

'This newsletter is translated from the Japanese edition distributed on March 23rd.
Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC.

Global Risk Watch Newsletter

The Creeping Shadow of Global Discord, etc.

Global Risk Watch Vol.36
30 March 2018

=====

《index》

1. # The Creeping Shadow of Global Discord (Tsuyoshi Oyama)
2. # [Commitment to code of conduct: the FX Global Code \(Shiro Katsufuji\)](#)
3. # [The State of Exports to the US \(Toshikazu Kumagai\)](#)
4. [Seminars, Conferences & Publications](#)

=====

1. Overview Macroeconomic and Financial Risks (Trends & Topics)

The Creeping Shadow of Global Discord (Tsuyoshi Oyama, Partner/Head of Center for Risk Management Strategy (CRMS) at Deloitte Touche Tohmatsu LLC/Deloitte Asia Pacific Risk and Capital Management Leader)

Last month's concern that wages and prices in the US would shoot up have abated somewhat. Consequently, there has been a decline in fears that the current goldilocks conditions of the bond and stock markets will collapse. This decline was mainly thanks to wage and price numbers published in March, of which expansion rates have significantly calmed as compared to February. As well, this lull may also be a reflection of the slight deceleration of growth in the US and other advanced nations in Q1. As the US is still deep in the world of more than full employment, we cannot, however, retire our caution towards future price rise acceleration. It is still very likely that from now on in the US, market concerns about rising prices will put more pressure on long-term interest rates. We can also expect the FRB to gradually move from raising rates three times per year, to four times per year.

Instead of anxiety over price/wage spikes setting off a goldilocks correction, we find the rise of new causes for risk-off movements this month: political and geopolitical risks, with the US once again at the center of everything. The US's abrupt inclination towards protectionist trade policies in the run-up to the mid-term elections and consequent resignation of multiple major players in Trump administration caused significant concern in the financial markets. The US attempted to raise tariffs on imports of aluminium and steel from its allies like the EU, Japan, and South Korea as well as China even though this tariff was said to be imposed out of concerns for national security. It sounded alarmingly like the opening salvos of a global trade war. The US government has both threatened to impose large financial penalties on China against its infringement on US intellectual property, and has strongly demanded that China reduce its current huge trade imbalances to a defined level. As well, the Trump

administration recently blocked a Singaporean firm from purchasing a large American semi-conductor company because of its close ties to Chinese businesses.

Indeed, we should have a deep concern over this US government's extremely populist movement before their mid-term elections. Such actions could easily reverberate negatively around the world. At the same time, however, we also need to understand that there is an element of national strategy underpinning the current global economic and political environs that is distinct from a purely populist movement. Nowadays, a few countries have risen up to challenge western ideas of governance structures and economic systems. These ideals have been built based on the philosophy of democracy and on market mechanisms as an engine of resource allocation. These also fight for hegemony over the global system; a system that has long be kept by the US and other western nations. It would not be surprising, therefore, to see that the US and its allies try to draw away from these opposing countries even on the economic front. This could surely lead to huge economic losses from a short-term viewpoint. However, such actions may be justified by the medium or long-term benefits of western nations preserving their hegemony within the global system, which would more-than offset short-term costs.

Somewhat unexpectedly, we saw China set aside term limits for the presidency, opening up an avenue for speculation about their leaders ruling for life. In Russia, Vladimir Putin's victory in the recent elections means that the country has been under the same regime for almost a quarter century. As well, the attempted assassination of a former Russian spy now based in the UK in the run-up to the Russian elections, pushed the UK into calling on western nations to strengthen economic sanctions against Russia.

Moving forward, it will be important to differentiate between a kind of populism that focuses on short-term gains through protectionist trade policies, and a kind of hegemonic gamble that sees more strategic fragmentation between countries.

[Home](#) | [Security](#) | [Legal](#) | [Privacy](#)

Deloitte Tohmatsu Group (Deloitte Japan) is a collective term that refers to Deloitte Tohmatsu LLC, which is the Japan member firm of Deloitte Touche Tohmatsu Limited (DTTL), a UK private company limited by guarantee, and firms affiliated with Deloitte Tohmatsu LLC that include Deloitte Touche Tohmatsu LLC, Deloitte Tohmatsu Consulting LLC, Deloitte Tohmatsu Financial Advisory LLC, Deloitte Tohmatsu Tax Co., DT Legal Japan, and Deloitte Tohmatsu Corporate Solutions LLC. Deloitte Tohmatsu Group is known as one of the largest professional services groups in Japan. Through the firms in the Group, Deloitte Tohmatsu Group provides audit & assurance, risk advisory, consulting, financial advisory, tax, legal and related services in accordance with applicable laws and regulations. With about 11,000 professionals in nearly 40 cities throughout Japan, Deloitte Tohmatsu Group serves a number of clients including multinational enterprises and major Japanese businesses. For more information, please visit the Group's website at www.deloitte.com/jp/en.

Deloitte provides audit & assurance, consulting, financial advisory, risk advisory, tax and related services to public and private clients spanning multiple industries. Deloitte serves four out of five Fortune Global 500® companies through a globally connected network of member firms in more than 150 countries and territories bringing world-class capabilities, insights, and high-quality service to address clients' most complex business challenges. To learn more about how Deloitte's approximately 245,000 professionals make an impact that matters, please connect with us on [Facebook](#), [LinkedIn](#), or [Twitter](#).

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/about to learn more about our global network of member firms.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the "Deloitte Network") is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.

© 2018. For information, contact Deloitte Touche Tohmatsu LLC.