



September 1<sup>st</sup> 2016

***Will there be a "hot autumn"? - China still calling the shots in Asia- look at SME - Oil, this is about "cash and carry" - Saudi Arabia, from oil to bonds? - UK is calling the Uber van - Watch out for UK inflation, consumption shall get squeezed***

### ***Today's action***

*US futures are up with investors cheered by the sentiment that risk has shifted from systemic to cyclical. The focus is less on tail risk and more on the ability of the central banks to keep the boat afloat while governments clear the decks for fiscal policy boosts.*

### ***Will there be a 'hot autumn'?***

*We are seeing investors gear up for the month of September with considerable trepidation. The month shall kick off with the US jobs data and march through key central bank meetings and the G-20.*

*The immediate focus remains the US jobs data with widely divergent estimates.*

***It shall however take a horrific number to enjoin the US central bank to desist from raising rates. Rate increases are not rooted in conventional economic metrics but are a means by which the central bank justifies its own view of the US economy.***

### ***Continue to hear voices in favor of a US rate increase***

*We are continuing to hear voices arguing in favor of a rate increase. We are somewhat amused to hear the head of the Boston Federal Reserve arguing in favor of raising rates to prevent asset bubbles. The bubbles are across all asset classes, with valuations centered on TINA versus cash.*

### ***China still calling the shots in Asia***

*Asian markets remain under the sway of China as investors grapple with which data to believe, the official factory data or the unofficial focusing on SME. We consider the real index to be the SME, with this segment more likely to reflect market forces.*

### ***SME metrics the best barometer***

*Smaller and mid-size companies are less likely to receive government largesse and are the supply chain support for the larger groups. Contraction in this sector does not bode well for the "real economy".*

***We see the Chinese growth model to be unvaried with substantial overcapacity still in place financed by uncollectible loans. Shall the Chinese banking system prove to be self-contained in the event of a credit implosion?***

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**Focus on oil****Oil 'usual suspect' exerts pressure on the US stock market**

US markets fell yesterday pulled down by one of the "usual suspects" the energy sector. The sector is being simultaneously buffeted by the rapid increase in US energy supplies and by increasing doubts as to the feasibility of major producers coming to an effective agreement at the summit next month.

**This is all about 'cash and carry'!**

We continue to see basic supply – demand dynamics as overriding declarations of intent. As we have often said this is a fundamentally "cash and carry" business rooted in the present and not in long term marketing strategies.

**Commodities are bought and not sold forcing producers to extract the best terms possible via short term strategies centered on market segmentation and price discrimination.**

**From oil to bonds? Will Saudi Arabia set the ultimate benchmark for EM debt?**

Will Saudi Arabia beat Argentina as largest EM bond offering? What should we read in the announcement of a blockbuster US Dollar 15 billion bond issue

**"Keeper of the keys" of oil not optimistic about price prospects**

1 - The first conclusion is that the "keeper of the keys" of oil does not expect oil prices to return to their former Olympian heights soon. 2 - The second is that they are every skillfully playing both sides of the fence. Saudi Arabia is both an EM but:

Has no debt

Has massive FX reserves. This makes for an excellent risk adjusted returns.

**The trigger point for more debt sales is seen as a US Dollar 50 oil price. Is this sending a message about the likely chances of success of September's meeting?**

**Focus on the UK****The UK is moving out! They are calling the Uber van! May states 4 No's!**

With regard to the UK exit strategy, we are not surprised to see the UK Prime Minister adopting a harder tone. This can be basically summed up under the banner of the "rejectionist" front as:

- 1 – There is no going back on Brexit
- 2 – There shall be no further referendums and / or parliamentary votes
- 3 – Northern Ireland, Scotland and Wales shall not impede exit
- 4 – There shall be no compromise on freedom of movement

**Recent immigration numbers have lent a powerful boost to the "out now" contingent**

We see our analysis confirmed. The recent immigration numbers have added impetus to the "out now" campaign and that conventional trade shall be a secondary priority in the market access discussions.

The aim shall not be to restore the commercial status quo but to extract the best possible terms compatible with a new political framework.

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*The EU shall be very careful to not be seen making generous concessions to the secessionists so as to not encourage the others. EU decaffeinated - light is not an option.*

***Pressure on the pound is building***

*We are once again starting to see pressure on the pound. We see this as reflecting both the realization that Brexit shall not just go away and that economic data to come may not be spectacular. In this context the Bank of England is seen as taking further measures to keep the economy from imploding.*

***Inflation expected to rise sharply***

*With regard to the strength of domestic consumption we see as a grim omen the strong demand for inflation linked long term debt. Higher prices ahead shall reduce consumer purchasing power, limit "windfall" devaluation gains and longer term raise both real and nominal interest rates.*

***In an economy largely based on housing as both a store of value - home equity - and short term trading gains, this may create some difficulties. This is also raising a red flag as to expected increases in productivity as an offset to imported inflation. There shall be none!***

***European banking stocks – basic issues remain unsolved***

*We continue to be surprised by the bounce in European banking stocks. While some may argue that the prospect of higher interest rates shall boost bank earnings, this shall not be sufficient to either create the necessary buffer for the massive bad loans accumulated nor to meet prospective capital requirements.*

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He is an Adjunct Assistant Professor at New York University's School of Professional Studies and an Adjunct Faculty member at Manhattanville College. In 2014 he received the award for teaching excellence from NYU School of Professional Studies.

He is fluent in English, French, German, Italian, Spanish and Portuguese. He also has a certificate in Arabic – from NYU School of Professional Studies.

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.

Jean is a member of the American Institute of Certified Public Accountants and has an MBA and an Advanced Professional Certificate in Accounting from New York University's Stern School. He has also passed the FINRA Series 7 examination.

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## Research Highlights

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