



Update September 22nd 2015

More doubts on growth – chorus of the virtuous swells – beware of “back end risk” on asset plays – Shocked at having to back into Chinese GDP, like a third string refiner - Deutschland, will VW crush the recovery? – commodities – a grim drumbeat

What a difference a day makes! Investors discovering link between growth and profits! Now that is a novel idea!

What a difference a day makes! We are waking up to a grim picture across equity markets, with the lack of growth the key driver. You simply cannot have stock markets posited on a value proposition – the fact that free cash flow is high because of minimal capital expenditure is not encouraging.

Beware of “back end” risk in asset plays – steel price can collapse!

A combination of falling demand and deflationary pressures reducing pricing power further shall pose traps for the unwary and highly leveraged. Low inflation / deflation eliminates any “wiggle room” from inflationary asset plays - “back end” risk on asset disposals is increasing by the minute. When you are repaying your debts in “real money”, cash flow is everything.

We are seeing more virtuous stepping up to testify on global growth

We are pleased to hear more brave voices finding the courage to challenge political orthodoxy and revise their estimates for Chinese growth downwards. The ADB now informs us that they estimate a 6.8 per cent growth rate this year. We see this as figure fueled by continued government investment in unnecessary infrastructure and a steady accumulation of bad debts.

Shades of my youth – we are “backing up” into the Chinese data – World’s second economy subject to same metrics as third string refiner!

Doubts as to the official Chinese data have reached the point where macro analysis is being increasingly posited on basic indicators – such as electricity and coal consumption. We are analyzing the alleged second global economy as if were attempting to “back up” into the cash flow of a third string refiner! Shades of my youth!

David Ricardo and Adam Smith do not live here anymore!

We consider it useless to fixate on the direct trading relationship with China. Global trade has evolved since Adam Smith and David Ricardo – who built their theories on two country models with exchange of cloth and wine! In a global economy which is characterized by integrated supply chains, second round effects can be devastating. We are all now – like it or not – part of the Chinese supply chain.

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Carmakers – First China now VW- No end of a lesson! Who is next?

With regard to Europe, the carnage continues as the carmakers continue to collapse under the dual impact of rapidly rising growth fears and the Volkswagen scandal. The VW scandal is not only stoking concerns as whether the other car producers might also be dragged in to the fray.

Will Germany's reputation for reliability be shredded?

It is raising concerns as to Germany's reputation for industrial reliability – upon which its high value added exports and pricing power are predicated. With Germany still largely doing the heavy lifting for the single currency area, we need to brace for further volatility. We see as key that Euro Zone stock markets are down notwithstanding a weaker Euro.

Commodities – “Long day's journey to the end of the night” not over

This cheerful scenario is continuing to take a powerful toll on commodities, which are plumbing new depths. We see the commodity complex, including oil as under continued pressure. There is scant scope for a rapid turnaround and we foresee continued weakness at both the micro and macro level. There continues to be a surfeit of capacity and, while the industry started to retrench before the oil sector, the impact is not yet coming through.

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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.

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