



*May 13<sup>th</sup> 2016*

***Retail sales surprise to the upside – can it last? Federal Reserve raising rates – is this “scorched earth”? Not frantic about Canadian oil. Brexit – IMF once again – ultimate threat, house prices! Italian banks once again in rough waters – this shall continue!***

***Can the US economy be “self-propelling”?***

*Global markets continue to hesitate as investors digest the tech beating in the US, a weaker oil price, downward revisions to Euro Zone GDP growth and the “blockbuster” number – US retail sales. Retail sales have surprised to the upside, with the critical question being its lasting power. We are also seeing continued turbulence in the Italian banking sector, with several stocks down sharply.*

***Federal Reserve officials continue to voice optimism on the US economy***

*The mood is also impacted by declarations from Federal Reserve officials foreseeing rate increases this year. This is underpinning the US Dollar – raising concerns about US exporters and the emerging markets currency mismatched liabilities. Running contrary to protocol, the weaker Euro is doing little to bolster Euro Zone stocks.*

***Federal Reserve raising rates similar to monetary “scorched earth” policy***

*The head of the Federal Reserve of Boston warns against underestimating the central bank’s resolve. Raising rates in this environment is starting to take on the allures of a “scorched earth” policy. We shall have better insight into the US consumer – 15 per cent of global GDP - today.*

***Is there life on tech? Are smart-phones the new “Dr. Copper”?***

*The US market yesterday closed practically flat, with technology in the form mostly of Apple, offsetting cautious buying in other areas. Apple has become not only the bellwether of the “new economy” but also of the extensive supply chain to which it is linked. Smart phones are becoming the commodity of the post infrastructure age.*

***Apple – has it become a co-metric along with oil?***

*We have not seen the last of this volatility and cannot exclude the Apple becoming with oil one of the two key market drivers – with the former a proxy for global consumer power and the latter the barometer for capital investment and sustainable growth.*

***Prospects for a “full court press” in oil ebbing***

*As concerns the oil price – prospects of a “full court” press with regard to production cuts appear to be rapidly fading. Russia – whose finances have received a temporary reprieve from oil bouncing from below US Dollars 30 – has announced that it shall not attend the next OPEC conference in June.*

***Saudi Arabia still focused on natural re-balancing***

*Meanwhile, the Saudi emphasis continues to be on “natural re-balancing”. Saudi Arabia is – despite running a high budget deficit – not about to keel over. Reserves for a country of scant 30 million are slightly less than 20 per cent of those of China – 1.3 billion.*

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***Do not see Canadian oil as a major swing factor***

*With regard to disruptions, the Canadian production may come back on stream sooner than expected. We have never seen the Canadian “sands” oil as a critical element in the global energy jigsaw. The production costs are high and Canadian energy does not command the “scare” factor of US shale.*

***Whether Euro Zone growth 0.6 or 0.5 per cent is a moot point – still not enough!***

*Euro Zone growth for the first quarter has been revised downwards to a modest 0.5 per cent from a first estimate of 0.6 per cent. We see this as irrelevant and consider 0.1 per cent variance “noise” and not signal. The critical factor is that growth remains both too gradual and dispersed to engender a sustained recovery.*

***Maybe the UK needs Brexit! Stop mindless asset escalation!***

*The UK drama continues to build, with the IMF once again heeding the command – once more unto the breach! The ultimate threat – falling housing prices – is once again being put forth. Maybe a housing crash and a re-establishment of some sentient metrics to asset prices is precisely what the UK needs.*

***UK economy’s problems go beyond referendum – starting to look like US in 2007***

*Following in the path set by Cameron, the governor of the Bank of England Carney also sees a “Bad moon rising” should the leave advocates prevail. We tend to see the UK economy’s prospects as wobbly independently of the vote. With exports slowing and GDP supported by home equity financed domestic consumption, there are eerie echoes of the US in 2007.*

***Turmoil in Italian banking sector continues – will not be solved overnight!***

*Last but not least, the turmoil in the Italian banking sector continues – with the usual suspects getting trounced. This is despite the state stepping in as ultimate underwriter for the BPV re-capitalization. With growth of 0.3 per cent in the first quarter, bad loans shall continue to increase. Salvage efforts are centered on hitting a moving target.*

***Focus on the US retail sector******Will the US consumer step up to the plate for exports and capital investment?***

*Can the US consumer replace exports and internally capital investment? The first best outcome is starting to resemble the UK – domestic spending, weak capital investment and slowing exports.*

***This is the economic replay of Ali – Foreman in Kinshasa!***

*The technology sector versus bricks and mortar shall be tomorrow’s theme. Are the disastrous results of the large retailers a question of a shift towards on-line shopping or are they a symptom of consumers pulling in their horns?*

***What is clear is that on-line shopping shall deal a blow to one of the last bastions of hiring – the retail sector.***

***Retailers are trading like commodity stocks – market structure has changed***

*We are now seeing retailers trading like commodity stocks – with sharp, sudden fluctuations. Investors – rightly or wrongly – have shifted their optics from competition among the retailers to competition with the retailers.*

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## Research Highlights

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