Subject: GOOD MORNING

Forty odd years ago I spent a prolonged period of time living in California, right on top of the St Andreas Fault. Although little earth tremors occurred on a daily basis, although we had our cars packed with sleeping bags and emergency supplies and although we spent much time talking about what we'd do "when the big one comes" it never did and by and large we are still waiting. Ahead of today's ECB meeting from which most market participants now expect some form of announcement on the scaling back of its bond buying programme, it feels much the same.

Some years ago I decided to try to live by the principal of not getting upset about outcomes I can predict, like them or not. Get upset about the things you can't see coming and save your nervous energy by not doing so about things you can or should at least have been able to. Consensus forecast is that the central bank will restrict its bond buying to €30 billion per month for 9 months as of January – they must all be listening to the same leak – which gives St Mario plenty of time to decide what he wants to do for his next act.

But the real crux was summarised by a very bright friend of mine in New York who put it as follows "America has an equity culture. We had the Greenspan put. Then we had the Bernanke put. There will be Yellen put; we just haven't either seen it or needed it yet. Europe has a bond culture. Europe has had its Draghi bond put. The problem is that one day they will wake up and discover that they don't have a put at all. When Italian junk issuers are paying less for their money than the US Treasury you know it's got to be wrong". And therein lies Draghi's conundrum. It's not about whether the economy can support a tightening of monetary conditions which no doubt it can, it's about what the money men in Frankfurt, Paris, Milan, Madrid and all stations in between perceive the effect to be and how they react to the ECB's quiet struggle to get itself out of the monetary straitjacket is has let itself be strapped into.

In this column I have long argued that rising interest rates will do more to regenerate inflation that falling interest rates have done or will do. It is in the nature of people not to want to dig into savings but to spend interest. Give them interest and they will spend. When they begin to spend, inflation will gently and naturally pick up. Pay them no interest and they will sit on their pile. The fact that inflation devalues capital faster than interest income regenerates it might be factually true but to get Joe, Hans or François SixPack to acknowledge it and take it on board seems to be beyond the wit of even the most popular of economists. "Oh no, I never touch my capital!" They don't mind Mr Inflation spending it for them but they won't spend it themselves. Real interest rates and real return are just too much. By the way, do me a favour and test yourself on that front. My bet is that there are very few amongst us, PhDs, MBAs and CFAs included, who would not have to admit to have failed. So no interest income, no spending. No spending, no growth.

The German government is still borrowing and some index-bound idiots are still merrily lending it somebody else's money at -25 bps for 5 years. Even France with the staggering social costs of its near 10% unemployment rate and 99.3% Debt/GDP (Eurostat, end Q2 2017) is paying no interest at all at the same maturity. Even Spain, in the clutches of a pretty serious constitutional crisis is taking down 5 year cash at a mere 29 bps per annum. Now put yourself in Sr Draghi's boots and try to find a way of explaining that it was all a mirage.

Some readers might recall my past references to my "tame central banker". Now long retired, I can reveal that he was in fact a she. We were chatting on the phone a few weeks back when she revealed that when QE had first been discussed between her national treasury, the central bank and the government's financing agency eight years ago they had already concluded that it was easy to get into but would be nigh on impossible to get out of again. And yet they did it. Some might recall how strongly even St Mario resisted embarking on a slide down the slippery slope to free money addiction and the ECB put.

Market reaction should be sanguine although the natural long term play has to be to trade a widening of spreads down the European government bond matrix. Think of spreads to Bunds as knots on a bungee. Stretch it and although the relationship between the knots remains constant, the actual, measurable distance between them increases. These are the constants which need to be entered into the total return model in order to pick the sweet spot in the Eurozone sovereign space. All that accounted for, I find it hard to envisage the ECB throwing the corporate bond market under the bus...yet.

Meanwhile, I came across an article in the FT which alluded to the way in which British banks are withdrawing clearing services from companies in the crypto currency space. Word is, though unconfirmed, that the Bank of England raised an eyebrow and that they all ran for cover. Having watched at first hand the Old Lady's catastrophic misunderstanding of the nature of risks involved in asset backed securities market , I sort of get it why she is running scared at something new which she struggles to understand. But to me that is more redolent of banning bananas because you don't know how to peel them.

Pandora's box has been opened, like it or not. The dot.com boom hurt a lot of people, mainly those who speculated blindly. But out of the ashes rose the likes of Amazon and EBay. Joseph Schumpeter, the father of the theory of creative destruction, might not have won the Nobel Prize for Economics but who can name too many of those who did? The fact that Schumpeter is still remembered must be telling us something. If Bitcoin goes puff, so be it. How many hundreds of railway lines were built across the world which cost their investors their shirts and which bankrupted more than just a few but we ended up with a rail network which is still there 150 years later and which still works.

“Billions of cryptos are used for nefarious purposes in the dark web”. “Crypto currencies are perfect for money laundering”. Yeah, yeah, sure.

As opposed to the billions of finest US greenbacks which change hands on a daily basis in the world of drugs, extortion and people trafficking, every crypto transaction is recorded in cyberspace and anyone who believes that the intelligence agencies of the world can’t crack and track those money flows, dark or light web, had better sit back and do a bit of thinking. King Canute did not sit in the sea to prove that he could stop the waves, he did it in order to prove to those who thought him all powerful, that he couldn’t. It is madness that companies sitting in the FCA’s regulatory sandbox can’t find banking facilities in this country. One could so easily become a conspiracy theorist.....or conclude that the Bank of England is once again busily missing the opportunity to get ahead of the curve. Wake up and accept that you can’t put the poo back in the horse.

Finally, I’d like to thank the roughly 100 readers who wrote to me or called after I let it be known just over two weeks ago that I was off to undergo radical surgery for a cancerous prostate. Prostate gone, cancer gone. Yesterday I got the lab report. All clear. Full recovery will still take several weeks but the fight-back has begun. This is still a bit of a one off column but I do hope to resume normal service ‘ere long. Please permit me to thank everybody for the support. It’s nice being missed.