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European markets higher ahead of jobs data - several obstacles to higher inflation in the US - US productivity collapses, services take their toll - Apple will repatriate cash, so what?

European markets opening higher - bravery or bravado?

European markets have opened higher, seemingly overcoming bouts of nerves with regard to today's US jobs report. Sentiment is also receiving a lift from firmer oil prices. The optimism is fueled by Putin's hopes and support for a production freeze - whether this shall make much difference other than legitimize oversupply remains an open question.

Focus still squarely on US jobs data - spanner in works low inflation

As expected the focus remains squarely on the US jobs data with the majority of forecasters still seeing a steady increase in job creation and a further drop in unemployment. The spanner in the works remains the inflation data and closely linked thereto wage increases. We continue to see the Federal Reserve fighting an uphill battle on the inflation front:

We are in a two-tier labor market

The labor market has bifurcated into an advanced economy and early stage emerging market structure. We are seeing increasing labor market informality and less income stability.

Pricing power kaput!

Broad based demand remains hostage to extensive discounting, crushing pricing power. The effect is being compounded by continuing global overcapacity and dumping.

Federal Reserve only advocate of rate increases

With the Federal Reserve still the only major central bank discussing interest rate increases barring a Trump victory a massive short term US Dollar devaluation appears unlikely. This shall constrain the scope for imported inflation.

US manufacturing disappoints - economy at the mercy of the consumer

Yesterday's focus was on the US ISM manufacturing data which indicated not only a contraction in the segment but also weakening exports and new orders. We are not surprised and confirm our view that the task of steering the US economy higher now lies squarely with the consumer.

Fact remains that results of shops catering to the lowest income groups have disappointed, highlighting the continued squeeze on incomes and available liquidity for many US consumers.



US productivity collapses - also a result of shift to services

We were not surprised to see that US productivity has once again fallen. While this is certainly in part a result of low capital investment, we see it as also reflecting the massive shift towards services. The service sector is not as scalable as manufacturing requiring more people to significantly ramp up revenue.

We shall see both more hiring at in absolute low wages and already weak profit margins squeezed. While the ISM manufacturing data showed a strong rise in compensation, this sector is barely more than 10 per cent of the US economy. This shall not be enough to lift all boats.

Are the UK remain camp still hoping against hope?

Turning to the UK, we are not surprised to see that the what remains of the remain camp has not abandoned hope of reversing the brutal defeat inflicted on them. The initiative Open Britain seeks to bring about an EU light solution. This is flying directly in the face of the UK Prime Minister's reiterated statements as to immigration and the smugness generated by better than expected post - vote economic data.

Economic issues are secondary in the debate. The vote was not about GDP but about "The Boat is full". Whether the economy floats or sinks is relevant only in the context of relative performance within the bounds of a new political framework.

Apple shall repatriate cash - so what?

Will Apple's declaration as to repatriation of cash held abroad make a difference? Apple has apparently decided that it wishes to reduce reputational risk following the debacle in the Emerald Isle. Much is being made of prospective cash repatriation. We see the crux of the matter not in terms of wire transfers but what you do with the money when it hits your account.

Will this cash spur capital investment or shall the only change be its domicile? The key problem in the global economy remains underinvestment - moving cash around shall not solve it.

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He is an Adjunct Assistant Professor at New York University's School of Professional Studies and an Adjunct Faculty member at Manhattanville College. In 2014 he received the award for teaching excellence from NYU School of Professional Studies.

He is fluent in English, French, German, Italian, Spanish and Portuguese. He also has a certificate in Arabic – from NYU School of Professional Studies.

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.

Jean is a member of the American Institute of Certified Public Accountants and has an MBA and an Advanced Professional Certificate in Accounting from New York University's Stern School. He has also passed the FINRA Series 7 examination.

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