune of \$70.4 trillion, and households to the tune of \$59.1 trillion.



Source: Visual Capitalist, Institute of International Finance (IIF)

Chart #6

### Nearly 75% of the world's cobalt production is in the hands of a single country

Cobalt is an essential mineral used in many commercial, industrial and military applications. In recent years, it has attracted attention as it is also required for the batteries used in cell phones, laptops and electric vehicles.

This graph by Elements / Visual Capitalist illustrates estimated cobalt production by country in 2023, in metric tons.

The data are taken from the most recent U.S. Geological Survey (USGS) summaries, published in January 2024. The Democratic Republic of Congo (DRC) accounts for 74% of the world's cobalt production. Although this metal is found on a large scale in other parts of the world, such as Australia, Europe and Asia, the African country holds by far the largest reserves. Of the world's 11,000,000 tonnes of reserves, an estimated 6,000,000 tonnes are located in the DRC.



Source: Visual Capitalist

Chart #7

## Californian universities score big at the Paris Olympics

Athletes from four Californian universities won 89 Olympic medals, out of 126 total American-won medals. ).

Athletes from Stanford University alone won 39 medals, which would put them in 8<sup>th</sup> place if they were a country.



data via fansided

Source: Erik Brynjolfsson

### For further information

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