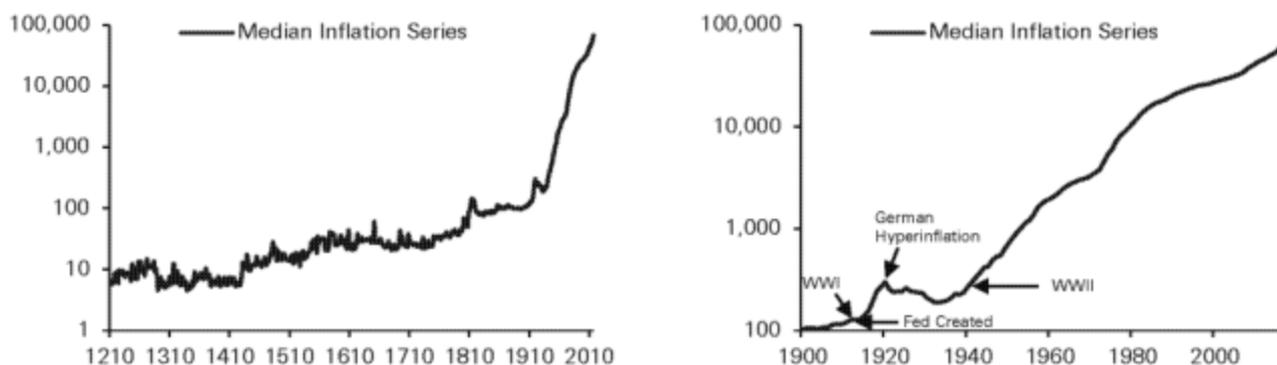




Nevertheless, although a return to a Gold Standard type system is not the right policy today, if we continue to see more and more money printing over the next few years, there will likely be a slow romanticising of the perceived stability of the pre-1971 world. Indeed if we do eventually muddle through and get to a more sustainable, less imbalanced and less indebted global economy, there may well be moves towards some kind of new global monetary world order simply to prevent the excesses of the last four and a half decades from happening again. Such a debate would be sensible but needs to happen after we work through the tremendous amounts of excesses in the system. If we can in the future benefit from the disciplines similar to those seen during the period where currencies were linked to precious metals, whilst maintaining some kind of genuine safety valve/flexibility, then we could have a more stable global financial system to that seen since 1971. This will be easier said than done but expect this debate to build.

Inflation still the most likely outcome until new global financial system found  
 Figure 31 shows median global inflation first from 1209 (left) and then from 1900 (right). As we've discussed in previous notes inflation took on a totally different persona after the start of the twentieth century. The charts are again on a log scale to allow us to easily see the near exponential increase in inflation over the last 100 years or so, especially relative to what occurred before. Note that had we used the median instead of the average, the chart would look almost absurd given the extreme levels of hyperinflation seen in several countries over the last century. The data behind the right hand graph is based on a full set of 24 countries where we have inflation data back to 1900. Prior to this, many countries have data that goes back several decades with some back through the centuries. For the series back to 1210 we have included data as and when it becomes available.

Figure 31: Global median inflation series since 1209 (left) and 1900 (right)



Source: Deutsche Bank, Global Financial Data

As we explained in last year's study ("An Ever Changing World"), we actually think the 35 year super cycle of lower and lower global inflation has reached an inflection point. Although it's hard to see inflation immediately spiking up, we think the trends are subtly shifting. Firstly DM working age populations, having surged for the last three and a half decades, are in the process of peaking and actually declining in many countries. This should slowly reverse the ever downward pressure on wages. We'd note that China has been a super-sized version of this with the working age population now expected to decline sharply over the coming years (LHS of Figure 30).

Added to this, the rise of populism seems to have reached a point where such candidates are winning national votes (e.g. Brexit/Trump). This is important as it now seems to be the downtrodden workers in the population that are