



May 3rd 2016

***Markets hesitant, macro warnings abound! Should we buy safes?
Euro Zone growth slows - Banks take it on the snout – "Leave it to beaver"
does not live here anymore! Gloating at discomfiture at the German banks! UK
debates living wage – three cheers for common decency!***

***Markets taking a step back – macro warnings abound – red lights flashing in
the European banking sector***

Markets are taking a step back as macro warnings abound shaking investors hitherto convinced of the omnipotence of central banks. In addition for good measure European banks continue taking it on the snout following the debacle with the BPV capital increase in Italy.

***We see the Euro Zone banking problems as continuing to be a drag on the
European indices – in the BPV case investors voted with their feet. Some will
soon start putting on their running shoes.***

Who shall buy the next gadget?

Investors remain seemingly unimpressed by some good earnings and are instead focusing on who will buy the next gadget. Eight years since the outbreak of the crisis, which we see as ongoing, the global economy remains dependent on the "kindness of strangers".

Is this "Much ado about nothing"?

This kindness was first expressed via government bail-outs of the global economy – no implosion please! This was followed by US QE, UK QE and Japan plumbing the depth of negative rates. Citing Shakespeare, we might say "Much ado about nothing"!

***It was said in the 19th century that "you cannot stop the Gatling gun", used to
great effect against unfortunates in colonial wars. We might well now say – you
cannot stop the latest app or the globalization of the labor force.***

"Leave it to Beaver" – does not live here anymore!

Postwar prosperity and closely intertwined therewith stability rested on three supports:

*Catch up economic growth following 30 years of wars and economic collapse
The creating of de-facto protectionism via largely hermetic political and economic blocs – off-limits to labor at stone age wages. Relatively slow technological innovation with labor still key and able to negotiate higher wages.*

***Developed economy prosperity crushed by "political warming" We ask can you
build a global economy on gadgets?***

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The catch-up growth fizzled in the 1970's and the blocs have melted in a climate of "political warming". Technology shall soon smash labor force growth globally – cutting short the rise of the manufacturing driven middle class. In the Soviet Union in the 1930's they asked – can you build socialism in one country? We ask can you build a global economy on gadgets?

China has managed to beat even record setter EU at supporting moribund industries! Amazing!

On the macro-front, one of the Chinese indices indicated a contraction in manufacturing, setting off a "trip-wire" effect across both the EM supply chain and export driven European countries. This despite massive fund transfers – which would have put the EU at its most prosperous to shame-to industries wallowing in overcapacity.

The immortal blues singer Robert Johnson is rumored to have struck a pact with the devil at the "Crossroads". We see the Chinese government's Clarksdale "Crossroads" as being pumping banks with bad loans and not a care for the morrow!

EU downgrades Euro Zone forecast – we are neither amused nor surprised!

The EU has downgraded its growth forecasts for the beleaguered Euro Zone and we see more to come. For good measure inflation shall remain firmly anchored to the floor of the Marianna's trench. The reason for this dress rehearsal of the 1930's is seen as low wage growth and low growth.

Are we in a catch 22 situation where if wages rise company margins are squeezed but if real wages fall consumption collapses. Keynesian fiscal policies were posited on government spending boosting employment. This is no longer the case.

Someone else to beat up – France!

We might mention that the scapegoats for these misfortunes are no longer the unfortunate peripheral countries but France – the co-chief of this jolly brigade! French manufacturing keeps contracting and the large French groups remain hobbled by slowing exports.

European banks – a page out of Karl Kraus!

The European banks are also acting out Karl Kraus's "Last days of humanity" cheerful depiction of the human condition. BPV set the tone and banking results are doing the rest. Low rates are not conducive to record profits and the process of "making the crooked" straight is far from over!

The author of these notes – having grown up in the Eternal City, Rome – cannot stop gloating at the discomfiture of the German banks, who boasted as to their prowess and Deutschland Uber Alles! Arrogance is receiving its just desserts!



UK manufacturing contracts, is there life after AR – After referendum?

In the UK manufacturing has contracted. Some see this as caution ahead of next week's vote. We are taking a longer term view which dares look at the world AR – after referendum. We see an economy fueled by property gains and millions of low paying service jobs.

Cannot power an economy on super rich moving their money!

The wage discussion is now – with good reason – moving to the “living wage” issue. Good for the UK – the first developed economy who has realized that the destitute do not good customers make! When all of the EM flight money shall have moved and overdrafts used up, where is the next “ticket” going to come from?

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