



Update November 12th 2015

Markets playing from backfield – we do not care about core – non – core! – Deflation risk entering a new and dangerous phase – Watch out – falling commodities!

Chinese data not enough to sway the Federal Reserve

Yesterday, the US market was not impressed by mixed Chinese data and did not discern in it any valid motives for the Federal Reserve to not raise rates in the near future. As we have often said, the focus is not on making everybody rich but on avoiding a systemic disruption. With the Chinese financial markets showing signs of some stabilization and Chinese consumers still buying, this risk seems to have receded.

European markets playing from backfield – no respite despite ECB prospective easing

European markets are retreating this morning despite the head of the ECB affirming willingness to look at further monetary measures in December. The proximate cause being the still fragile outlook for Euro Zone core inflation, which has – after zero interest rates, massive lending and bond buying, now reached the dizzying height of 1 per cent.

Stop the nonsense! There is one inflation rate!

The non-core rate is at zero. We may well ask, what is the difference? The oil price “shock” is proving far from temporary and we are seeing a continuing fall in other commodities. Despite massive monetary measures and lending to all and sundry, the OECD has revised its Euro Zone growth forecasts downwards.

Euro Zone deflation risk entering second and more dangerous phase – hard asset deflation, slower than expected capital accretion

We see the deflation risk now entering a second phase. The first phase was the revaluation of debt – the second shall be less demand for “hard assets” which will no longer be seen as a store of value – capital accretion – but as a source of cash outflows. Long term asset allocation strategies shall change.

European corporate earnings disappoint – investors shall stop buying markets and start buying specific companies

Corporate earnings in Europe have disappointed – sowing once again seeds of doubt as to the strength of the global recovery.

Investors shall become more selective and start buying specific companies rather than markets.

Yesterday was singles day – today is Federal Reserve day – any gifts?

Turning to the US – we shall be hearing from a number of Federal Reserve officials today. The key allocation shall be from the head of the US central bank. We shall also be hearing from the head of the Federal Reserve Bank of New York and the Vice Chairman of the Federal Reserve – among others.

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US remains “Lone Ranger” leader of the pack in epochal shift

Markets may bounce around as investors seek to read the tea-leaves. The US remains the “Lone ranger” in seeking to raise rates – with the ECB, BOJ, Bank of China at the opposite spectrum.

The Federal Reserve does not need to tighten, the others are easing.

Macy’s - Quo Vadis?

Weak results from Macy’s have once again ignited concerns as to the constitution of the US consumer, with investors trying to separate the macro from the micro picture. Tomorrow’s retail sales should shed some light on this matter.

Focus on commodities***Oil is down – once again!***

Without wishing to sound triumphalist, oil is down once again. This was triggered by fears of robust US inventories confounding the optimists, who see the US industry close to collapse! It is not, with many operators still profitably hedged and the fall in the oil price itself reducing their break-even point - Nevertheless the sector is down as those betting on a bull run had to once again pull in their horns.

Commodities are following oil!

Commodities have followed suit and we see scant scope for improvement. Producers based in countries with rapidly depreciating currencies are able to out run the recent price declines. They pay local and cash US Dollars.

We see the outlook as more difficult for the miners than the oil producers. Oil consumption is spread globally – metals have one major buyer. China.

Glencore cannot sell assets fast enough

We are once again seeing pressure on the mining stocks and the commodity traders as those with large China – copper – exposures get hit hard. Glencore cannot sell assets fast enough to stem the rising tide – demand is adjusting faster than asset sales – and the former price bands are starting to seem unrealistic.

We see pressures building in commodities, with consequences at the company, sovereign and banking level.

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