



July 19th 2016

This is not Eartha Kitt singing “Uska Dara” – Politics crowding out data – There shall be more excitement! Stop the nonsense on the UK economy! – Oil will fall some more!

Are we in the summer doldrums? Taksim square Istanbul more important than Federal Reserve!

Are we already in the summer doldrums, with only attempted coups in emerging markets and secession within the EU to keep us busy?

Whatever the case may be, investors would be well advised to not cast all caution to the winds and stretch out in their deckchairs. We see political shifts as more important than the monotonous drumbeat of a large part of economic data:

Politics emotional – do not fit neatly into a pre-packaged theory

They are dictated by human emotion – bereft of the rationality much beloved by the practitioners of “The dismal science”. This makes for greater unpredictability.

They are much longer lasting with regard to engineering a “tectonic shift” and radically changing the rules of the game.

Is this the Reichstag fire in Berlin in 1933? Will we see an “Enabling Law” in Ankara?

On the key political front, we have not seen the end of the Turkish crisis. 48 hours after the triumph of the government over the insurrection, more than 7000 people have already been arrested. This is starting to look like the Reichstag fire in Germany in 1933!

This was the dress rehearsal – plotters were not fooling around!

We are amazed at the complacency with which markets are reacting to the events in Turkey. Over 200 dead and attacks on parliament in a country once deemed a prime candidate for EU membership is not a trifling matter. These are not tensions that shall dissipate overnight – the question is not whether there shall be other attempts but when.

US and EU – as they say in Arabic – Kalam, Kalam – Words, words!

Meanwhile, the EU and the US are urging the Turkish government to be moderate in its treatment of the detained. We see this as being for internal consumption. Erdogan can exercise pressure via several routes – the migrants, turmoil in the Middle East and the Kurdish insurgency. Interruption of oil pipelines through Turkey would be unfortunate!

We see the economic fallout as considerable but secondary. The key is not saving the Turkish lira but maintaining the security shield. The US is not about to go to war with Erdogan!

Are we at the last stages of the search for cash payments?

Still, some see Turkish debt as an attractive alternative for the cash hungry – we do not share this optimism. This shall be the final confirmation that investors have now abandoned any pretense of risk adjusted returns and are focused solely on nominal cash flow.

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UK property – we are starting to see the scenario play out

We are not surprised to see the UK property scenario start to play out. Commercial property is being sold at almost a 20 per cent discount to raise cash to repay property fund investors and sales of in construction flats are collapsing. We expect – with regard to the latter - to see institutional investors who went a step too far, to start trying to disinvest.

Why is this crash different from all other crashes?

We see this as the start of a lengthy process of unwinding of excesses and view still ample opportunities for “bottom fishing” up ahead. UK property does not decline in orderly formation – it crashes. With investors pulling in their horns and realizing that this is not a cyclical shift but a rewriting of the rules, we remain cautious on the outlook. The critical change shall not be the price but the liquidity.

German business sentiment starting to reel after UK vote – others will follow!

As regards the impact of Brexit on sentiment, German business confidence has – not surprisingly – fallen. In the light of both the export flow and the substantial direct investment in the UK, this is to be expected. We see further bumps along the road as other EU countries start to grasp that this is “for real”.

We have had enough of the UK export story! Aman!

This sentiment is echoed by some stock analysts who are rightly seeing the limits of the export story. We have always been doubtful of the strength of this argument in a context of morose global growth. In addition, we see the punch to the UK economy as both sharper and longer lasting than assumed by most of the pundits.

UK “Mutiny on the Bounty” – growth decline estimates still too conservative!

For good cheer, Euro Zone forecasts have been revised downwards following the UK’s “Mutiny on the Bounty” act. The talk is of a ½ per cent decrease in – already feeble – growth. This however pales in comparison to the fall of 2.4 per cent foreseen for the UK.

UK economy shall be whacked by external trade and investment uncertainty and by internal “fifth column” property prices – advise reviewing “Ghostbusters”!

We consider that the UK’s recession shall be both deeper and longer than expected. The external “Barbarians at the Gate” of trade and investment framework uncertainty shall combine with the internal “fifth column” of the property sector. Falling house prices shall suck consumption out of the economy in a way reminiscent of “Ghostbusters”!

The many faces of the oil price! – The stuff is everywhere!

US futures are down on weaker oil futures as investors start to come out of denial and grasp that the stuff is everywhere. Needless to say “pump for cash” continues to be the dominant strategy and in the US the locals have adroitly used volatility to hedge future production. We do not see any significant boost from global demand and continue to see oil as a market dominated by disruptions and not by policy changes.

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