

Hope all goes well... “When a central bank undershoots its inflation target, it can promise to the public that it will overshoot in the future,” said Chairman Powell. “As it makes up for lost inflation, the bank would also be making up for lost growth,” he added. But of course, central banks cannot make up for anything that is lost. Central banks can only choose to pull real growth from the future to the present or push it from the present to the future. They can also choose to boost real asset prices in the present, but at the cost of reducing their prospects. Or they can choose the opposite. But they cannot do any of these things in perpetuity. “If the public understands that promise and acts up on that, we limit the damage from the recession - it’s a great idea,” said Powell. But there is no such thing as a great idea in central banking, there are only choices.

Overall: “It is a bowl of water that might help put out a fire that has just started,” said young Jimmy Sham, describing Carrie Lam’s withdrawal of Beijing’s extradition legislation. “But it is now useless in the face of what has become a forest fire,” continued Jimmy, one of many leaders in Hong Kong’s burning rebellion. Naturally, the government hopes that by meeting the protestor’s principal demand, cries for further action will soften. But that’s not how crowds work. Hong Kong’s emboldened freedom fighters have another four demands to go. Behind them lay more still. And far in the distance, beyond the event horizon, lay their ultimate objective, barely spoken of today, democratic revolution in China. “Public discontent extends far beyond the bill,” conceded Carrie Lam, exuding a manufactured calm, withdrawing the bill, “It covers political, economic and social issues, including problems relating to housing and land supply, income distribution, social justice and mobility.” No doubt she’s right. All revolutions are sparked by such failures of government. But this one goes further. Hong Kong will fully revert to Chinese rule in 28 years, which means its citizens will be subjected to Beijing’s political oppression. Today’s young protestors will suffer its retribution as they enter middle age, images of their rebellious youth forever swirling in servers. The only hope for Hong Kong’s young freedom fighters is a Chinese political revolution between now and 2047. And with that inferno as their only escape, each concession by Carrie Lam’s government will be met with calls for another, then another. Just as each central bank rate cut is followed by the market’s demand for another, then another. It’s what has begun in the US. And what will soon start in Europe. With central bankers in both economies cutting rates, exuding a manufactured calm, when in fact they’re terrified that what little they have left will be useless in the face of a forest fire.

Week-in-Review (expressed in YoY terms): Mon: China PMI manu -0.2 to 49.5 (4th mthly contraction), Japan PMI manu 49.3 (South Korea 49.0, Taiwan 37.3), HK demonstrations turn violent with protestors throwing Molotov cocktails, nickel prices 5yr high as Indonesia halts 2020 exports (supporting local smelters), Argentina begins restructuring \$101bln debt, US implements next tranche of trade tariffs on \$125bln imports (next tranche set for Dec 15th), Hurricane Dorian rising to Cat 5 headed for Florida/Georgia, S&P closed (Labor Day); **Tue:** Australia holds rates at +1.00% (forecasters expect 25bp Oct cut), UK PMI manu -0.6 to 47.4 (7yr low), UK rebel MPs attempt to seize legislative agenda from Johnson (Boris threatens Oct 14th elections), UK sterling falls below 1.20 to the dollar, UK gov’t delays high-speed rail project by 7yrs on 22bln sterling cost overrun, US ISM manu -2.1 to 49.1 (first contraction in 3yrs), copper hits 2017 low, S&P -0.7%; **Wed:** Lam withdraws HK extradition bill that sparked 12wks of protests (Hang Seng stocks jump +3.9%), HK PMI manu -3.0 to 40.8 (10yr low), UK

PMI services -0.8 to 50.6, Deutsche Bank Chief warns further rate cuts will damage economy and society, Italy's Five-Star and PD parties to form coalition gov't (kills Salvini's hope for snap election), 10yr Italian yields falls to 0.83%, WTI oil surges +4.1%, S&P +1.1%; **Thur:** Boris Johnson's brother quits Conservative party, Sweden holds rates unch at -0.25% (reaffirms plan to hike later this year or next but to proceed at a slower pace), US ISM services +2.7 to 56.4, Q2 unit labor costs revised +0.2 to +2.6% (Q1 revised +0.2 to +5.7% - squeezing corporate profits), Trump admin to seek to privatize mortgage finance entities Fannie Mae and Freddie Mac, S&P +1.3%; **Fri:** Zimbabwe's Mugabe dead at 95, German factory output -4.2%, Mexico claims it cut migrant flow by 56%, Powell in Zurich "Fed will act as appropriate to sustain the expansion," US payrolls +130k (unemployment rate unch at 3.7%), avg hourly earnings +3.2%, Trump tweet "They were WAY too early to raise, and Way too late to cut. Where did I find this guy Jerome? Oh well, you can't win them all," S&P +0.1%; **Sat/Sun:** China cuts RRR 50bps (feeing \$126bln in new lending), India loses contact with spacecraft moments before lunar landing.

Weekly Close: S&P 500 +1.8% and VIX -3.98 at +15.00. Nikkei +2.4%, Shanghai +3.9%, Euro Stoxx +2.0%, Bovespa +1.8%, MSCI World +1.7%, and MSCI Emerging +1.9%. USD rose +0.6% vs Yen, +0.4% vs India, and +0.2% vs Ethereum. USD fell -7.0% vs Bitcoin, -2.7% vs Mexico, -2.6% vs South Africa, -2.0% vs Turkey, -2.0% vs Brazil, -2.0% vs Sweden, -1.7% vs Australia, -1.4% vs Russia, -1.3% vs Chile, -1.1% vs Canada, -1.1% vs Sterling, -0.7% vs Indonesia, -0.6% vs China, and -0.4% vs Euro. Gold -0.9%, Silver -1.2%, Oil +2.7%, Copper +2.9%, Iron Ore +7.4%, Corn -3.7%. 5y5y inflation swaps (EU +3bps at 1.24%, US -5bps at 1.95%, JP flat at 0.11%, and UK flat at 3.66%). 2yr Notes +4bps at 1.54% and 10yr Notes +6bps at 1.56%.

YTD Equity Index Returns: Greece +36.6% priced in US dollars (+41.8% priced in euros), Russia +25% in dollars (+18.1% in rubles), NASDAQ +22.1%, New Zealand +22.1% (+27.3%), Canada +19.4% (+15.4%), Switzerland +19.1% (+19.5%), S&P 500 +18.8%, Israel +18.2% (+11.1%), China +16.3% (+20.3%), Italy +15.5% (+19.8%), Australia +14.5% (+17.7%), France +14.1% (+18.5%), Denmark +13.8% (+17.9%), Thailand +13.4% (+6.8%), Netherlands +12.5% (+16.8%), Euro Stoxx 50 +12.2% (+16.5%), Russell +11.6%, Brazil +11.5% (+17.1%), Germany +11.4% (+15.5%), Portugal +11.3% (+15.5%), Colombia +10.4% (+14%), Japan +9.4% (+5.9%), Taiwan +8.5% (+10.8%), Philippines +7.7% (+6.3%), Belgium +7.5% (+11.5%), Ireland +6.6% (+10.6%), Sweden +5.9% (+13.7%), Indonesia +5.2% (+1.8%), Norway +4.8% (+7.8%), UK +4.4% (+8.2%), UAE +4% (+4%), South Africa +3.5% (+6.3%), HK +3.2% (+3.3%), Mexico +3.2% (+2.6%), Austria +3.1% (+6.9%), Finland +2.9% (+6.7%), Saudi Arabia +2.9% (+2.9%), Spain +1.4% (+5.3%), Singapore +1.2% (+2.5%), Czech Republic +0.5% (+4.6%), Turkey +0.4% (+8.5%), India -1.9% (+0.8%), Hungary -3.3% (+3%), Malaysia -6.1% (-5.1%), Poland -6.2% (-1.9%), Korea -7.9% (-1.6%), Chile -7.9% (-5.5%), Argentina -38.5% (-8.7%).

Today: "It's difficult to describe markets," said the CIO, reflecting on his decades of trading. "For what seems like forever, markets behaved in ways that reflected shifting expectations about central bank activity, economic trends, and profit potential, but that's changing," he said. "Now markets shift direction on a tweet then reverse on some comment. And nearly all of it is political." But even politics are different now. "Yet through it all, global interest rates are collapsing like an economic calamity looms."

CCTV: Shanghai has 3-million closed-circuit television cameras (113 for every 1,000 citizens). Shenzhen has 159 CCTV cameras per 1,000 people. In fact, China has 8 of the top 10 most surveilled cities in the world. Installations are going parabolic. By 2022, China is estimated to have nearly 700mm CCTV cameras, that's close to one camera for every 2 citizens. London is the world's #6 most surveilled city with 68 cameras per 1,000 people and Atlanta is #10 with nearly 16 cameras per 1,000 people. Chicago is #13, Sydney is #15, Washington DC is #28.

CCTV II: China leads the world in facial recognition technology. Their data set dwarfs all others, and AI devours data. The AI programs that consume the video feeds connect into all the other sources of personal data too. The aggregate profile will ultimately feed into a social credit score that will be leveraged to reward good behavior and punish poor behavior. If there are places to hide your body and thoughts still, the expansion of surveillance equipment, advances in AI, and continued rise in processing speeds mean they'll soon be gone forever.

Exporting Surveillance: China is exporting AI enabled surveillance systems to 54 nations that we know of. 18 countries - including Zimbabwe, Uzbekistan, Pakistan, Kenya, Angola, Bolivia, Uruguay, Venezuela, the United Arab Emirates and Germany - are using Chinese-made intelligent monitoring systems. 36 have received training in topics like "public opinion guidance." So far, there's been no notable correlation between the installation of such systems and declining crime rates. Ecuador's \$200mm system has been misused for political purposes.

Mugabe: The rebel turned dictator died at 95. Zimbabwe's hero-turned-villain affirmed both the importance of standing defiant in the face of injustice, and the risks of entrenched power, political suppression. Pick your hero, he or she was a rebel, a risk taker, freeing us from monarchs, religious corruption, persecution, colonialism, slavery, economic oppression, dictatorship, superstition, ignorance. What would the world look like if each of these freedom fighters had lost their struggle before it had begun, suffocated by tomorrow's surveillance state?

Anecdote: The clock is ticking, he thought, gazing out at 35,000 feet. Above was the most perfect blue. Far below, concealed by clouds, lay Hong Kong. In tumult. He'd always admired the rebels, the risk takers. They're our salvation, our liberators, without them nothing changes. And since the protests had started, he marveled at the brave young souls who dare defy Beijing and its puppet, Carrie Lam. The British returned Hong Kong to the Chinese in 1997 under Deng Xiaoping's 'one country, two systems' principle, which enshrined capitalism, rule of law, and certain rights and freedoms for fifty years. That seemed like a long time. And back in 1997, conventional wisdom assumed democracy was the destiny of all great nations - so every effort was made to integrate China into the global trading system to speed their political transformation. But twenty-two years in, Western democracies in shambles, China's unparalleled economic ascent allowed the communist party dictatorship to consolidate power, strengthen its grip, spread its gospel. Beijing's 'Made in China 2025' economic plan is advancing its dominance of tomorrow's technologies. Its 'Belt and Road' initiative is extending its global influence. And while these are slow moving efforts, barely visible to the world in any given month or year, for Hong Kong (and Macau) the clock is ticking. Its citizens are unique - of all the people in the world only they can be certain that if they do not rebel, they'll lose their freedom in 2047. It has sharpened their minds. And it should sharpen ours too. Throughout the

West, we should be equally terrified of losing our freedom. Without a sustained struggle to maintain our privacy and civil liberties, the creep of today's surveillance state (and surveillance corporations) will consume us, control us, quieting tomorrow's rebels, crushing our risk takers, before they can save us from tyranny.

Good luck out there,

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