



Update November 18th 2015

Are we seeing the tyranny of distance? US futures up, while Europe weakens

The US is going its own way this morning, with US futures up and Europe slightly lower. Are we seeing the tyranny of distance? A raid against a terrorist nest in Paris has stoked further fears and made clear that this shall be a long and possibly generational struggle. The clamor for troop deployment, whether justified or not, is getting louder.

We see the terrorist attacks as putting two key alliances – unions under pressure, the European Union and NATO. Shall Europe manage to coalesce more effectively against terrorism than it has hitherto with regard to the migrant issue? Shall NATO prove itself to be a union of theoretical equals or shall some be more equal than others?

This is not terrorism in Europe in the 1970's and 1980's – We were not launching bombing raids against the Red Brigades and Bader-Meinhof!

We reiterate our view that the situation is different from other attacks – with the French government palpably concerned as to the probability of further attacks and the UK Prime Minister arguing for conventional war against ISIS. Having lived in Italy during the terrorism of the 1970's and 1980's, there is a marked difference between the threat then and the threat now.

We see market movements as heavily influenced in the short term by the terrorist risk. It sufficed for 2 stadiums to be evacuated in Germany yesterday for the US market to fall – this is not the sign of a robust market.

We see nonchalance as to economic consequences of attacks as misplaced

There continues to be a substantial amount of nonchalance as concerns the possible economic consequences of these atrocities. There are two key points.

The first is that with regard to capital investment – seen as the longer term propulsive element to growth – we are starting from a very low base. The risk therefore is not for a marked decline but that already modest expectations are disappointed.

The second is that consumer demand, which is seen as the short term catalyst, in particular in the EU, we see the terrorist attacks as depressing purchases.

We shall be seeing the FOMC minutes today – are we back to business as usual?

The key focal point today in the US shall be the release of the FOMC minutes. With expectations for a December rate increase high, the focus is shifting towards the pace at which interest rates shall be raised. Critical to the debate shall be whether we are back to “business as usual” with regard to the Federal Reserve's strategy.

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Has the resurgence of terrorism become the new de-stabilizing element following on or in addition to the slowing in the emerging markets?

Emerging markets prospective growth differential remains small

With regard to the emerging markets, we are starting to see reports of “green shoots” in the ambient gloom. While growth may pick up the differential with the lower risk and more liquid developed markets remains small.

The issue with the EM space is not whether these economies shall in the aggregate expand. It is whether current valuations have discounted long term more modest expectations as to growth and shorter term a cash flow squeeze stemming from currency mismatching and tighter credit conditions.

Investors continue to expect more ECB measures in December

With regard to the Euro Zone’s monetary policy, we are seeing continued investor expectations of further measures announced at the ECB meeting at the beginning of December. Germany 2 year yields are plunging well into negative territory, with investor caution possibly also being fueled by the terrorist attacks. We see markets short term poised to jump on any further security concerns.

Closely watching commodities – manufacturing may have migrated to emerging markets but it is still important

Copper is once again lower – with statements by China that there are short term risks to growth – not helping short term sentiment. We continue to be concerned as to commodities as both an excellent “cash and carry” indicator of growth as well as concerns regarding corporate, banking and sovereign linkages. As regards oil, we see oversupply as continuing to be the dominant factor in price.

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