



**April 14<sup>th</sup> 2016**

**Does the “real economy” still count?**

*Last of the big spenders – where art thou? Polly Anna optimism in abundant supply, we are skeptical! Oil conclave nearer – seen by many as solution to all of humanity’s afflictions. US inflation remains muted. Does this reflect struggling wages for most Americans? Pensioners keep getting crushed!*

**Optimists shrug off retail sales – waiting for the big spenders!**

*As per Leviathan’s progress, the markets yesterday shrugged off the disappointing retail sales. Optimists see this as a momentary retrenchment, driven by an end to “catch-up” car buying. We are less complacent and see this as an indication that the US consumer de-leveraging process is far from over. There may be a substantial lag between a hoped for increase in incomes and Americans opening their wallets.*

**Beige book – we tend towards modest as opposed to moderate US growth**

*The Beige book on the “State of the Nation” confirmed our view of modest to moderate growth. This tallies closely with the retail sales and the lack of pricing power as reflected in producer prices. While some see signs of wage pressures in the US, we are of the view that it shall take relatively low raises to coax labor waiting on the sidelines into the work force.*

**The allegedly “tight” labor market has mutated into the unlimited supply of labor seen in day laborer based third world economies.**

*Today’s inflation data confirms that despite the rise in oil prices from their recent trough, inflation pressure in the US remains muted. While consumer prices – ex-energy – rose, they are still below the US central bank targets. Energy is not the problem but, as we mentioned, the full court squeeze on the US consumer.*

**Pricing power is nil. Many industrial companies are now shifting gears from strategic long term planning to generating cash to pay debt which shall not be whittled away by inflation.**

**Markets now playing “The Waiting Game”!**

*Following yesterday’s burst of enthusiasm markets are now starting to play “The waiting game” with the focus on US earnings. With hopes of a locomotive effect waning, investors are pinning expectations on US companies holding the line.*

**Qatar oil conference – Is this a re-run of the Congress of Vienna?**

*Market volatility is also being kept in check by the upcoming Qatar “Congress of Vienna–recasting of the global order” conference. Expectations are shifting from producers engineering a rapid escalation of prices to creating a floor. We see the focus moving from price increases to lower volatility.*

**Should this be the case, we see the traditional oil companies geared to long term contracts and investment horizons - reaping the benefits disproportionately.**

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### ***“Return of the Jedi” – three cheers for monetary stimulus and overproduction!***

The “Return of China” which is starting to take on the allures of a latter-day “Return of the Jedi” is lending credibility to the view that the world’s second economy is not about to collapse. This has fueled a minor boom-let in commodities and in the China supply chain.

### ***Shock risk not over!***

We continue to see the need to distinguish between growth prospects, which remain subject to a wide margin of error, and the risk of jolts to the global markets from intemperate actions. Investors appear to be have plumped for the latter - seeing a reduced chance of a sudden devaluation.

### ***Polly Anna optimism misplaced!***

We do not share this Polly Anna optimism and see a substantial risk of China letting the currency rip, should export sales slow. They have little to fear! The advanced economies will acquiesce in this re-run of the 1938 Munich crisis for fear of being shut out of a large consumer market.

***As a senior banker once told the author of these lines – the Brussels branch generated more profit than the whole China business.***

### ***Good for the Minister of Finance of Germany !***

Turning to Europe, the spat between the ECB and the “keepers of the keys” on the subject of Marianna’s trench interest rates rumbles on! We are pleased to see that the cause of the eternal underdogs - the pensioners and savers – is now being championed.

### ***Not everybody can take on higher risks***

The German minister of finance is “bang on the money” when he comments on the crushing of interest income on savings accounts. QE was meant to provoke a tsunami like shift towards risk assets. This is fine for those who can buffer market volatility with wage income. It is harder for those whose accumulation period is over and now seek to live from their savings.

### ***US Dollars three trillion purchasing power lost via low interest rates***

QE and low interest rates are estimated to have drained upwards of three trillion in consumption from the global economy. With populations aging it shall only get worse. The impoverished lower middle class propelled the extreme right into power in Europe in the 1930’s – beware of “The Fire Next Time”!

### ***Need to stop “Cabinet of Dr. Calligaris” finance!***

The impact of this “Cabinet of Dr. Calligaris” finance is also being felt by pension funds simultaneously coping with lower inflows and aging workforces. With interest rates at Marianna’s trench levels the probability of hitting required benchmarks is quasi-nil. QE was posited on asset re-pricing at a time when advanced economies are scrounging for cash returns.

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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.

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