



Update September 24th 2015

Emerging markets jitter continue – expect more downgrades and massive capital flight – Brazil only BRIC with a 60 year impressive growth track record – Janet Yellen shall speak, we are not amused!

First week anniversary of day of “non-action”

We are celebrating today the first week anniversary of the day of “non-action” and investors are not wearing their party hats! The US central bank head shall speak today in a climate of continued turmoil, with the focus still squarely on the emerging markets, tumbling commodity prices and further intimations of downgrades for leading emerging economies.

We see the volatility as now having been institutionalized – the turbulence has become structural as the “price discovery” with regard to the equilibrium level for commodities, oil and the new economies continues.

Fasten your seat belt – more emerging markets downgrades on the way!

With regard to ratings downgrades for sovereigns, we are seeing increasing disparities between the risk as per the credit default swap markets and the ratings. Historically, this gap has tended to close, veering towards the CDS measure. Should this be the case, we expect to see the large, ratings constrained investors exiting. This shall place further pressure on the currencies and increase the FX reserves cash burn rate.

We see the “Last helicopter out of Saigon” capital outflows by the elites as still being in the first five minutes of the first half.

Brazil problem remains political

Brazil remains vulnerable as the lack of a political consensus, coupled with a sharply slowing economy is leading to increased prophecies of the second “Last Horseman of the Apocalypse” downgrade. With the real close to 4.20, the markets seem to have voted already.

Our view of Brazil remains unchanged; a historically highly cyclical economy which has over the longer term posted impressive growth notwithstanding short term shocks.

Driving off a cliff in Europe?

Turning to Europe, not even an increase in German business confidence has been enough to cheer up the markets. Carmakers are still exerting their negative influence, with BMW down 7 ½ per cent on rumors of emissions violations. So much for the long run and the myth of eternal growth!

Investors either older, Keynesians or both!

Investors are now:

Either older

Or

Keynesians

And have voted that “This house shall not wait for the long run”!

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Norway cuts interest rates – so what?

What about oil? We are not surprised to see that the Norwegian central bank has reduced interest rates. As if the market needed another signal that the “crossing of the desert” as the French saying aptly puts it, for oil prices, is not over. We see this measure as useless. Lower interest rates in Norway shall do nothing to either increase global oil demand or force Saudi Arabia to desist from further flat out production.

Norway and Australia - a common strategy

We agree with observers, who see an increasing parallel between Norway and Australia, two countries whose living standards and growth are closely correlated to commodities. For these two economies there is no diversification. Their dominant and only strategy is to manage cyclicity.

We expect continued weakness in the Australian Dollar, to which the central bank shall not be opposed.

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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.

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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