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The RBS 'sell everything' call grabs headlines, but the end of the world is not nigh

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The Royal Bank of Scotland might be right about "[selling everything](#)", but it probably is not. And we should all hope that not many people take their advice.

The bank advised clients to brace for a "cataclysmic year" and a global deflationary crisis, warning that the major stock markets could fall by a fifth and oil may reach \$US16 a barrel.

RBS doesn't have the best track record. It had to be nationalised during the GFC for its failures and has to pay many billions of dollars in fines and compensation for everything from dudding insurance and mortgage customers to rigging interest rates and foreign exchange markets. One analyst suggested [RBS would be up for \\$16.6 billion in fines, compensation and restructuring costs just in 2015](#).

So perhaps RBS advising everyone to "sell everything" and getting the top headlines in the general news pages is a contrarian buy signal, the opposite of the taxi driver advising to buy stocks.

At any one time there are numerous market forecasts around ranging from extremely bearish to overly optimistic. When markets are very volatile, the bearish forecasts become more extreme and the most extreme can be expected to get the most attention. Bad news sells.

Which doesn't mean RBS can't be right, to use a double negative. As has been very well canvassed, there are plenty of issues to worry about - 2016 is very much a continuation of 2015 - but the main reason for RBS's alarmist call are the suppositions that China is about to crash and take the world down with it.

The China bear industry has been predicting China's imminent fall from the moment it started to rise. They've been consistently wrong for three decades or so. One of these years they'll be right, but the evidence is not overwhelming that it will be this year.

As has been written here before, there's nothing much new about Beijing's problems and Shanghai sharemarket plunges don't mean nearly as much to China [as similar falls would in New York or Sydney](#).

China can't remain immune from cycles as it haltingly liberalises its economy. It's part of growing up. The great fundamental underpinning its economy though - the desire of people to have a better standard of living and their willingness to work for it - isn't changing and has a long way to run.

Beijing is not without ammunition to try to limit the pain of the nation's transition to relying more on consumption, but even if you're prepared to buy that first RBS supposition - that China's about to have a hard landing - the second one of the world crashing needs to be tested.

That has been rationally done by US Nobel prize-winning economist Paul Krugman, who is quite bearish about China but doubts that the impact of China's problems on the rest of the world will be as bad as the RBS types scream. [He nonetheless admits to "doubting the courage of his complacency"](#).

"The good news is that the numbers, as I read them, don't seem big enough," writes Krugman. "The bad news is that I could be wrong, because global contagion often seems to end up being worse than hard numbers say it should."

The important thing about "the numbers" is that China's financial markets aren't as entwined with the rest of the world as US markets were when the great bank fraud of the subprime crisis hit.

A greater danger may come from what RBS has just done - spreading fear as it gets its name in headlines for

something other than ripping off customers and roting markets.

Writes Krugman: "I worry that China may export its woes in ways back-of-the-envelope calculations miss, that the Middle Kingdom's troubles will one way or another have the effect of depressing investment spending in America and Europe as well as in other emerging markets."

It's investment spending - or the lack of it - that remains Australia's main concern. Most other economic indicators here aren't bad.

Receiving much less attention than RBS is the 2016 outlook by IBISWorld founder, Phil Ruthven. In it, Ruthven emphasises one of his regular themes: our recessions come from negative investment spending, not from consumers or exports. [And he has the graphs to back that up.](#)

While our investment remains subpar, he sees it improving this year with 2016 likely to be a bit better than 2015.

Phil, you're never going to get front page headlines with a view like that.

This story was found at: <http://www.smh.com.au/business/comment-and-analysis/the-rbs-sell-everything-call-grabs-headlines-but-the-end-of-the-world-is-not-nigh-20160113-gm4jwn.html>