

31st August, 2015

Dear Mustafa,

I am in the Cevennes National Park in southern France, the most uninhabited place in Western Europe, with a population that would fit into a small market town in Shropshire. Modern forms of communication (English included!) do not apply here and it was only on the recent trip to the local airport that I picked up the news of the currency devaluation in China and market volatility.

It made me recall our piece 'The Unable to the Unwilling' (June 2013), concerning the handover of political and financial power from the 'unable' British Empire that was slowly being supplanted by the 'unwilling' Americans who did not want the cost and responsibility of super-powerdom. It took a Depression and a World War for the Americans to assume this burden and establish the Dollar as the world's key unit of measure.

It was the Renminbi devaluation that caught my notice. In 1931 the waning British Empire devalued Sterling massively; the USA followed suit in 1933. Jump forward 80 years and we see the US\$ was devalued between 2010/11 and so it should not be a surprise to see the Renminbi being devalued over the recent weeks to level things out.

Mustafa Zaidi
Clarmond House
1 Holbein Place
London, SW1W 8NS



What does this mean for the various stock markets? Well the US market from 1920 to 1940 was grisly, combining a boom of the 1920's, a crash of 1929, the Great Depression and finally the panic of 1937. And when you overlay the graph of the current Chinese stock market from 2000 to the present, it is following the previous American swings.

Furthermore if you compare the stock market graph of the British Empire from 1920 to 1940 to the S&P 500 from 2000 to today, they too look eerily similar.

As history tends to rhyme this would suggest that the developed markets are going to carry on as normal. Chinese equities, on the other hand, will undergo heart stopping moves but will present, towards the end of this decade, a great long term buy.

Bon nuit from the forests of France, I hope the markets find the clearings by the time we meet up in London.

Best - Chris