

**April 19<sup>th</sup> 2016**

**Stock markets move higher where are the fundamentals in the real economy? Oil, this is not over! Negative interest rates de-facto nationalization of the credit system – is this capitalism? Federal Reserve speaks of crisis – which one?**

**Stock markets higher on oil resilience and European earnings**

Stock markets are moving higher pushed along by resilience in oil prices and some better than expected earnings in Europe. This optimistic view is being challenged by continued downward revisions to global and US growth. Wherever we look financial markets are largely propped up by monetary policy – with negative interest rates having largely lost their stigma.

**ECB shall renew appeal to “total war” against deflation!**

On the monetary front – the week’s main event shall be the ECB meeting on April 21<sup>st</sup>. We continue to expect expressions of willingness to wage “total war” against deflation – see however little more that can be undertaken without dealing a knockout punch to the banking system.

**No way out – rearguard action to boost growth or a stronger banking system! Negative rates de-facto nationalization of credit!**

Low and negative interest rates are weighing on bank profitability. This is lessening the scope for increasing their capital base via retained earnings to help meet new regulatory requirements.

**Central banks and governments are faced with the choice between bail-out schemes - increasing systemic risk via cross – shareholdings - and a stand-alone banking system.**

**Are we on the “Eve of Destruction”?**

As concern the prospects for growth, we read with interest Citigroup’s warnings about the coming “Day of reckoning” in the US economy. The global banking institution has also implicitly acknowledged the complete parting of the ways between employment and economic growth.

**Be grateful for small mercies!**

We may well suffer the ultimate humiliation of being beaten by the Euro Zone, but unemployment shall keep falling. Americans are flocking to low paid jobs, with scant productivity enhancement. The government and the service sector are “trading dollars”.

**This is not about temporary employment!**

Some are forecasting a US recession on the basis of a flattening in the demand for temporary workers. We do not see this as a key metric in an environment where despite “full employment” wage increases are pathetic!

**Shall we stay silent?**

We are silent witnesses to the disconcerting phenomenon of:  
An ever larger share of profits streaming to capital  
Low capital investment – reducing the scope for productivity growth and a sustainable recovery in the “real economy”

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***Profit up-streaming is at the level of the “savage phase of capitalist accumulation” of the industrial revolution, while investment is reminiscent of the Great Depression.***

***US market plods higher – counting on Kuwait and natural re-balancing***

*The US market continued its upward march apparently undeterred by the collapse of the Doha oil negotiations. Investors focused on labor strikes in Kuwait and prospects for longer term market re-balancing. The latter may take longer than expected and result in an equilibrium price which may be far from optimal for several of the higher cost producers.*

***Shall the US shale producers play along?***

*Whether the US shale producers shall play along with this script is not certain. We may well be reaching the “hard core” among the US shale companies, with those who were going to pull out having done so. US Dollars 40 a barrel is bearable for many and may well induce them to “hang in there”. Cash flow at all costs is trumping sophisticated modeling.*

***On the political front, we do not see the oil problem as resolved and expect further tensions to arise between Saudi Arabia and the other producers, with Saudi Arabia still pursuing its anti-Iran policy.***

***We paraphrase Stanley – “The 2008 crisis – I presume”?***

*With regard to the Federal Reserve, the head of the New York bank has reaffirmed the cautious outlook for interest rates. This is driven by continued “headwinds” from the financial crisis. We are tempted to ask which one? Is this 2008 – 2009 or is this a reference to the Euro Zone quasi collapse and ensuing zero-interest rate policies?*

***Is Federal Reserve role now restricted to pricing credit to bankable?***

*The key question remains the relevance of interest rate policy in a context where markets have significantly repriced riskier debt securities. Has the US central bank’s role mutated into determining the price of credit to the bankable but no longer able to keep funds flowing to the fringes?*

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## Research Highlights

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