



*Update November 4<sup>th</sup> 2015*

***Are we at the turning point? Glass half full better than nothing!***

*A bit too early for “hark the herald angels sing” but a ray of sunlight in the cold water - quote courtesy of the French writer Françoise Sagan – appears to be making a timid appearance in the financial markets. Dividing the proverbial glass into two parts – bottom half lower level of systemic risk and top half growth – investors have decided that a glass half full is good news.*

***Markets are seen as holding the line, with a possible victory in the offing. We are seeing the stabilization scenario continuing to play out – cyclical fluctuations are manageable and as long as US does not collapse, we shall be OK.***

***Key driver remains monetary policy – structural reforms sparse on the ground – deflation danger ever present***

*In our view, the principal factor driving the markets remains an overall generous monetary policy in the face of dismal growth prospects and continued deflationary pressures. Despite solemn pledges to the contrary – many central banks are venturing ever further into zero or negative yield territory.*

***Policy makers, having all but given up on top line growth are now focusing improving margins via the elimination of financing expense for the “happy few”.***

***ECB facing El Alamein moment – can the line hold?***

*That deflation remains a concern was highlighted by a speech by the head of the ECB yesterday – who reiterated view that ECB stands ready to review all measures. Deflation shall prove extremely difficult to fight for two reasons:*

***Overcapacity shall continue and labor force is being feudalized – this is the Nile Delta before the 1952 Revolution!***

*1- With China seeking 6 1/2 per cent growth, overcapacity shall not be throttled back overnight*

*2- In the developed economies there has been a massive re-casting of the labor market – where the rise of services – low paid positions and automation have crushed the bargaining power of the workers. Atomized labor is therefore resulting in a longer lag time in re-balancing wages and profit shares of GDP.*

***These forces have re-cast the developed economy labor force from the wage earner + benefits model to relationships like those prevailing in the Nile Delta before 1952 – feudalism.***

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***We keep looking at previous economic cycles as signposts for the future. This is like studying stock market cycles and PE ratios without tech.***

***US recovery does not deserve a consolation prize for showing up!***

*Moving from a brief historical analysis to today's data flow, US ADP data shows a still moderate pace of hiring. Whether this is a useful metric for the official release on November 6<sup>th</sup>, is in our view totally irrelevant. What is relevant is the snail's pace of the recovery – which does not even merit a consolation prize for showing up!*

***We need to reassess the relationship between employment and living standards - in the middle ages there was full employment – lives were nasty, brutish and short. There are several developed economies where the unemployed are living better than those with three jobs in the US!***

***The absorption of excess labor at lower real wages with scant prospect of redressing wage – profit imbalances does not bode well for the prosperous who wish to sleep comfortably.***

***Are we in a “Sixteen tons” economy?***

*We shall also be seeing data on US services, which provide the lion's share of the US economy and are domestically driven. Wither the US consumer in a social structure which is ominously inching closer to the “company store” in the immortal song “Sixteen tons”?*

***The service economy, which is the desperate buying often from the desperate – low wage buys from low wage – tends to have a fast pass-through of any incremental income. We are wary of deflation in services – internally generated.***

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