Editor-in-Chief's Welcome

Welcome to FinConomics, a series of editorials providing the latest news happening around Australia and the world! In this month’s edition we will be looking at major events that happened over the summer break.

- Ashutosh Dandagi

Editors

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Becoming a Cashless Society with Cash!

Ashutosh Dandagi

First, it was contactless payments on our devices, then buy-now-pay-later and now good old-fashioned coins and notes are making their way onto our phones. Earlier this year, the world's second-largest economy, China (IMF 2020), instigated a second large-scale trial of the Digital Yuan in Shenzhen, following the success of the first one in Shenzhen in October 2020 as well as others in Chengdu and Suzhou (Kharpal 2021). As part of the Chinese New Year festivities, The Peoples' Bank of China released 20 million Yuan (AU$4 million) of Digital Currency to the Shenzhen local government to allocate the digital funds through a lottery as part of a second trail of the Digital Cash (Lee 2021).

The Digital Yuan itself is part of a larger digital payment network available currently to the Chinese market. The user is required to download a digital wallet that generates a QR code that is scanned at the point of Sale (John 2020), a similar process to which Afterpay payments are made.

How is Digital currency different from Cryptocurrency?

The main difference the digital Yuan has against standard Cryptocurrencies is the fact that e-CNY is legal tender, while cryptocurrencies while may be accepted and use have no legal tender. Another main difference is that cryptocurrencies are decentralised and provide full anonymity so that no entity or government can control transactions, whereas the eCNY, is fully controlled by the Chinese Government and its central bank (Popper and Li 2021).

Any trials outside of China?

While there are no large-scale trials such as the one in China to have occurred elsewhere, a group of centralised banks including the European Central Bank have been working alongside the Bank for International settlements to investigate CBDC's and developed key principles to the framework of a CBDC, these include, that a CBDC is to coexist alongside physical cash, the current monetary and financial stability should not be compromised from the issuing authority and that the use of CBDC's is to promote innovation and efficiency (BIS 2020). These principles were developed to mitigate the risks that could occur with the development and roll-out of digital fiat and to ensure there is public trust in the system. The BIS also investigated the risks of CBDC, which include the protection of monetary sovereignty and the potential disintermediation of banks, both of which can affect Financial Stability.

Impacts on Australia.

While trials and investigations of CBDC's are gaining traction in many economies, the implementation of a digital-fiat is still decades away, with regulatory frameworks still needing to be developed and public confidence in the system to increase it may still be a while until we see useable cash on our phones. However, in the meantime, the Reserve Bank of Australia has launched a partnership with the Commonwealth Bank, National Australia Bank as well other private companies to develop a proof-of-concept for the issuance of an Australian CBDC (RBA 2020).

Record Low Cash Rates

Matthew Kanizay
Editor Opinion

The year of 2020 saw a wave of unprecedented events; COVID-19 lockdowns, mask-wearing, Zoom meetings, and not to mention an economic downturn. Australians did not have the ability to go out and contribute to consumer spending as they usually would, paired with the forced closure of many retail, hospitality and entertainment businesses. Subsequently, there was a huge fall in aggregate demand for goods and services, and many lost their jobs due to the sharp decrease in demand. With no guaranteed income for some, the risk of jobs loss, and a limited amount of goods and services that consumers could spend on, the household savings ratio jumped from 5.3% in December 2019 to 22.0% in June 2020 (ABS 2021).

As the household savings ratio was approximately just above 20% in June 2020, four times what it was six months earlier, the Reserve Bank of Australia (RBA 2021) utilised their role to ensure the stability of the economic climate and financial system through lowering the cash rate. The RBA had already lowered the official cash rate on March 4 2020, from 0.75% to 0.50%, and then lowered it again on March 20 2020, through an emergency RBA meeting to mitigate the incoming economic impacts due to COVID-19. The fall is the official cash rate was seen as beneficial, and assisted many households and businesses through the peak COVID-19 period in Australia, that saw residents of states all over the country, notably Victorians be locked down and confined to their homes.

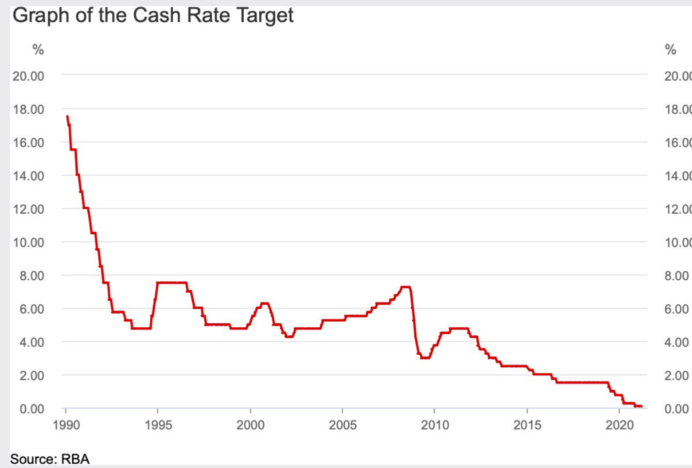
By the end of October, Australia had started to open its economy back up, with most states out of lockdown and restrictions easing. However, on November 4 2020, the RBA further reduced the cash rate to 0.10%, decreasing the rate by 0.15% and breaking the status quo of only increasing or decreasing the rate by 0.25%. RBA Governor, Phllip Lowe, justified the reduction as ‘further measures to support job creation and the recovery of the Australian economy from the pandemic’. The RBA has continued to keep the cash rate at 0.10%, with Lowe saying that ‘the Board will not increase the cash rate until actual inflation is sustainably within the 2 to 3 percent target range… which the board does not expect these conditions to be met until 2024 at the earliest’. It is important to note that lower official interest rates incentivise spending and economic activity, where aggregate demand will rise, and people will look for alternative opportunities, such as equities, for wealth creation, compared to savings accounts and term deposits.

Since November, Australia has seen expenditure rates grow, paired by the reopening of the majority of the economy. Domestic equities markets have risen, following the election of President Biden and because investors are looking for higher returns than the (approximate) 0.0% - 1.0% they are receiving on savings and term deposits.

Australia's inflation rates, measured by the CPI (consumer price index), have underperformed throughout the last five years, falling short of the 2-3% sustainable inflation target. Despite an inflation rate of -0.3% for Quarter 2 (Q2) 2020, Australia saw its inflation rate climb back to 0.7% in Q3 and 0.9% in Q4. Global economics website, Trading Economics, forecasts the inflation rate to climb to 1% in Q1, 1.5% in Q2 and 3.6% in Q3 (Trading Economics, 2021).

A jump in the CPI from 1.5% to 3.6% from one quarter to the next seems unsustainable. Furthermore, it presents a question as to whether the record low cash rate of 0.10% is effective to achieve the RBA's goals of 'price stability, full employment, and prosperity and welfare of the Australian people' through targeting 2-3% inflation on average. Director and Principal Adviser at Allan Advisory Group, Chris Allan, is confident that "when the banks begin to increase their home loan and mortgage rates, then we know an increase in the cash rate is coming". If anything, such substantial increases in the inflation rate are dangerous for our economy, particularly as wage growth has been fairly stagnant in Australia over the past five years. The mix of low interest rates, increased consumer spending and stagnant wage growth can potentially lead to hyperinflation, devaluing the Australian dollar in the foreign exchange markets and threatening Australia's recovering economy.

Will the RBA maintain their strong position on interest rates of 0.10%, or will they adjust their positioning depending on how the Australian economy is tracking?



David and Goliath, But with Stocks

Sachitha Dissanayake

The story of GameStop and the shock extrapolation of its share price, like many other stories, originates with the pandemic (Baldwin 2020). The chaos that transpired in the stock market catapulting the market value of GameStop was a concoction of Hedge Funds engaging in short selling and independent investors rallying against institutional investors. GameStop had been struggling prior to the disastrous events of the pandemic due to video game enthusiasts choosing to download games directly to their consoles (signs of shifting gaming technology) as opposed to purchasing gaming software from the Brick and Mortar stores the GameStop chain were running (Baldwin 2020). Add to this, the minimisation of physical presence at stores due to the coronavirus-induced lockdown, the company's shares were down at $2.57 (Chapman 2021). In having identified the struggles of the GameStop Chain, Hedge Funds were quick to initiate the process of short selling the shares of the now famed company.

What is Short Selling?

Short Selling is a measure undertaken to reap profits from shares that are falling in value based on speculation that the downward trend of the share price would persist (Baldwin 2020). The process involves borrowing shares from its initial holder in return for a small fee and selling the shares at the existent market price with the intentions of re-purchasing those shares once the market price has descended further thereby, returning them to the initial holder. The profit derived from the process is to be kept by the short seller, which usually tends to be an institutional investor.

The Reddit Intervention

In having noticed the intentions of Hedge Funds, mainly Citron Research and Melvin Capital, to short sell the shares of GameStop, multiple Reddit users rallied together by purchasing GameStop shares resulting in an increment in demand for the shares and a subsequent extrapolation of the share price of the struggling company (Chapman 2021). To be technical, this act by the amateur investors is termed a short squeeze which transpires in order to put pressure on short sellers aiming to profit from the struggles of a company/financial asset.

Whilst many Reddit Users viewed this an opportunity to exact revenge from wealthy investors that were utilising the vulnerability of struggling small companies to further their wealth, other amateur investors had purchased the company stocks to benefit from the share price explosion resulting from the short squeeze.

The rise in share price continued to persist as the short sellers started buying back the shares to return to their initial owners thereby, further increasing demand and the share price of GameStop (Chapman 2021). Henceforth, the Hedge Funds that betted against GameStop started incurring massive losses as shares they had sold for much lesser had to now be purchased for an astronomical price in addition to the fees they had paid to the owners they borrowed the shares from initially. The losses were estimated to be in the region of USD 5 billion by 2021 (Chapman 2021).

What Next?

The rallying of amateur investors to take down two major investors has encouraged similar acts of rescue being showcased towards other companies struggling, mainly due to the pandemic. The Theatre Chain, AMC Entertainment Holdings, has shown signs of being the next rescue act of the stock market's Robin Hoods following the major losses it had incurred due to the ravaging pandemic (Chapman 2021). More struggling companies would hope to encounter the same fate as the tough persisting economic conditions continue to shut many businesses down. As for investors in the stock market, especially institutional investors, continued acts of heroism by amateur investors would further add to the hostility and the volatility of the stock market adding greater risk to decisions based solely on speculation.

UPCOMING EVENTS

MARCH 31
Virtual Accounting Panel

Showcasing Charted Accountants CANZ, ACCA and ShineWing, our Virtual accounting panel is going Live tomorrow night! It is a must-attend event for those interested in a career in accounting. Register here, to secure your spot and a chance to win $50

APRIL 8
DCS After Dark

DCS is back, kicking off its first social engagement for 2021 with a party at the THIRD DAY in North Melbourne. Headlined by Market Memories, tickets are selling fast so don't miss out and buy them here now.

APRIL 21
Finance & Economics Webinar

Interested in a Carrer in Economics or Finance?, Still trying to decide your major? Then look no further than the Finance and Economics Webinar hosted by the DCS in late April. Keep an eye out on the DCS Facebook page for more information.

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Submission Guidelines

The following are the submission guidelines set by the Deakin Commerce Society relating to submissions for 'The DCS FinConomics'. All guidelines are to be strictly followed at all times, in order to uphold integrity, accuracy, fairness, privacy and avoidance of harm.

The General Guidelines are as follows:

- DCS accepts articles and opinion-pieces for its editorial 'The DCS FinConomics'. If necessary, articles must state that their references are the opinion of the original author. Opinion pieces must state that they are the opinion of the author.
- We only accept submissions sent as emails to admin@deakincommercesociety.com.au. All other submissions will not be considered.
- Please name the document of your submission as Full Name_Student ID_Name of Article/piece.
- We do not accept submissions that have been used for assignments, research or published elsewhere. Likewise, we do not accept submissions which are planned to be used for future assignments, research or other uses.
- You must be a Deakin student to submit an article/piece.
- All pieces should be size 12 and Times New Roman font.
- Pieces should be approximately 500 words, with a 15% leeway.
- All submissions should be in .doc or .docx format (Microsoft Word).
- For more information, you can view Deakin's Copyright and Intellectual Property guidelines by navigating the following links.
- All work must have full Harvard referencing, for more information on Harvard referencing, please view the following link: Harvard Referencing.

The DCS FinConomics Professional Code of Conduct is as follows:
- Accuracy of reporting and submissions must be prioritised.
- Zero tolerance for misrepresentation of any sort.
- Conflicts of Interest must be declared.
- Personal gain, bribery or any other forms of manipulation are unacceptable.
- No tolerance for harassment, bullying or any other form of harm in submissions.
- Do not bring the reputation of the Deakin Commerce Society into disrepute.
- Respect confidences and sensitivities at all times.
- Familiarise yourself with the guidelines before submitting.