



August 5th 2016

US jobs, not getting excited – “Full employment” today, sign of desperation and not of progress – Investors walking a thin line – Waiting for the duel scene in European banking crisis! – We see UK continuing to take it on the snout – Carney embodies “neo-realism” as leave victory gives way to reality

Focus on US jobs

US jobs not a return to the “locomotion” economy!

The US jobs report is out and investors are cheering – S&P futures are up and the US Dollar is going strong. What do we make of this? We do not see the US as a “locomotive” but as confirming its status as an acceptable “safe haven” – this data is about “capitalism in one country”. It is not about a global economic Renaissance!

Are real wages lower as employers shift costs on to employees?

Wages are rising slightly but this does not take into account the increasing burden of costs shifted from the employers to employees or who is reaping the benefits. Neither does it reflect the transient nature of much of this employment. Markets are insisting on reading this data in 1980’s terms in a 2016 economy.

This may go some way towards explaining the gap between alleged “full-employment” and a dismal growth rate. Will these “brute” unrefined numbers induce the US central bank to act? We expect a Federal Reserve action by the end of 2016 with the aim of building a buffer against an even weaker economy. Some prospect!

Markets “tiptoeing through the tulips”!

Markets are - as in the immortal song by Tiny Tim “Tiptoeing through the tulips” - and seeking to strike a precarious balance between central bank intervention – the financial economy – and the job data – the real economy. We are also seeing signs on the US political front that the “Status quo” in the figure of Clinton shall carry the day in the US elections.

Is there a “floor” on tail risk?

Will this be sufficient to reassure investors that a “floor” has been put in with regard to “tail risk”? Is long term stagnation acceptable but shocks are not? We are starting to see the “optimists” propound a vision of the global economy as a zero – sum game. This posits a shift in locale and on-shoring as a substitute for broad based expansion.

Global economy starting to look like a zero-sum game

3-D manufacturing may sharply lower costs but what shall it do to emerging markets based supply chains? Will it deal a further body blow to well-paid manufacturing employment in the advanced economies? The ideal investment target of the future may be countries with a low degree of social strife and effective re-distribution mechanism, assuring fast pass through of productivity gains.

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UK economy – big “go slow”!

With regard to the ambient mood we are seeing further signs of weakness in the UK economy. Job recruitment prospects are collapsing fast. This is not surprising as the domestic economy – which tends to be services and people intensive – shall take it squarely on the snout. We foresee that a cyclical recovery in the UK - which we expect to be shallow – shall take place against a backdrop of rising unemployment.

The dreadful irony of the situation is that those who voted “leave” to protect their low skilled jobs are now at greater risk than ever of losing them.

European investors have written a put-option spread? Are we about to hit the short strike?

We are keen to see the outcome of the continuing European banking saga. The present “calm” – trumpeted by many as a success – is a lull before the storm. There is a perverse mechanism in place, where the “long put” represented by central banks is offset by a “short put” which is pressure on commercial bank margins. This limits the benefit to investors from the endless slashing of interest rates.

Are we seeing a signal from Deutschland?

Turning to the Euro Zone- German factory orders have taken a sharp fall. This is driven by a contraction in intra-Euro Zone orders. Whether this is the result of the start of the holidays and reduced activity or the start of a longer term trend remains unclear. Still – order flow is slowing and German industry is warning of the uncertainty stemming from the prospective Brexit.

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