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We see markets still moving on binary systemic – non-systemic track. Do not hold out high hopes for the G-20 conference, hit rate low. Has the UK fallen out of love with Europe?

What is driving the markets?

Markets are still focused on a binary systemic – non systemic scenario more than on a recession. Investors can accept a contraction within a cyclical pattern, which can be dealt with at the national level but not a systemic crisis. The latter would require international cooperation at the sovereign level.

US macro-data durable goods and trade data

In the US we shall be seeing durable goods and trade data. We remain of the view that the US economy shall slow and post – in the best hypothesis – a growth of 2 per cent. As regards the recession scenario, we hold our fire:

We are G-20 sceptics!

While some are Euro-sceptic, we are G-20 sceptics! Never have so many talked so much and achieved so little – this is eerily reminiscent of the League of Nations! We are informed that there shall be much chatter about the slowing of global growth, with the ritual calls for more stimulus!

Stimulus programs now making situation worse

With regard to the impact of incremental stimulus we have left behind us diminishing returns. Further desperate attempts – such as the benighted idea of negative interest rates – are only creating angst and threatening the stability of the financial system. There are no incremental returns, only losses!

Action today!

Stock markets up on firmer oil prices – is a production freeze the prelude to production cuts?

Stock markets are up on a firmer oil price, with some continuing to see expressions of interest in a freezing of production by leading producers as a harbinger of production cuts. This stands in contrast to the IEA which continues to see a slow re-balancing of the oil market, with production freezes – at albeit very high levels – being countered by lower demand growth.

US shale oil resilience wild card closer to home

Iran and its ability to rapidly increase production is seen as the “wild card”. We see a wild card far closer to home and see the US shale producers as continuing to surprise by their resilience. Had we based ourselves on the fall in the US rig count, US oil production would have been close to zero! This is not the case.

Oil discussions – what shall be the outcome?

There are reports that the discussions centering on the capping of oil production shall be concluded by March 1st. These discussions are a sequel to the agreement struck by Saudi Arabia, Bahrain, Russia and Qatar. Talks are also allegedly underway with non- OPEC members Mexico and Norway.

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Will Mexico – dependent for 1/3 of the financing of its public expenditure on oil – and Norway, wobbling under the shock of the oil collapse – be ready to strike a deal? Will long term price objectives be subordinated to “cash now” considerations?

Slowing growth Euro Zone, hope for more measures from the ECB

Markets are also drawing some solace from the disappointing news from the Euro Zone, with the PMI composite index pointing to lower growth. This bodes well for even more measures from the ECB, which sees deflationary pressures on the march. While growth in the largest market, Germany, is driven by domestic demand – as exports come under pressure – this is also the result of extensive discounting. Can this last without damaging corporate earnings?

Are we on the verge of historic events? Pound kaput?

While New Yorkers frolicked during the week-end, the UK pound was taking it on the nose in far-away New Zealand. The immediate cause was London's mayor throwing in his lot with the anti- EU exit camp. While only 6 of 23 cabinet members have sided with the secessionists, London's mayor “leaning in” with the rebels has more than symbolic value.

Boris Johnson – a trail blazer for the undecided?

It is now estimated that 150 Conservative members of parliament have come out in favor of leaving the EU. This is roughly one half of the Conservative MP – Brexit can no longer be dismissed as a fringe movement.

Brexit – is this turning into a “fair fight”?

We do not exclude the Brexit issue, which is taking on the allures of a “fair fight” as also impacting EU markets. The UK voters are not voting about economics – as was the case in 1975 – but about security. Where was ISIS in 1975?



Research Highlights

February 22, 2016
Page 3 of 4

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Research Highlights

February 22, 2016
Page 4 of 4

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