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Stock markets rise, US Dollar firms as ECB luminary says rates can go lower. We are not surprised – risks still to the downside!

Much ado about weaker US Dollar – shall two cents be the tipping point? ECB munificence not sufficient to allay EU banking fears. Tennessee Williams finance – “Kindness of Strangers” central banks write a check.

Where are the hard numbers? Why is oil rising – Russians have their doubts! UK remains trapped between Brexit fears and a lopsided economy.

US Dollar slightly lower – shall two cents be the tipping point?

Yesterday, stateside investors were cheered by a slightly lower US Dollar, making exports slightly less expensive. On the home front, with regard to “stand alone” analysis the key number was an improvement in the Philadelphia manufacturing index. We tend to see this as moderate cyclical improvement, from what might have been the trough.

US economy shall not turn on a pin!

The critical issue remains that the US economy will not turn on a pin. Nor shall two cent depreciation in the US Dollar versus the Euro usher in the “Age of Plenty”. We are in a low growth environment with capital expenditure levels mediocre – even when we strip out the energy sector.

Will Norway be the next country to go negative?

As concerns Europe, stock markets are still under the sway of pressure on bank shares, as the specter of further forays into negative interest rates loom nearer. This was triggered by declarations by Norway’s central bank, under siege by a low oil price and scant prospects for global growth.

ECB munificence not seen as sufficient

We see this as significant as it highlights that the ECB’s recent munificence has not succeeded in dispelling concerns as to the erosion of lending margins. Shakiness in the banking sector deemed the backbone of the economy may continue to place constraints on further progress.

Bank of England – no surprise

The Bank of England’s decision yesterday to hold firm on rates was not a surprise. There were references to the potential impact of a UK exit from the EU on both capital investment and, more significantly, consumption seen as hitherto the key support for a relatively strong expansion. We see sterling coming under pressure again as the day of the vote draws near.

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Our take on the UK economy remains that abstracting from the Brexit risk, growth is not anchored in capital investment – limiting productivity gains – and still subject to the vagaries of key export markets.

Today's action

Stock markets continue to plod forward – Tennessee Williams finance “Kindness of Strangers”

Stock markets are continuing their forward march – albeit more gingerly – as “The Kindness of Strangers” in the form of central bank largesse real or presumed continues to offset concerns rooted in fundamental economic analysis. With the keepers of the keys venturing further into uncharted territory, flirting with negative rates, one must ask whether or not this is the counsel of despair.

Scant pickings for those seeking hard numbers!

For those seeking solace in hard numbers, the pickings this week have been meager. Japan – the world's third economy has downgraded its growth forecasts. The US has followed suit, lowering its already modest outlook for both growth and inflation and the Euro Zone continues to grow at a modest pace.

Focus on oil

We cannot have it both ways!

There has been much cheer as to the oil price, which raises the question of how we are going to square the circle: Low oil prices are meant to boost consumption, while higher oil prices reduce the risk of credit and sovereign defaults. Markets either seem to want both - or in a binary situation, prefer lower systemic risk to an oil dividend still away without leave.

US market rises on oil – large domestic energy sector

The US's special status as a highly developed economy with a large energy sector, is reflected in support for energy stocks as oil prices continued to firm. Whether the current price level shall be sufficient to halt the wave of bankruptcies among the late-comers to the party - groaning under the weight of high yield debt - is subject to doubt.

Notwithstanding those who can cover their cash operating expenses may breathe a sigh of relief.

Oil at US Dollars 40 does not solve problem for high cost sovereign producers

Some analysts are also seeing in the oil price bounce a decrease in sovereign risk of the higher cost producers. While this may be mitigating the cash burn rate, current prices are still not sufficient to cover either technical costs or generate cash necessary to cover social expenditure.

Russia plays it safe - last of the fundamental analysts?



In this context, we are interested to see that not all are being carried away by oil's rapid ascent. The Russian central bank sees the oil market as still oversupplied – with the increase in Iranian production hanging over the market's head like a Damocles sword. Consequently, they are basing their accounts on a US Dollar 30 price, with prices rising to US Dollar 40 in 2018.

Never give up! Need to move beyond saving your way to greatness!

*Never give up! This appears to be Draghi's motto! The indefatigable head of the European Central Bank has once again started to harangue the Euro Zone governments on a dual axis:
Insistence on closer Euro Zone cooperation centering on a joint minister of finance, joint treasury and joint deposit guarantee scheme and the need for structural reforms – including increased government spending.*

We continue to see a basic fault line within the Euro Zone. There are two distinct groups those who are still steeped in the economics that worsened the Great Depression – see in this regard, saving your way to greatness - and those who would like to give modernity a chance!

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