



Update October 13th 2015

China slows – what a surprise! – We are witnessing a financial re-run of the “The End of Ideology”, myths are being thrown out the window! - Commodities, this is not over, watch the big traders – Three cheers for Lael Brainard, some common sense about the labor force participation rate! - US risks turning into a country with an emerging market social structure and a much lower potential growth rate

Stock markets lower on China – apologists running out of arguments!

Stock markets are weaker this morning with the key news once again being a chill wind from China. Chinese imports have collapsed, while exports are also falling. The apologists for the slowing of the Chinese economy claim that this is the result of lower commodity prices. This begs two inconvenient questions:

Why are commodity prices lower?

Why are lower commodity prices not igniting a fire under the global economy?

We are now witnessing the demise of three precious cherished myths;

The “oil dividend” which was supposed to power the US economy to heights previously only witnessed in the forced industrialization programs in the first Soviet five year plan;

The lower commodity price bonanza which by lowering input costs would act as a balsam on operating margins, boosting corporate profits.

Zero interest rates, boosting capital investment and leading to job creation.

We need to ask whether consumers are not being beaten senseless by a lack of wage growth and producers are faced with massive overcapacity and nobody to invite on to the dance floor!

Shades of “Casablanca”- German stock market rounding up usual suspects!

We are seeing the impact of the Chinese slowing in Europe with German investor confidence falling and the mighty DAX taking it on the snout.

To borrow a phrase from the immortal film “Casablanca” investors are rounding up the “usual suspects”. These include luxury goods companies and car makers. We are less concerned about luxury goods, which are a function of the rich getting richer, than we are about cars – which reflect the steady rise of a powerful and sustainable middle class.

Growth rates for China are being timidly revised downwards - we see these downgrades as the appetizer in what shall be a long meal.

Commodities are also off on the Chinese news, with Glencore down almost five per cent and still being seen as one of the market bellwethers. We do not see commodities as having bottomed and view the Glencore situation as whether the company can divest assets faster than price declines.

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We are still seeing considerable volatility in the commodity stocks which are trading in lockstep with commodity prices, with no premium for any value added stemming from logistics capacity.

IEA sees slowing in global oil demand growth – Shale oil sector starting to resemble post 1945 “Stay behind” units in post- war Europe – ready to move into action!

We are being besieged by contradictory reports about the oil price, with some seeing a Renaissance in the offing. The International Energy Agency now estimates a slowing in demand growth moving into next year, which should stem any long term sustainable upswing. Price volatility is also contributing to the tenacity of those who shall continue to fight in the oil world’s equivalent of the “Alpine Redoubt” – the US shale sector.

Taking advantage of sharp upward spikes, the producers have been able to hedge at US Dollars 50 – affording them a comfortable buffer against price falls – in addition to increasing extraction efficiency - this shall be a long slog.

Federal Reserve starting to figure it out! Labor force participation not about billionaires going on voyages of “self-discovery”!

Turning to the US, we were interested to read comments by a Federal Reserve official that the US labor market was still not pulling its weight, with a Depression level labor force participation rate. The “structural” explanation – all Americans, recently minted billionaires have, in a bizarre replay of the 1960’s hippie movement, decided to “drop out” and enjoy life. This is complete rubbish!

Wage stagnation has dramatically increased “search costs”. Urban poverty is rising and the US is starting to look like a third world country with a lower potential growth rate and a growing contempt for education!

Marx famously stated that “religion was the opium of the masses” – he was wrong! The opium of the masses is the celebrity craze as the growing ranks of the indigent are indoctrinated with one in a hundred million dreams!

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