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US jobless claims lower than expected

US jobless claims came in slightly lower than expected, boosting confidence that fewer layoffs shall reinforce consumer confidence and increase spending. A corollary is that a tightening labor market may lead to wage increases helping the Federal Reserve reach its inflation target. This is once again increasing the odds of the Federal Reserve raising rates.

European markets up – investors encouraged by higher oil prices

European stock markets are up as investors appear to taking heart from higher oil prices and continued calm on the banking front. We continue to hear encouraging noises with regard to the oil front but remain aware that the first best outcome shall result in legitimizing the current over supply situation in the face of a slowing global economy.

Markets still focused on binary scheme

Markets are focused on a binary systemic – non systemic scenario more than on a recession. Investors can accept a contraction within a cyclical pattern, which can be dealt with at the national level but not a systemic crisis. The latter would require international cooperation at the sovereign level.

Oil industry is about cash pay-back not NPV

Abstracting from OPEC we see the US shale producers plod on “pumping for cash” and the Russians reluctant to leave a dollar on the table. The oil industry is now about cash pay back and not fundamentals of corporate finance net present value.

Saudi Arabia downgrade - not end of world!

We do not see the rating downgrade of Saudi Arabia as hastening a return to staid pricing policies. Rating agencies are now simply recognizing what investors already understood – prices are not rocketing back to peak levels anytime soon.

Industrial production above forecast but output gap still high

Yesterday, the US data centered on industrial production coming in higher than expected notwithstanding the contraction in capital investment linked to the resources sector. However, the output gap remains considerable placing the burden on rekindling inflation on falling productivity growth. We are starting to see more downward revisions to US growth and expect more to follow.

The oil dividend argument is now being shifted from the consumer – demand side – to the producers, supply side. Instead of the beleaguered consumers spending their munificence, input costs shall fall for industries, allowing for lower prices and creating demand.

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Global growth – OECD speaks! Are we in a de-facto global recession?

On the subject of global growth, the auspices continue to dim. The OECD is the latest to reduce global growth forecasts. Expansion is seen stumbling along at three per cent. In the light of the considerable potential for “catch up” expansion by the emerging markets this is seen as a quasi-recession.

Desperately looking for global locomotive

While expecting caution as to the China dominated EM complex, we see as significant that US growth for 2016 is now seen as less than two per cent. There is no immediate “global locomotive” in sight and investors shall need to assess countries on a stand-alone basis.

ECB burning documents ahead of arrival of deflation!

The minutes of the last ECB meeting confirm the near-panic mode gripping the central bank of the single currency zone. This is having an impact on the Euro, which is returning to more customary levels versus the US currency. The ECB’s mission is to increase inflation. With a considerable capacity output gap and slowing exports, demand pull scenarios are not a viable option.

The default is to increase prices by increasing import prices via currency depreciation. With the oil price still in the doldrums and dumping the rule, this has hitherto had scarce success.

UK best outcome - Brexit?

With regard to the EU, we are waiting with baited breath for the return of the UK Prime Minister from the upcoming EU summit. Sterling is up on hopes of success – with however, a 40 per cent chance for the exit camp now foreseen! Should this grim event come to pass, currency gurus are foreseeing a twenty per drop in the UK currency.

Paradoxically, with the Bank of England desperately seeking to lift prices and exports slowing this might almost be a desirable outcome!

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His career has spanned the complete range of macro risk analysis - energy / commodities with ENI - Global Fortune 500 17 - leading global natural resources group, capital markets with Swiss Bank Corporation (now UBS) and insurance / reinsurance with the A.M. Best Company. Jean contributes regularly to international media commenting on key macro-economic issues.

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Research Highlights

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