"We Have Front-Row Seats To An Imminent Market Shock", Hedge Fund Billionaire Warns

Submitted by Tyler Durden on 03/11/2015 17:30 -0400

Having previously noted that "this is the best shorting opportunity since 2007-9," Billionaire hedge fund manager Cripsin Odey warns that (just as Goldman has noted) the global economy is headed for recession and central banks will not be able to able to come to the rescue because they have exhausted the arsenal of policy weapons." No matter what happens, he chides, the market shrugs it off as they are "kind of relying on central banks pulling a rabbit out of a hat." They will not, ***"Central banks are not all singing and all dancing," and cannot avoid the consequences of what they are doing, concluding, "you and I have got grandstand seats here [to an imminent market shock]," and investors are about to "find out just how illiquid it really is out there."***

One of the world's leading hedge fund managers has warned that **global economies are headed for recession and central banks will not be able to able to come to the rescue because they have exhausted the arsenal of policy weapons.** As The Sydney Morning Herald reports,

Mr Odey is best known for his big macroeconomic calls, including foreseeing the 2008 global credit crisis; piling into insurers in the wake of September 2001 attacks; and picking the recent oil price rout. He famously paid himself £28 million in 2008 after shorting credit crisis casualties, including British lender Bradford & Bingley. Mr Odey's fund returned 54.8 per cent that year.

"The market's reaction to all of this is leave it to the professionals, leave it to those great guys, the central bankers, because they saved the day in 2009," he said. ***"These guys are kind of relying on central banks pulling a rabbit out of a hat."***

The risk is that this time, monetary policy may be ineffective: ***"We need the crisis to reformulate policy. Central banks are not all singing and all dancing, they cannot basically avoid the natural consequences of what we are doing."***

An inadequate supply-side response to the plunge in commodity prices as the resources industry declines to reduce production was in effect stimulating supply into falling demand.

"The trouble is today the players, whether they are the miners or the oil companies or the Saudis or anybody else, they are not doing the right things. ***This is the first time in my career where economics 101 doesn't work at all."***

But it was also true that the world has not had a major recession for 25 years and thanks to frequent interventions, ***"there is a sensation we don't have a business cycle".*** *Stocks are enjoying a six-year bull market but he also hinted at liquidity issues bubbling under the surface.*

"I just think that you and I have got grandstand seats here [to an imminent market shock] and my point is having found myself in the

second quarter of last year selling a lot of equities and starting to go short, I found out just how illiquid it all was. You never actually see it until people try and get out of these things."

<u>It was unclear to Mr Odey what central banks could do to prevent a crash.</u>

"I find it intriguing that we are so dependent on these central banks who are expected to do great things and yet what can they do? They start with interest rates pretty well at zero."

He believes the US Federal Reserve will be motivated to begin the tightening cycle.

"You're going to be very tempted to raise interest rates simply because you want to normalise," *he said. "There is a sense in which these guys are longing to try and stop some of this activity taking place as well as getting the situation back to some kind of normalcy.*

"My view is hey look, if they do raise interest rates, I don't even need it to happen but I do think that will put a bit of pressure on the sharemarket as well... Everything points to it being a bubble. You can never know the height of a bubble but by the time it gets to here you haven't got much time."

Mr Odey's fund in Australia is called Odey International Fund (OIF) and employs the same investment strategy as his flagship global long/short hedge fund, which has a 22-year track record and has returned approximately 14 per cent per annum net of all fees. OIF has returned 22.9 per cent since inception on July 29, 2014.

Odey Asset Management is identifying short opportunities amid the fervour of the six-year rally and huge currency fluctuations are factoring in to the fund's positions.

"For me, what I find very interesting is given the risk of recession, how is it the West stockmarket can be hitting all-time highs? History tends to be not very generous in this regard. If you get a recession in a low inflation environment it tends to impact the ratings of stocks dramatically."

It was akin to "watching the markets take drunken bow after drunken bow".

"It's amazing that nobody else is on the same page."

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As he previously concluded**, <u>we are in the first stage of this downturn</u>**. It is too early to see what will happen – a change of this magnitude means the darkness and mist is very great. We will make some mistakes but with our thinking we won't make the major mistakes. **The problem is where you stand – I am amazed to see so many are fully invested given that equities are already fighting the downtrend**.

So, where am I placing my money?

- Firstly, I think equity markets will get devastated. Unannounced business cycles ensured Japan's stock market rating fell by two thirds over 20 years.
- Equities are priced for perfection, pushed up by SWF and high yield investors looking for higher yields and better covenants than high yield bonds.
- Commodity-related sectors look unappealing and dangerous.
- International consumer companies look overexposed to EMs.
- Fund management companies look overexposed to the wrong assets, especially EMs.
- Volatility is rising. Not every trade will work.
- Australia is still to see rates down to 0.5% at the short end, 1.5% at the long end, down from 2.5% currently.
- Currency trading is still to make the money. It made money last year as it was where the 'tyres hit the road' – equities are just the residual.
- Equity markets will struggle to understand the quarterly translation and transaction effects of these currency moves on corporate profits, starting with Q1 2015.

We have seen though some strange things, with economics 101 turned on its head. We've seen that falling prices produce more supply, as the biggest producers see that they can take market share and use the opportunity by reducing average costs through excess production. We've seen that in the oil, minerals and iron ore industries. We have also seen in the last couple of years that as bond yields fall, governments are able to issue more debt.

But this time round the problem we have as well is that politics will start to rear its head and we are left to deal with politicians who are increasingly critical of the capitalist system's ability to allocate capital and provide for society.

For me the shorting opportunity looks as great as it was in 07/09.