



Update December 24th 2015

Hope US consumers doing their last minute shopping!

With several EU stock markets closed and a half day in New York trading – volumes are low and many are doing – hopefully for the US economy – their last minute shopping! Markets are going into “quiet” mode relieved that the Federal Reserve rate increase has not proven to be a Y2K event, buoyed by a minuscule rebound in oil and cheering that the S+P is up for the year.

2015 – Was it “much ado about nothing”?

The general consensus is that while we might describe this year as “much ado about nothing” = a lot of running to stay in the same place, the major achievement has been to avoid a systemic crisis – enough said.

Emerging markets boosted by re-balancing

We are seeing some activity in the emerging markets space, which appears to be re-balancing rather than a change in the fundamentals. Commodities – on which many countries depend – are nowhere near their peaks and we see little scope for a significant upward move. The emphasis for investors shall shift to accessing EM risk via buying “on the floor” commodity and mining companies with good restructuring chances.

We see the commodity restructuring as in the early phases and see the still strong as patient in their quest to snap up undervalued assets. Commodities are a zero-sum game with no consolation prize.

Do not see a “sea change” in the oil price

Oil was buoyed by the fall in US supplies and rig count. We do not see this as a harbinger of a major reversal. Excess supply is still entrenched even without the prospective increase in Iranian production. We remain relatively bullish on the survival in the aggregate of the US oil sector, seeing the multiple bankruptcies as part of a brutal yet orderly restructuring.

What is often missed by the doomsayers is that the US oil sector remains the major contestable energy market, attracting free floating capital and then clearing.

We want a letter from China – no more dumping!

With regard to China, we remain skeptical as to whether another “Great Leap Forward” lies before us. While the recent declarations are sweet music to investor ears, there is no tracking mechanism with regard to the critical point – when will this pre-WW1 German dumping cease?

The Chinese communists have learned a useful lesson from the German cartels before 1914. Chinese capitalism is not based on cost accounting as taught in business schools.

Markets and Federal Reserve not playing by the same rules

We view the continued divergence in views between that amorphous construct “The market” and the Federal Reserve as to the future trajectory of interest rates as a major driver of volatility next year. Markets and the Federal Reserve are marching to a different drum - with synchronicity between the Federal Reserve and the markets a relatively new phenomenon dating from the multiple crises since the Greenspan era.

We see the Federal Reserve as no longer doing the bidding of “The Wolves of Wall Street” and instead adopting an optic longer than the next trade ticket!

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Turning to Europe, once again the Old World has failed to deliver on its promise. This despite a series of competitive advantages easily defined as low everything:

Low oil prices

Low interest rates

Low FX rates

The Euro Zone has gotten what it wished for and has no idea what to do with it. We see a split between the investment and the macro-arguments for next year. With overall growth expected to be muted in 2016, investors will need to bank on a revival of domestic demand spurred by the release of reserves built up in savings account to push the cart forward.

We see the focus shifting from the economic to the political, as the EU's very structure and European identity are challenged on several fronts.

EU – this is about refugees and not about subsidies to French farmers

We are continuing to follow with bated breath the Brexit thriller in the UK – with polls giving contrasting answers. The exit of the UK from the EU shall not be necessary to reduce cohesion. This is already crumbling under the weight of social and political issues.

The refugee issue and terrorism shall have a far more powerful effect than subsidies to French farmers!



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