



Update December 11th 2015

European markets down once again – oil kaput-Commodity currencies – good riddance! – We will be seeing some unpleasantness among the commodity players, somebody is the wrong way

Waiting for US wage increases, shall we bring a book? – Many Americans now have socialist bloc 1960's standards of living without the welfare state benefits – Federal Reserve cheering about the economy!

EU markets down once again - Oil, this is a “Domani” market

And once again, European markets are sharply down, with the “usual suspects” named but not yet in police custody. Weakness is being triggered by a further slide in the oil price – whose “defining moment” keeps getting postponed. This is reminiscent of the famous song “Domani” (which in Italian means tomorrow) where the refrain is Domani never comes!

IEA speaks – oil collapses – equilibrium does not mean US Dollars 100

This latest slide is courtesy of the IEA, which now sees no equilibrium until late 2016. What puzzles us is that there seems to be a bizarre assumption afoot that equilibrium = US Dollars 100 a barrel. It does not! Markets can balance at lower levels.

The uselessness of prospective supply cuts in stabilizing spot prices

We might well be titling today's actions as “The uselessness of prospective supply cuts in stabilizing spot prices”. Yesterday's announcements appear to have had the opposite effect – reinforcing the view that there is no immediate relief in sight and that this remains a “cash and carry” business.

Refining spreads do not big group profits make

At the beginning of the crisis, salvation for the majors was in the form of refining. The upstream – downstream arbitrage for the majors simply does not work in the event of “tail risk” shifts. Far from paying out their crack spread margins in the form of massive dividends, investors are questioning their ability to keep up the current payout.

Big miners and South Africa on the ropes – watch out!

Turning to non-oil commodities, we are seeing further weakness in the big miners, with notwithstanding their restructuring plans, investors continue to give the sector a “thumbs down”. For some, it may well soon be game over. Glencore is down and Anglo-American keeps getting hammered. We are concerned as to the de-generating situation in South Africa – rand collapses and political and default risk rises.

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We read that Anglo-American shall re-focus on diamonds and platinum. While this may make sense, there is a minor problem of masses of debt whose repayment is posited on cash flow that is not there. Downgrade to non-investment grade for Glencore and Anglo-American within a year is not out of the question.

Commodity currencies – we say good riddance!

In the thrall of the commodity fall, commodity currencies are once again taking it on the snout – we say to them good riddance! It is completely immaterial if they put in a meek increase of 1 – 2 per cent. We see these currencies as having lived on the “Kindness of strangers” – US QE and the China boom – and having done little to prepare for a rainy day.

Being a business executive in China can be hazardous to your health!

China continues to provide some excitement, with the “disappearance” of a prominent executive and a continued slide in the currency. We see a harder landing than most are currently predicting and see the relay race between manufacturing and services as not as smooth as expected.

EM currency investors rushing to roof to get on last helicopter

Emerging market currencies are falling, as Judgment Day looms nearer and investors are getting ready to re-enact a financial version of the last helicopter out of Saigon. The prospect of a currency war with China is not helping matters. We expect that these currencies have not yet begun to fall and that we shall be seeing more liquidations of sovereign wealth fund assets, further draining liquidity from the investment markets.

US consumers doing their best – shall it be enough?

Turning to the US, we have just seen the retail sales data, which shows that US consumers may finally have overcome their fixation with cars and are spending on a broader range of goods. At 0.4 per cent, while not the post-war boom, this shows some improvement but not enough to counter the slowdown in manufacturing and continuing low levels of capital investment.

US producer price inflation increases – we are focused on wage increases

As to US inflation, producer prices rose 0.3 per cent. However, we do not see this as shifting the Federal Reserve from its current position of raising rates at their next meeting. What we see as critical is wage growth, which has rightly earned its label of “lagging indicator”.

We remain by our view that the hollowing out of the US middle class has created unlimited supplies of labor – as per Arthur Lewis’s epochal study on underdeveloped economies – as they were known in the 1950’s.

We see a rather droll parallel between the oil price and the US labor market, which is also “equilibrating” – at wages allowing a standard of living for many Americans a close second to the Comecon – Socialist bloc countries in the 1960’s.

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