

Recession Will Be 'Full-Blown Depression': Strategist

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By: CNBC.com

This global recession will turn into a "full-blown depression," Nicu Harajchi, CEO of N1 Asset Management, said Friday, adding that global stimulus hasn't come down to Main Street.

Wall Street is making money, while consumers aren't, Harajchi told CNBC.

"We have seen the G20 coming out with cross border capital injections of \$5 trillion this year... But a lot of this money hasn't really come down to Main Street," he said.

"When it comes down to corporate America, corporate Europe or even in Asia, in Japan, we are not seeing Main Street making any money," he said. "Consumers are losing their jobs. They are struggling with their mortgages, with their credit. And we are just seeing this continuing."

The \$5 trillion injection is "monetary expansion," according to Harajchi. "At some point, which we believe to be 2010/11, some of the central banks are going to recall some of that money and that will turn from monetary expansion to monetary contraction."

He also said he doesn't see the corporates or the public "being able to pay back that debt."

"We see 2010 becoming a much more risky year than 2009," he said.

Harajchi said unemployment data are "a leading indicator" instead of a lagging indicator.

Mike Lenhoff, chief strategist at Brewing Dolphin Securities, told CNBC that the recovery will depend on the improvement in cyclical sectors.

"The sooner companies generate their profits, and I think it is moving towards mainstream, it's not just the financials now," Lenhoff said. "If present trends continue, we're talking about jobs being created sometime in the second quarter of next year. That could do a lot for consumer confidence."

Weak Dollar is Everybody's Friend

It is no longer up to the U.S. but more to the rest of the world to decide about the dollar's status as the global reserve currency, Harajchi said.

China and the Gulf countries which have their oil pegged to the dollar "would like to see some other currencies, maybe the euro, playing a more dominant role," he said.

Lenhoff disagreed with Harajchi, saying he believes the dollar will continue to play a dominant role in global trade and global finance.

Central banks will continue to keep interest rates very low in order to avoid a depression, he said. The reason for the dollar's recent weakness "is really down to Fed policy," he added.

"The Federal Reserve has made it crystal clear that interest rates are staying where they are for an extended period of time. We're getting to see a more confident tone to global growth, to a recovery, and as a result of that, we're seeing the tolerance towards risk aversion drop and that in turn has washed back onto the dollar as investors go in search of risk assets," he said.

"This is something we're going to see for a while, until there is a change in Fed policy. That doesn't seem imminent and certainly it doesn't seem at all likely until sometime in the latter half of next year."

The dollar's depreciation will help boost the S&P 500 index over the coming quarters, Lenhoff told CNBC.

"A weak dollar is everybody's friend," he said.

"If the dollar serves the role of an additional stimulus in reflation the U.S., then I think that it's very good," he said.

