



**Q2** 2016  
ASTELLON  
NOTES No. 22

# ASTELLON

CAPITAL PARTNERS

## Helicopter Money – Let It Rain?

A reality check survey of 2,500  
individuals across Europe

# KEY THOUGHTS

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- **Hyperactive and easy monetary policy has failed to deliver both a revival of global growth and the return of inflation expectations to target levels**

It has in practise led to asymmetric wealth distribution through inflation of asset prices

This comes at the expense of true price discovery in asset markets and increasingly deflationary behaviour by market participants and corporate decision makers

The market continues to believe that central banks will fail to achieve their mandated objectives (e.g., inflation)

- **Helicopter money is increasingly being contemplated in major economies; e.g., Switzerland will hold a referendum in June 2016 regarding an unconditional minimum pay of CHF 2,500 p/m p/citizen**

- **Little has been written about the impact of negative rates and helicopter money on the behaviour of the average household**

- **Astellon Capital has conducted a proprietary survey, polling over 2,500 individuals in Germany, Italy, France, and Spain**

- **Main conclusions:**

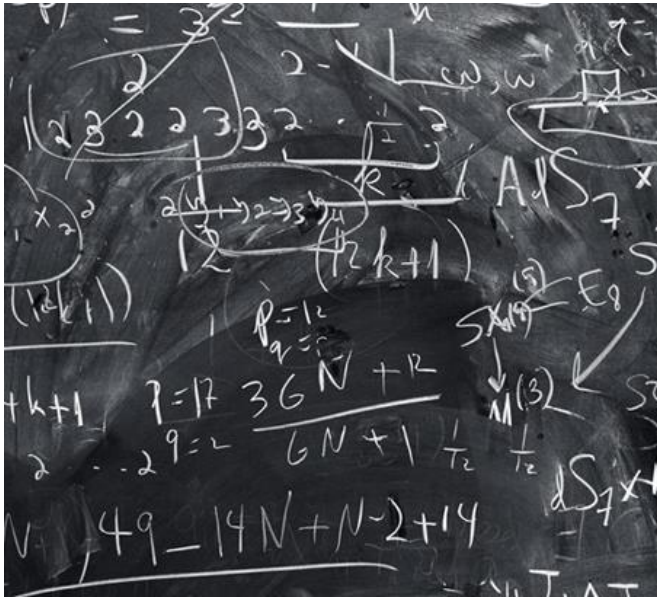
Only one in three consumers/households knows that QE exists

Passing on negative interest rates by banks to retail depositors would likely lead to bank runs

Negative rates (and bank runs) would lead to hoarding of physical cash or alternative forms of savings, not increased consumption

Helicopter money would on the other hand increase consumption in all countries irrespective of income levels

*Disclaimer: For the avoidance of a doubt, Astellon Capital is not a proponent of excessively easy monetary policies such as QE, negative interest rates or helicopter money*



## Quantitative Easing (QE) to Quantitative Failure (QF)

# HOW MUCH “MORE-OF-THE-SAME” POLICY, DESPITE ITS FAILURES?

650+

rate cuts globally since Sep-08  
(every 3 trading days)

US\$5.5 trn

of G5 central bank balance sheet expansion

Lowest interest rates in

5,000 years

US\$8 trn

of negative-yielding government debt  
outstanding globally

5x NIRP

negative interest rates in Japan, Switzerland,  
Eurozone, Denmark and Sweden

US\$21 trn

increase in world market cap (MSCI) since 2009

63% / 67%

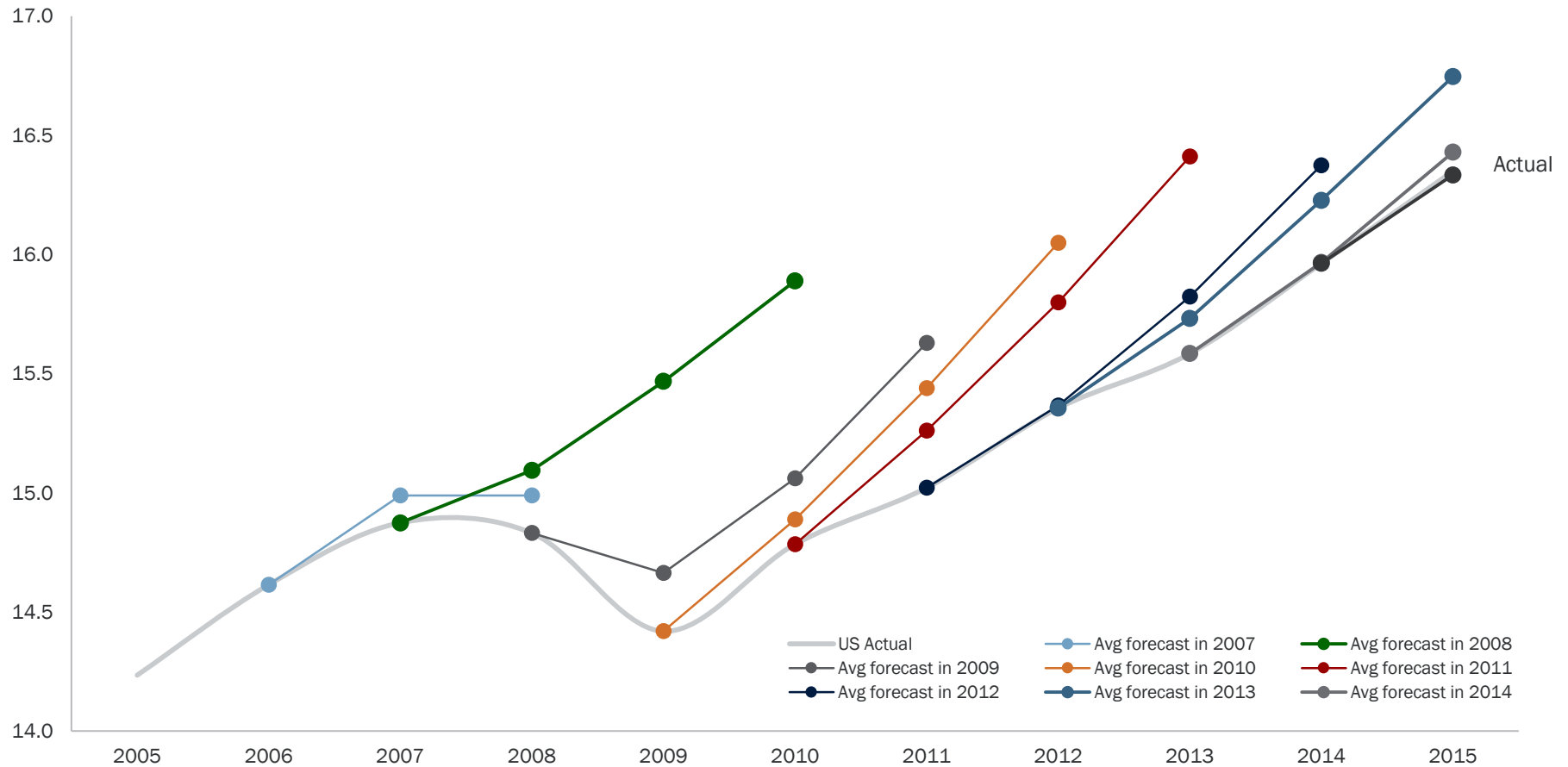
of the time inflation was below the  
ECB/Fed target of 2% since 2008

€80 bn ≈ €300 per capita

ECB purchases per month equivalent per head in the EU

# THE FED OVERESTIMATED THE RECOVERY EVERY YEAR FOR THE LAST DECADE

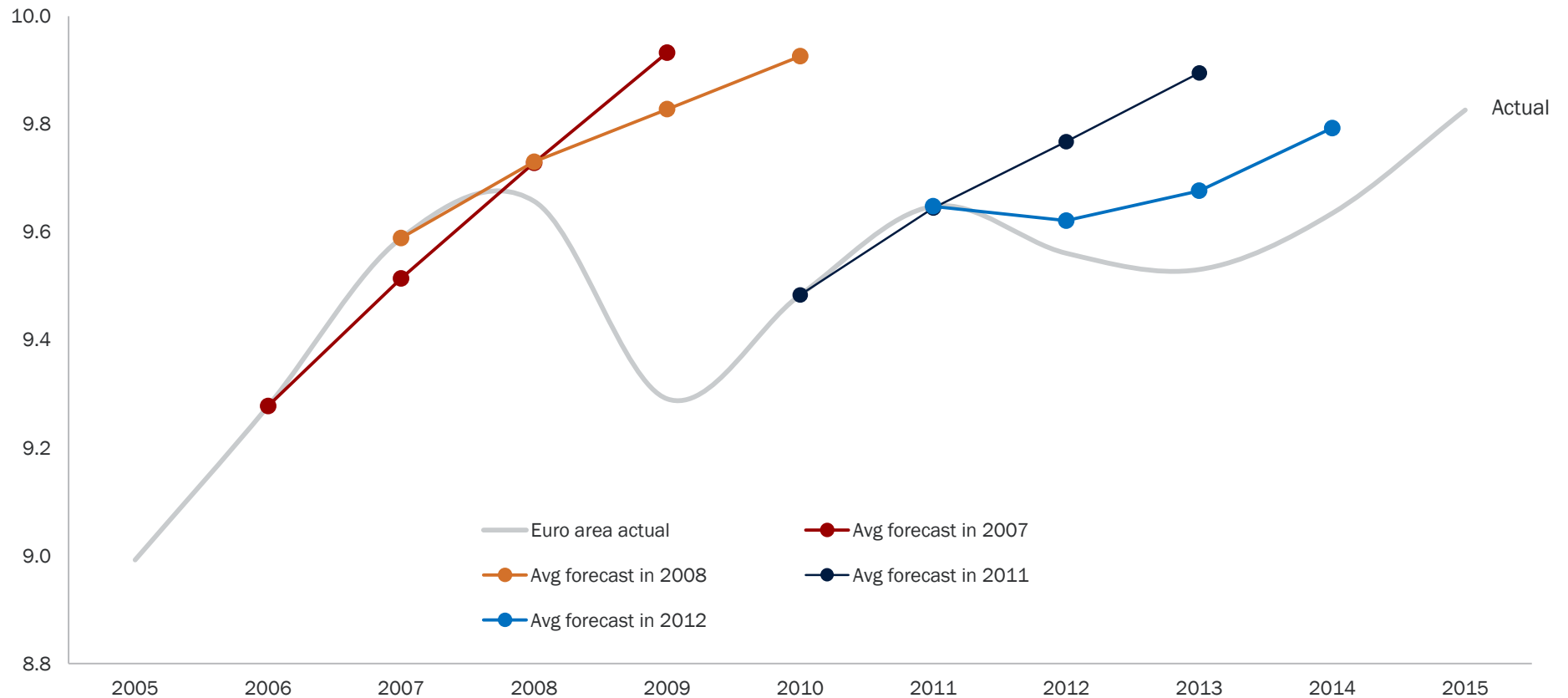
Real US GDP (2005-2015): actual vs Fed forecast <sup>(1)</sup> (US\$ trn, 2009 constant prices)



Note: (1) Average of two forecasts during the year (February, July)  
Source: Federal Reserve, BEA

# ECB ESTIMATES ARE TOO OPTIMISTIC EACH YEAR AS WELL

Real GDP Euro area <sup>(1)</sup> (2005-2015): actual vs ECB forecast <sup>(2)</sup> (€ trn, 2010 constant prices)



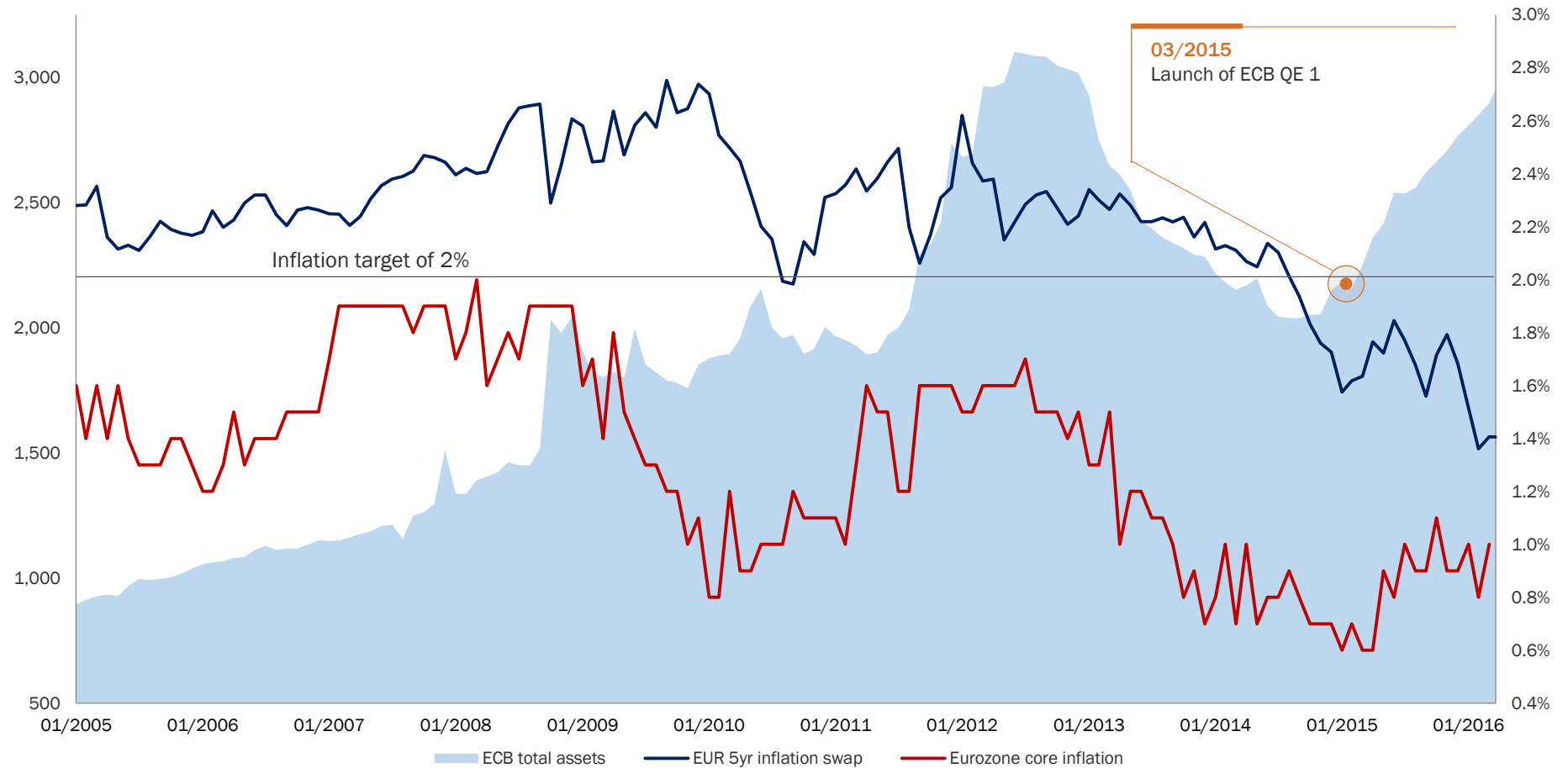
Note: (1) Actual Euro area composition changed: Euro 12 in 2006, Euro 13 in 2007, Euro 15 in 2008, Euro 16 in 2010, Euro 17 in 2013, Euro 18 in 2014, Euro 19 in 2015

(2) Average of four forecasts during the year (March, June, September, December)

Source: Eurostat, ECB

# MARKETS IMPLY THAT INFLATION WILL CONTINUE TO BE WELL BELOW 2% TARGET

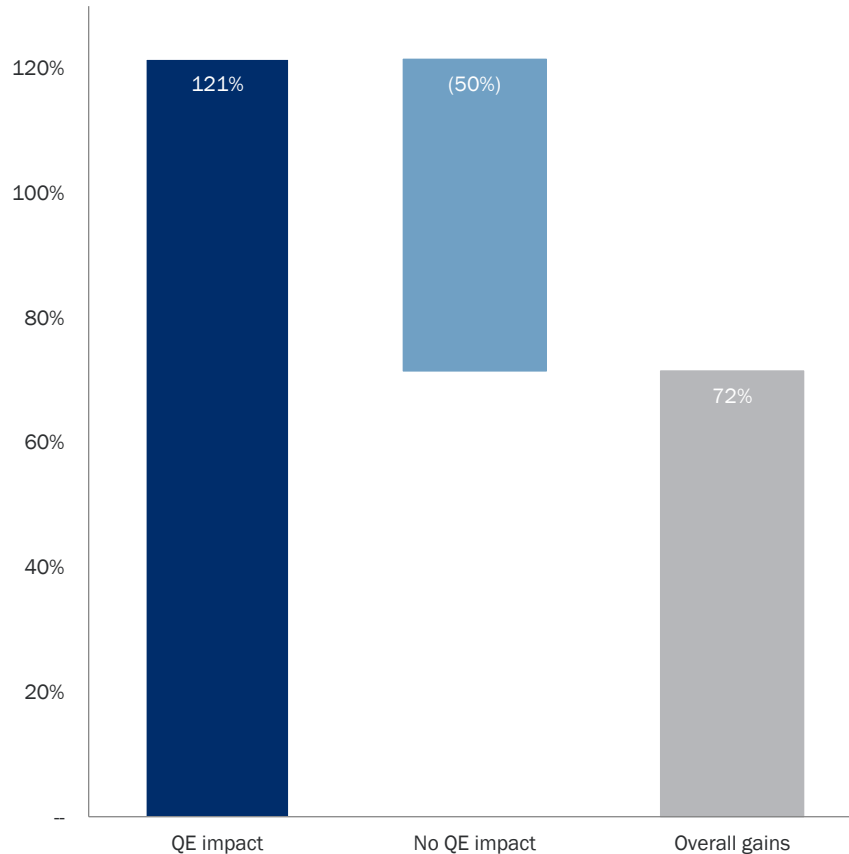
ECB balance sheet total assets in €m (left axis) vs EUR 5yr inflation swap and core inflation (right axis)



Source: Bloomberg, Astellon Capital

# INFLATING ASSET PRICES THROUGH MONETARY POLICY: OBJECTIVE ACHIEVED

QE impact <sup>(1)</sup> on Eurostoxx 600 since November 2008



Source: Astellon Capital, Bianco Research, Bloomberg

(1) Updated as of 22 Mar 2016: period has been divided into times when QE was operational at either the Fed or ECB and periods when it was discontinued

Citi Credit Spread Pure Europe Total Return Index



Source: Astellon Capital calculations, Bloomberg

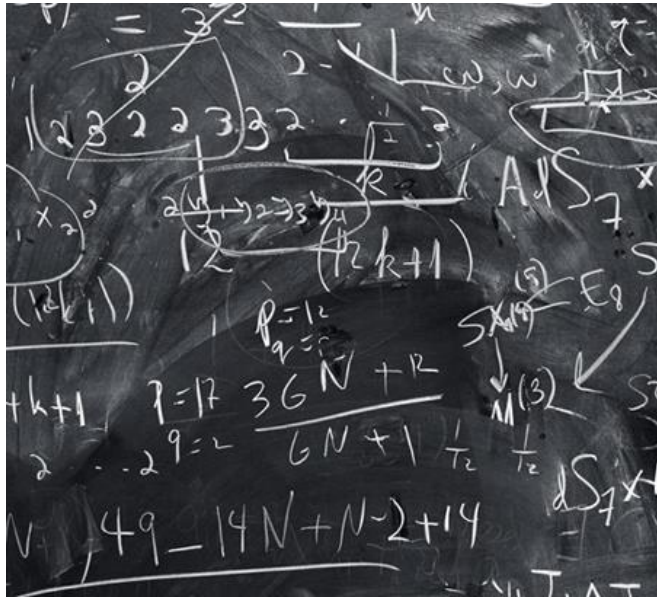


# HELICOPTER MONEY ALREADY BEING TESTED OR CONTEMPLATED

## Summary of Helicopter Money initiatives

Country	Description	Status	5-yr GDP CAGR %	Unemployment rate
Switzerland	CHF2,500 a month to adults and CHF625 to children Estimated costs of CHF208bn p.a. (gross) and CHF25bn p.a. (net) as it substitutes existing subsidies/welfare contributions	Referendum in June 2016	1.6%	3.6%
Finland	Government provides €20m for trial of 2 years. Three options considered: <ul style="list-style-type: none"> <li>• Full basic income: €800 per month</li> <li>• Partial basic income: €550 per month, with existing insurance-based benefits</li> <li>• Negative income tax</li> </ul>	Final report in Nov 2016 Launch in 2017	0.0%	9.4%
Canada (Ontario)	Previously trialled in Dauphine Canada 1974-1979 and was proved to reduce poverty Pilot programme currently being developed for 2016	Launch in 2016	2.1%	7.1%
Netherlands (Utrecht, Tilburg, Groningen, Wageningen)	4 options being considered: <ul style="list-style-type: none"> <li>• A pure version with no strings attached</li> <li>• Require recipients to volunteer a certain number of hours</li> <li>• A mix of the first two with a higher payout for volunteers</li> <li>• Only pay people who are not working</li> </ul>	TBD	0.6%	6.9%
United Kingdom	Supported mainly by Labour Party Think tank RSA suggested between £244 to £618 a week (to replace welfare state) depending on age group	TBD	2.1%	5.3%
France	An economics feasibility study for universal basic income is being developed under a parliamentary working commission	TBD	0.8%	10.4%

Source: Eurostat, IMF

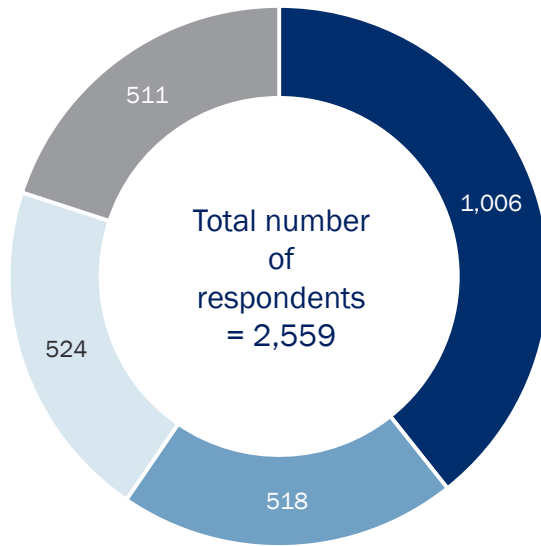


## Astellon survey on negative rates and helicopter money

A reality check across Germany, France, Italy and Spain

# ASTELLON PROPRIETARY SURVEY TO ASSESS IMPACT OF HELICOPTER MONEY

## Respondents by country:



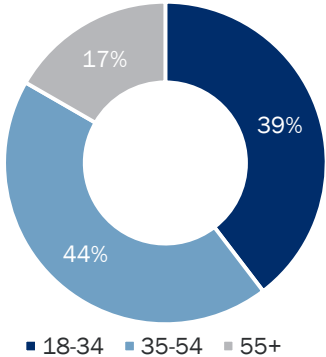
■ Germany ■ France ■ Italy ■ Spain

## Survey questions asked:

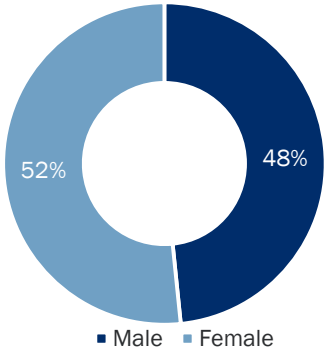
- Do you know that the ECB spends €80bn p/m to buy sovereign debt in Europe, equivalent to €300m per head?
- If your bank began to charge you money for having a deposit, at what fee level would you leave your bank?
- If you decided to withdraw your money from your bank, what would you do with it?
- If the ECB gave you €300 per month, what would you do with it?

# SUMMARY OF SOCIO-DEMOGRAPHIC PROFILES OF RESPONDENTS

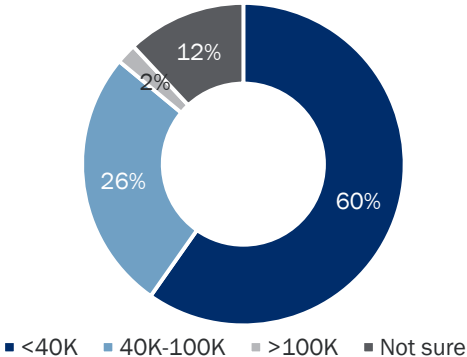
Age



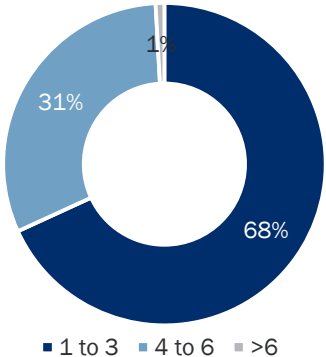
Gender



Annual income

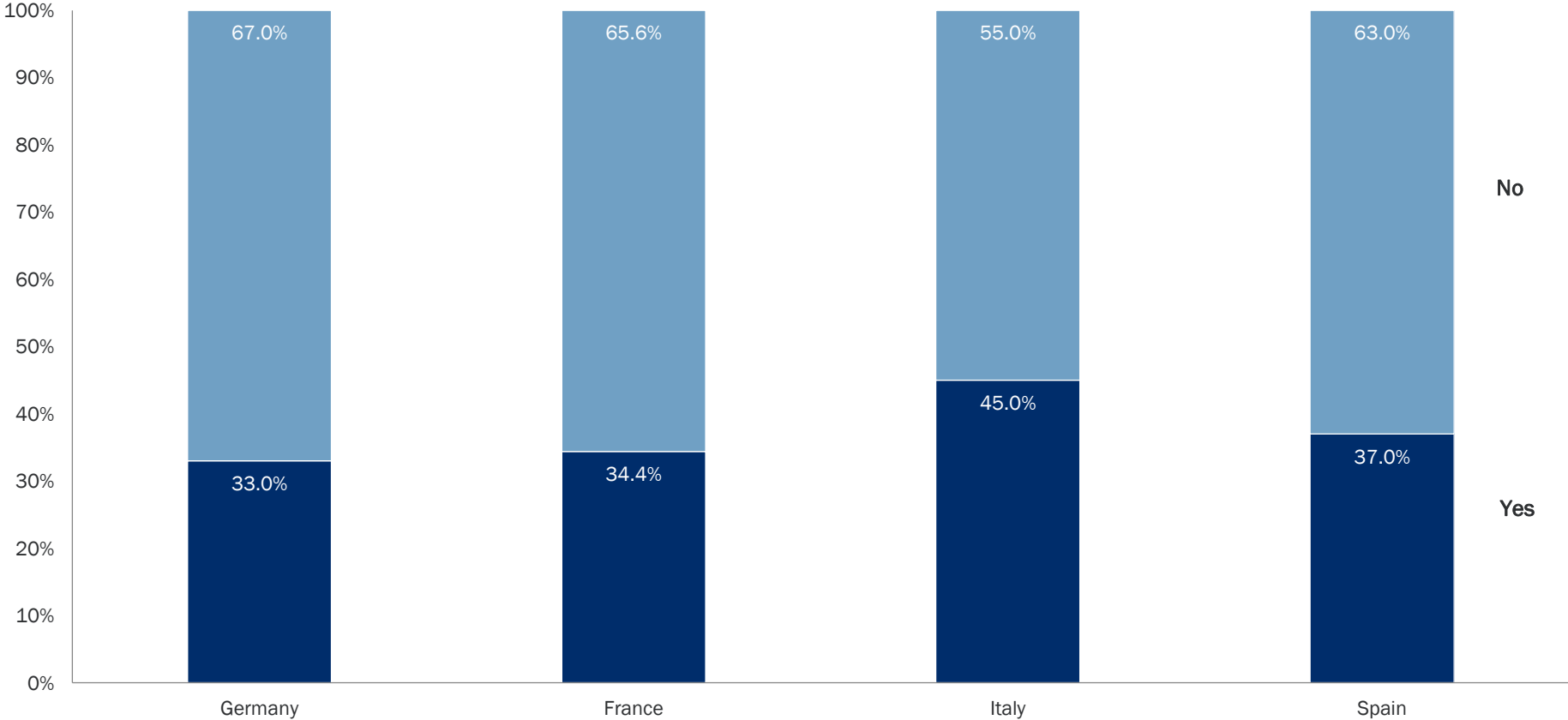


Household size



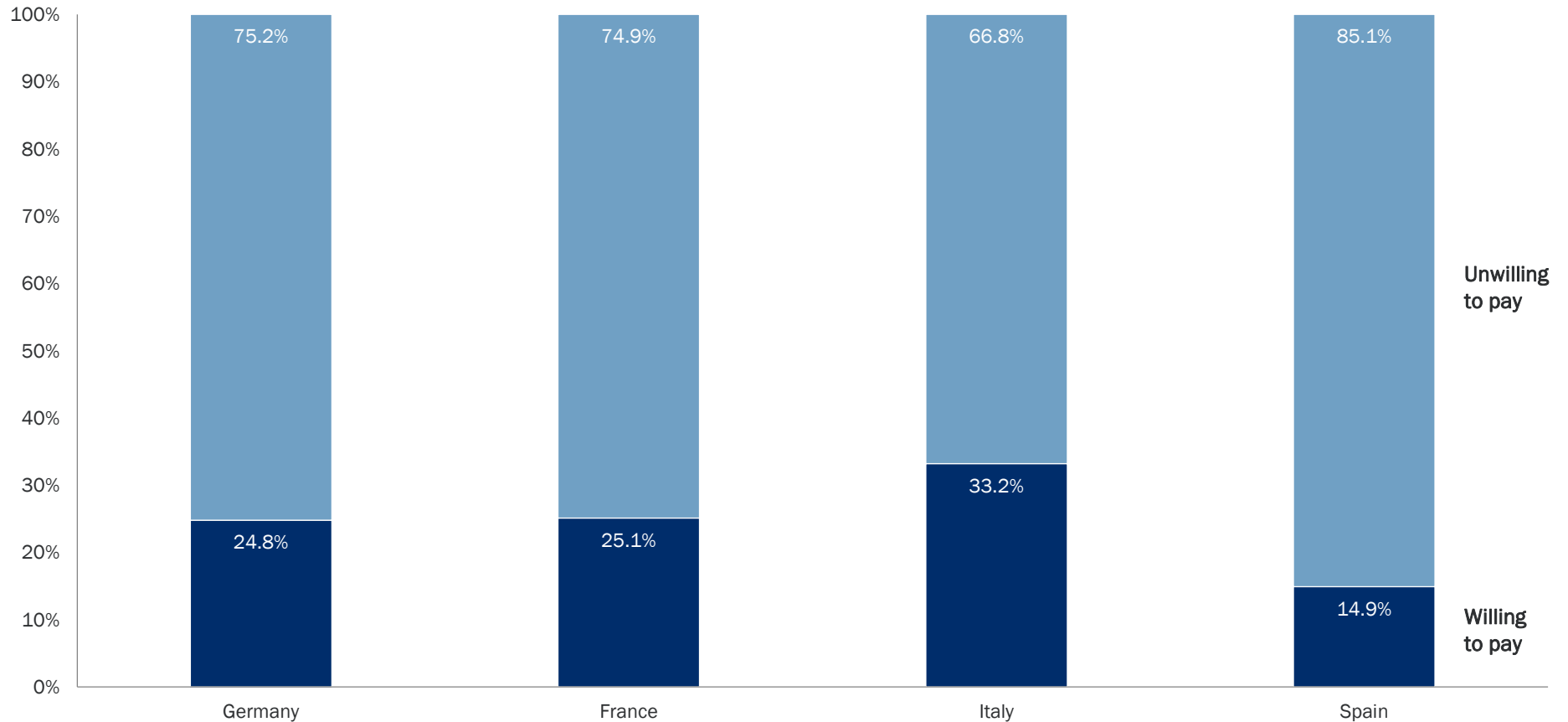
# ONLY ONE IN THREE CONSUMERS KNOWS THAT QE EXISTS

1. Did you know ECB spends €80 billion every month to buy sovereign debt of different countries in Europe?



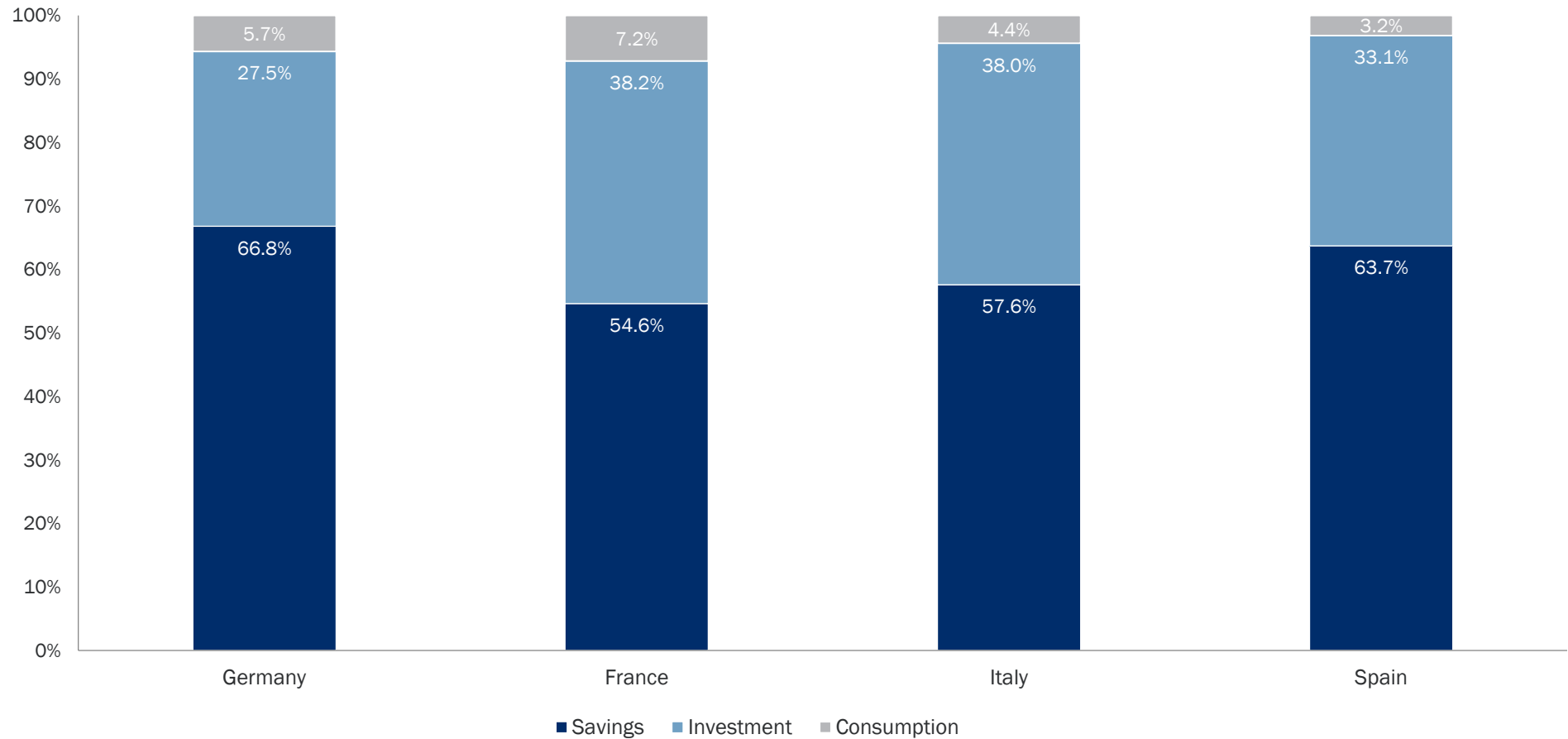
# PASSING ON NEGATIVE RATES TO CONSUMERS WOULD RESULT IN BANK RUNS

## 2. If you need to pay to save with a bank, would you leave?



# BANK RUNS WOULD LEAD TO ALTERNATIVE SAVINGS, NOT CONSUMPTION

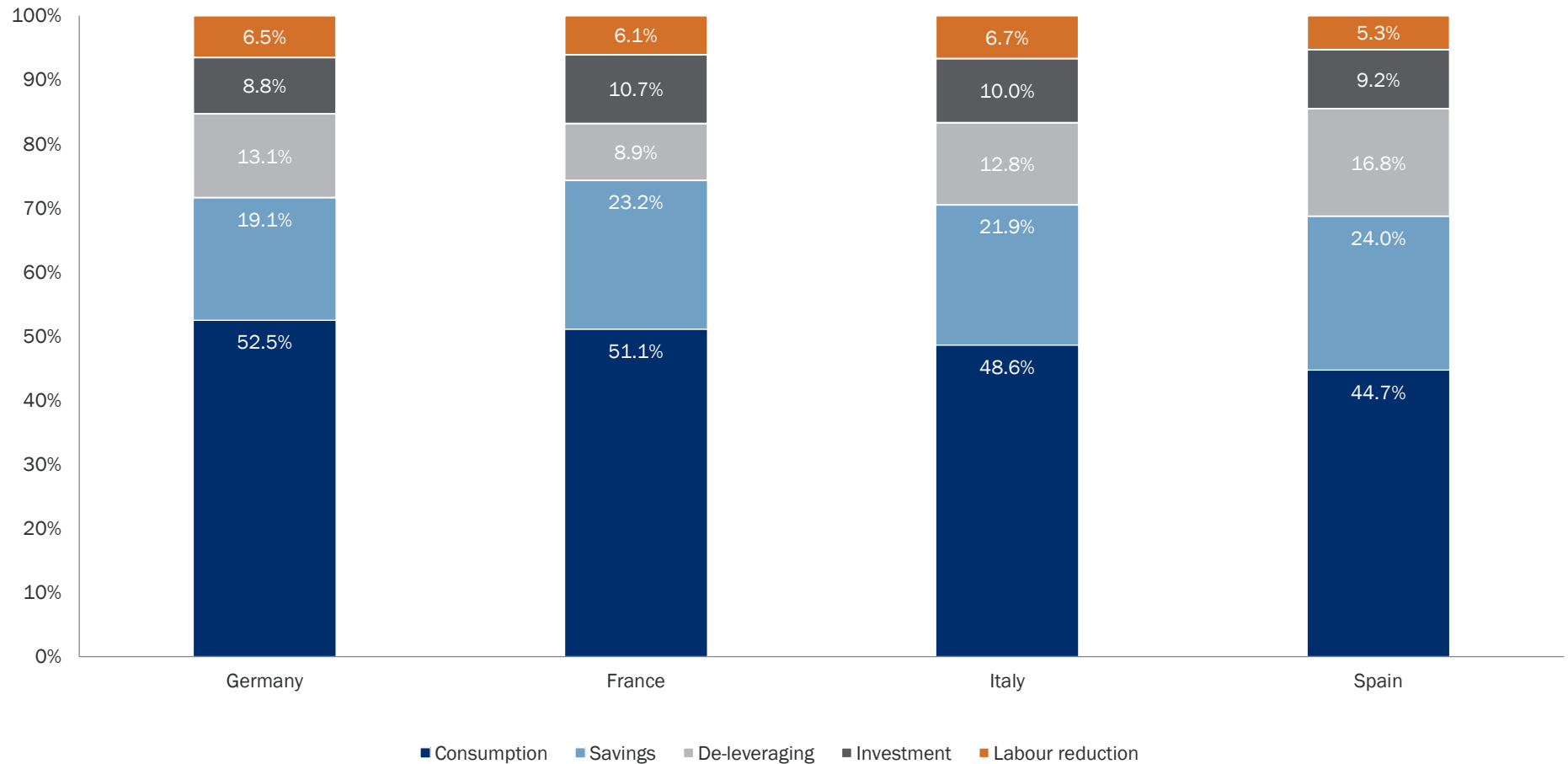
## 3. If you decided to withdraw from your bank, where would you keep your money?



Note: Respondents could select multiple answers so results were scaled down to add up to 100%, on average respondents selected ~1.6 different answers to this question

# HELICOPTER MONEY WOULD (AT LEAST) INCREASE CONSUMPTION

## 4. If you received a cheque of €300 per month, what would you do with it?

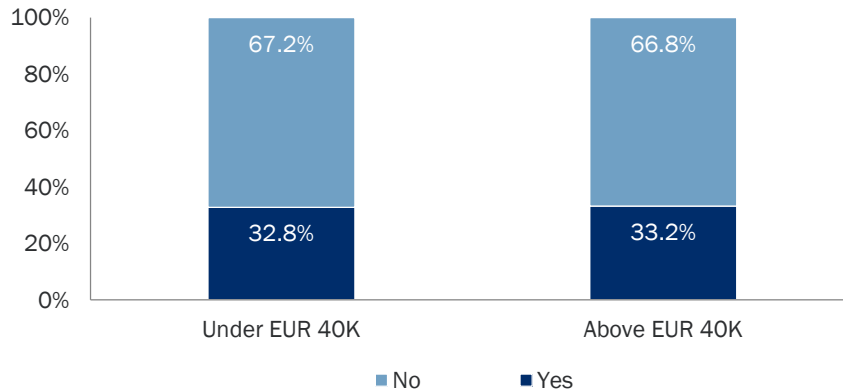


Note: Respondents could select multiple answers so results were scaled down to add up to 100%, on average respondents selected ~2.0 different answers to this question

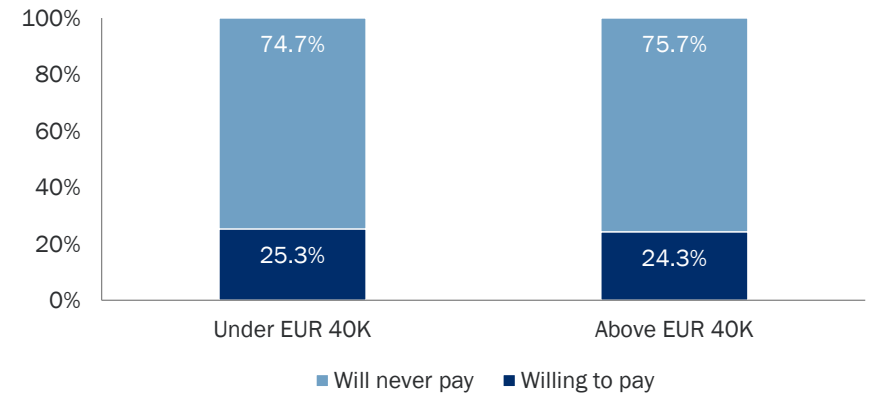


# GERMANS WERE SPLIT BY INCOME BUT IT SHOWS NO STATISTICAL DIFFERENCE

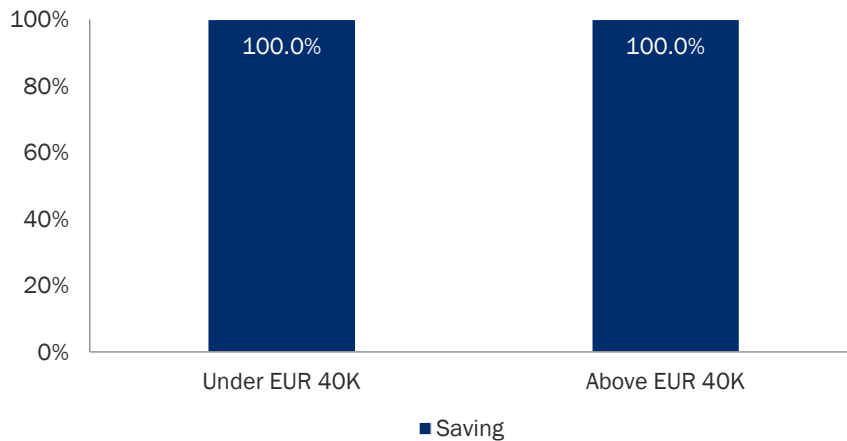
## 1. Did you know ECB spends €80bn every month to buy debt?



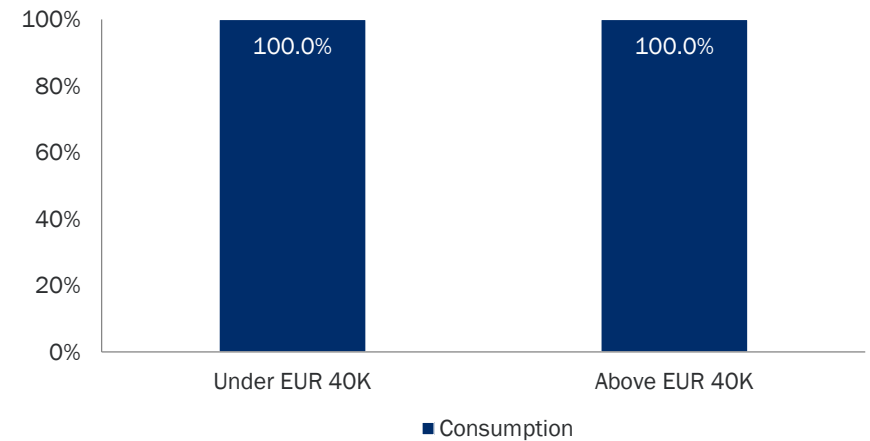
## 2. If you need to pay to save, would you leave your bank?



## 3. % of respondents that would put some cash in other forms of savings if they left their banks



## 4. % of respondents that would increase consumption if €300 per month was given by ECB



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