MONEY MACRO AND MARKETS

Unconventional Wisdom. Original Thinking.

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HINDESIGHT LETTERS

The Humours of Change Alley

IMF: Ineffable Macroeconomic Folly

Last month spake the oracle and headlines around the world were generated in profusion as its weighty pronouncements were disseminated to the anxiously waiting masses.

Yes, for the IMF it was - that transcendent body which ponders the foibles of earthly government from its Olympian home on the banks of the Potomac, far beyond the squabbles of petty politics and in a manner utterly untainted by any hint of ideology or personal foible – had rendered its semi-annual verdict on the strivings of us petty mortals below.

Unfailingly perceptive as ever, accurate to the last decimal point in both its assessment and its inferences in long-proven fashion, the Fund served notice that it was *'on the alert'* lest *'stagnant forces'* mounted and insisted – not for the first time - that major economies *'acted quickly to spur both supply and demand'*.

Presented by Vitor Gaspar, head of the Fiscal Affairs department, this view from on high was accorded the usual breathless respect in the mainstream media. After all, Mr. Gaspar should know his onions, being a career bureaucrat who took up the position at the Fund after being forced out of his previous job as Portuguese Finance Minister after a failed attempt to impose precisely the kind of mass 'austerity' that he now so evidently abhors.

As a clear indicator of the Wonderland quality of the thinking on display, in the course of the press conference which accompanied the publication's release, Gaspar volunteered that Japan should ensure the provision of enough fiscal 'stimulus' to offset the economic 'hit' which would ensure from the government's plan to raise the nation's consumption tax. Now, forgive me if I have this wrong, but if the idea behind the tax was to take a first, long-overdue step towards reining in Japan's burgeoning public debt load, quite what would be the point of simultaneously negating that steps' budgetary impact?

As Bloomberg summarised the overall report: *'Advanced economies, meantime, are facing the triple threat of low growth, low inflation, and high public debt,'* as a consequence of which the IMF *'is urging countries with fiscal space to use budget measures such as increased spending or tax cuts to boost demand.'*

Sorry? What? Come again?

In plain English, what this is saying is that the Fund is exhorting countries whose elevated public debt it deems to constitute a major threat to future well-being to *increase* state outlays and *reduce* state incomes – i.e., to run greater current shortfalls and so to incur even more of said debt - in order to combat this same menace. Thus, it appears that we have now moved beyond economics and into the realms of homeopathy in the search for a cure for the woes of the world.

As a microcosm of the perverse prescriptions, sententious pronouncements, and logically inconsistent recommendations which continually emanate from this hotbed of Fatal Conceit, we surely need look no further.

The reader may recall that the IMF is an institution which was set-up solely to help manage balance of payments issues in the aftermath of WWII.

[*contd. over*]

As such it should arguably have closed its doors when the financial architecture of that period – that of the Bretton Woods arrangement – ultimately collapsed (thereby proving the IMF's inherent uselessness) and was completely superseded at the start of the Seventies.

Instead it was suffered to continue in existence, allowing it to creep far beyond its original mission in a wearily familiar pattern of Public Choice bureaucratic mutation to the point where it now pretends to the role of proto-finance ministry of the New World Order. In the discharge of this dubious function, the IMF has been increasingly eager to mix its tired, old, top-down, post-Keynesian policy proposals with the expression of *bien pensant* sanctimony on all subjects dear to a campus radical's heart, ranging from the demonization of carbon to the promotion of 'social inclusion', from 'capacity building' (slogan: *Collect More and Spend Better*) to 'gender equality' – any of which aspirations may or may not be individually worthy but each of which are surely beyond any possible remit for the workings of this unelected economic technocracy.

Leaving aside the latter and focusing on the narrower issue of its economic dispensations, here in the IMF we have the embodiment of that dreadful orthodoxy which employs the invalid circular-flow (and typically zero-sum) model of activity and which is anachronistically fixated on the underconsumptionist canards which petrified in the minds of a certain subset of unfortunately influential economists during the dark decade of the 1930s and which have stood as the pillars of the temple of mainstream macroeconomics ever since.

The deflationary bogeymen which so tormented the dreams of our grandfathers soon became allied with the sufferers' own 'pretence of knowledge' – to use Hayek's seminal phrase – in the form of a pseudo-scientific, intellectual arrogance that they alone could keep the world from the clutches of these night-time phantoms. This presumption was forged into hard, institutional form in the cauldron of those centrally-planned economies which prevailed everywhere during the century's two world wars and which persisted in peacetime – much to the wistful longing of many in academia – in those murderous, totalitarian tyrannies of both Left and Right which grew up out of the first and which held sway for long after the second over a depressingly large section of humanity.

So here we are today, with the IMF giving its dubious sanction to the insistent economic prejudices of the world's vote-grubbers and reassuring them that to promise jam today in exchange for a cross on the ballot paper tomorrow is somehow to be seen as an act of far-sighted statesmanship in that it helps shore up our crumbling defences against the mustering *'forces of stagnation'*.

At the same time as it plays indulgent Aunt, however, the IMF is equally happy to act as official Scold – admonishing the same children on whom it is showering sweeties that their teeth will soon rot and their pancreases fail if they continue to gorge so heavily on sucrose.

Central banks must not just *promote* mass indebtedness but, through the use of NIRP, actively *subsidize* it and governments must follow up by using all available *'fiscal space'* - i.e., they must resolutely push the now-expanded boundaries of public sector profligacy to their utmost extremes. Yet, we must all join in wringing our hands at the dangers inherent in a situation wherein, by some inexplicable twist of fate, neither growth nor (*sotto voce*) inflation accelerates enough to alleviate the burden of the extra debt we are so enjoined to take upon our shoulders.

Moreover, the Fund likes to paying frequent, if less than forthright, lip-service to the portentous-sounding concept of *'structural reform'*, yet it also argues that the dietary detox regime which this entails should also be accompanied by sufficiently frequent midnight raids on the fridge in order to prevent the patient shedding any excess weight. Anti-reform *'offsets'* must therefore be rigorously implemented to prevent any incidental diminution of *'demand'* occurring during the reform process.

The IMF also fails to acknowledge that the very painlessness of the easy money regime it has so actively endorsed and whose removal it so vehemently opposes feeds the cravings of the political classes for instant acclaim and so induces them to postpone all serious attempt at a return to clean living, not least because the import of so many of said reforms would be to reduce their members' scope for influence and patronage.

In yet another mental contortion, the Fund can be heard to espouse the ideas of a revivifying deregulation at the same time that it advocates the imposition of that raft of arbitrary, *ad hoc* measures which go by the grandiose-sounding name of 'macro-prudential' policy but which are simply regulatory efforts at slamming shut the stable-door after the horse of IMF-policy side-effects has already bolted with little concern for any fingers which may be trapped in it when it does close.

An old-school luminary such as Wilhelm Roepke would call such a policy one of *'suppressed inflation'*, entirely similar to the one practiced by Hjalmar Schacht in pre-war Germany. As with all such interference with the expression of popular desire, the IMF itself admitted in a recent working paper on the topic that the attempt is at best only partially successful because *'cross-sector substitution'* - i.e., the play given to human ingenuity - tends to circumvent its proscriptions and hence necessitates the casting of an ever-widening net of strangulating regulation.

Here we might pause to consider that no less august a body than our beloved IMF has recently noted with concern that property prices have outstripped both incomes and rents in half the OECD nations, as well as in numerous emerging economies, these past five years. Were we the uncharitable type, we might conclude two things from this phenomenon.

The first is that if our willingness to spend ever more money and to issue ever more IOUs in order to devote quantities far in excess of our present incomes to the purchase of consumer durables such as houses (and, latterly, cars) is so intense as to merit such clumsy, *'macro-prudential'* intervention on the part of the very people enabling our overreach, it surely means that the natural interest rate, far from lying *below* the currently engineered market rate – as the IMF and its fellow mongers of doom frequently insist - in fact far *exceeds* it. Hence interest rate settings are perilously out of kilter with the underlying realities.

The second conclusion is that the idea that we are all about to desist voluntarily from all further consumption – thus catapulting the world economy headlong into the abyss – because our *'inflationary expectations have become unanchored'* (because we fear prices will soon fall and that we therefore desire to hold only money) - is nothing more than a pernicious hallucination on the part of those who presume to parlay that illusion into the authority to enact ever more experimental programmes and to exert an ever more pervasive – not to say disruptive – influence over a widening range of our everyday commercial and financial activities.

The IMF is not the sole sponsor of such deranged acts of social violence – more's the pity – but, as a symbol of and a cheerleader for the many who do perpetrate them in the name of providing 'stimulus' or in pursuit of some over-arching, if largely mythical 'mandate', they will certainly do for now.

Sean Corrigan

IL MILIONE: Tales from Cathay

It has been long one of your author's somewhat wry observations that the standard palliative for one of our recurring bouts of credit excess is to reduce interest rates sufficiently to keep as many of the afflicted on life support as possible while also tempting some new batch of suckers into over-expanding *their* activities, even at the cost of being the next to ruin their balance sheets and thus of becoming the principal victims of any possible future bust.

By way of a breakneck trot through the annals of your author's personal experience, let us step back three decades to the point where the easy money conditions which resulted from the Plaza Accord's efforts to lower the value of Volcker's US superdollar were contributing handsomely to enthusiasm for some very overhyped equity markets and so - via its converse, the Louvre Accord's shaky attempt to brake the all-too vigorous descent which ensued - to set us up nicely for the Crash of '87.

Along the way, the commodity boom of the 1980s having turned inevitably to a mid-decade collapse, the distress spreading in a by-now glutted oil patch was taking down the already ailing S&L industry and large numbers of regional banks besides (*plus ça change*, huh?).

The only slightly indirect result of these two major events was the final apotheosis of the Japanese *zaitech* bubble and a roaring echo boom in Western property markets. That last was brought to a screeching halt, amid the turmoil of the EMU crisis, by the Bundesbank's attempts to neutralize the expansionary effects Helmut Kohl's one-for-one conversion of Ostmarks to Deutschemarks when the Berlin Wall fell. (Here, I must beg the reader's indulgence as I emit a sigh of nostalgia for a central bank which both knew of what its primary job consisted and was strong-willed enough to perform it).

As its more developed neighbours were combating all that upheaval with what were then secularly low levels of interest rates, Mexico became the next to succumb to the siren allure of cheap foreign currency borrowing - less than a decade after bankrupting itself horribly in much the same manner.

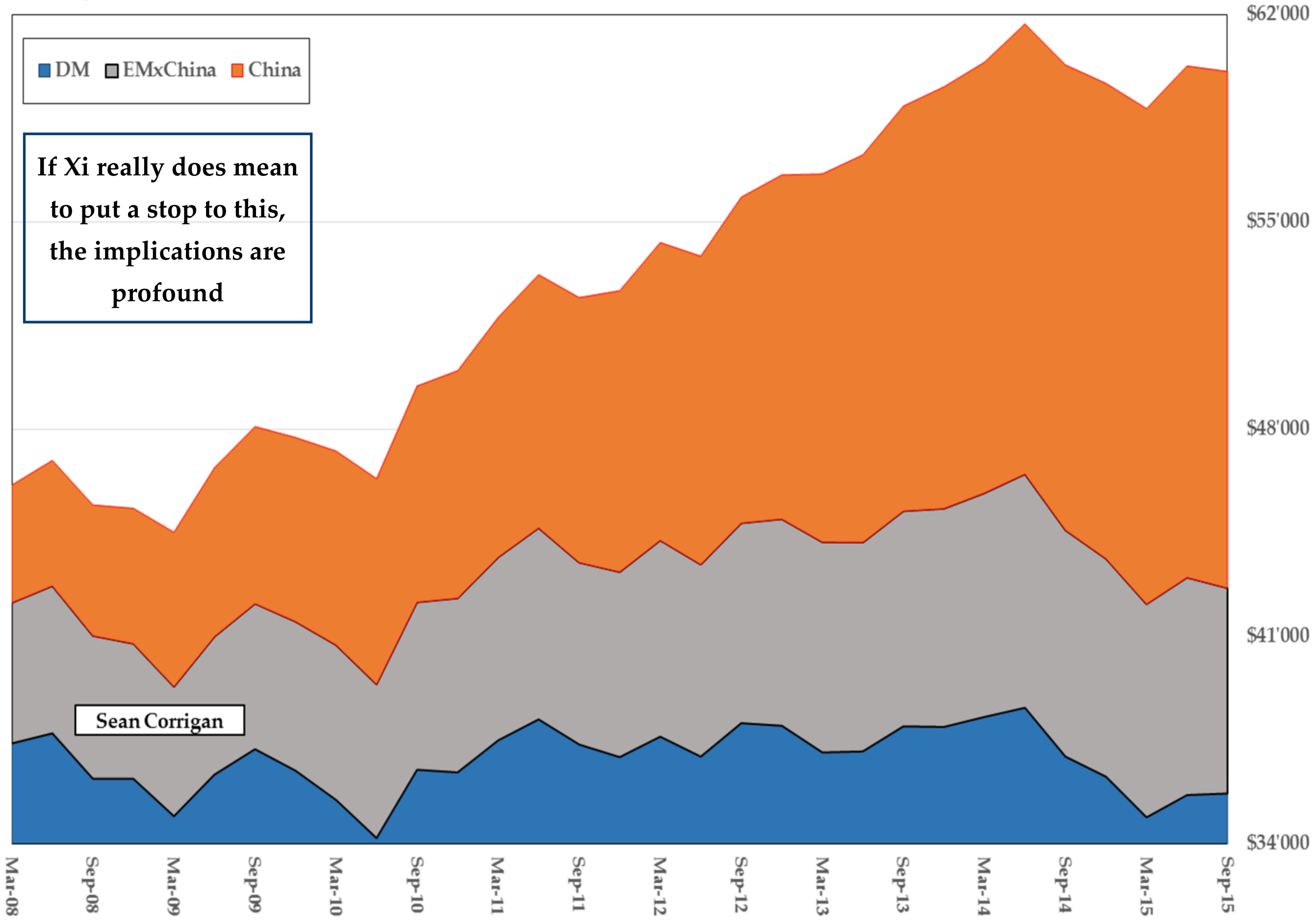
With a certain grim predictability, it finished by washing up on the rocks of what would be called the Tequila Crisis when the long-delayed Fed tightening of early 1994 triggered its own, derivative-driven turbulence and rapidly unravelled the Peso carry-trade in which oh so many had engaged.

While the Rubin Treasury played all manner of unconstitutional tricks as a means to staunch the flow from that debacle – and even though the Chinese undertook a massive devaluation as a counter to the contraction being engineered there by Zhu Rongji - the new, New Kids on the Block were the Asian Tigers, a group of nations whose seemingly unstoppable dynamism in turn inveigled them into putting far too many of those overly cheap dollars than were good for them to work on the home market.

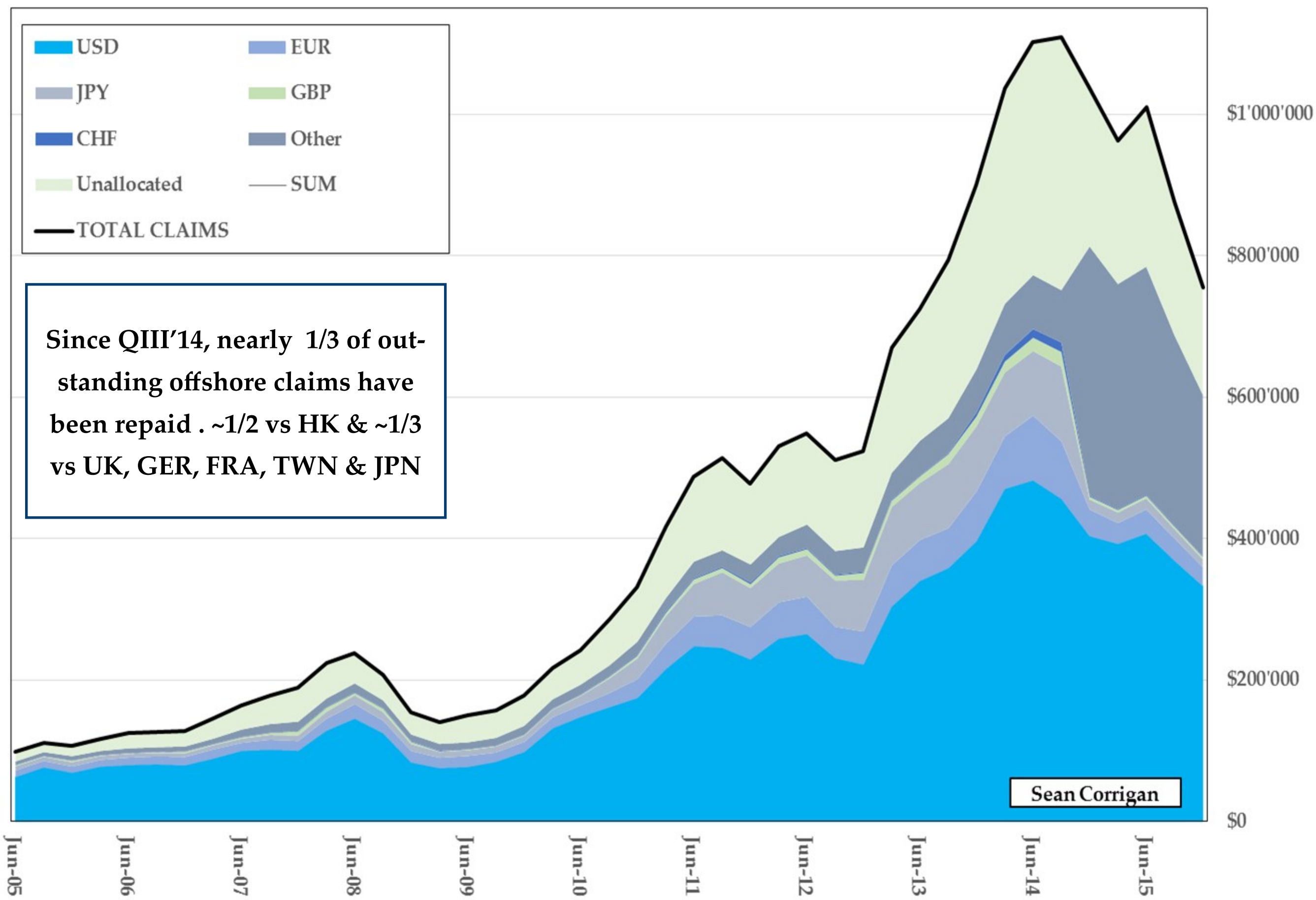
Up stepped 'Mr Yen', Eisuke Sakakibara, to devalue the currency of a Japan which had finally exhausted all means of postponing the reckoning for its 1980s boom and so was undergoing a serious domestic crisis in what we might call the secondary banking sector of the *jusen* real estate lenders and *shinsen* credit co-operatives. Undertaking wave after wave of currency intervention in which he bought around $100 billion in just under three years, our man drove the yen 45% lower against the dollar and – critically – 25% or more against its Asian neighbours, some of whom by now were showing the classic signs of credit exhaustion in the form of overheating domestic property markets and widening current account deficits. Bang, went their bubble in turn and the run for the exits began in earnest.

As the upheaval spread to Yeltsin's biddable kleptocracy, Russia's default toppled the mighty LTCM derivatives engine with it in a kind of '*Thirty-Seven Days that Shook the World*'. Enter, stage right, the hubristically named *'Committee to Save the World'* – Rubin, Greenspan and Summers - and the reduction in Western interest rates which they then wrought compounded the impact of the repatriation flows coming from the EMs and greatly magnified the ongoing Tech mania at home. It also went some good way towards reinforcing the sense of *'heads, I win; tails, you pick up the tab'* moral hazard which the trio's activities during the Mexican event had first inculcated in the market's biggest of BSDs.

Though he might have derived some clue from the fact that his second and third emergency rate cuts were enough to set the Nasdaq soaring 85% in a little under four months to what were then record highs, Greenspan not only decided that, Nelson-like, he saw no signal pertaining to a bubble, Change in NFC Debt levels, blns: *Source - BIS*



Cross-Border Claims on China, mlns: *Source - BIS*



but he notoriously argued that the Fed's job was not to stop such apparitions from inflating, but only to 'mop-up' after they had burst. This was the first issue of the infamous 'Greenspan Put' and constituted a very large, vividly scarlet scrap of cloth to be waved in front of every bull market chancer from then to now.

Once Tech busted in its turn, the likes of Greenspan and BOE chief Eddie George were soon waxing explicit about what they perceived as the need for governments and households to 'make up' for the resulting lack of corporate appetite for more leverage and the pair soon encouraged the move by pushing rates to what was then their lowest level in five decades. From there, it was but a short step to sub-prime fever, CDS-squared insanity, and the manic chase into the apparently riskless Eurozone periphery.

Since that all went up in smoke, it was again the turn of Western governments to take up the slack, pushing outstanding's up from sub-70% to over 105% of GDP with the aid of the new-fangled quantitative easing programmes and with China doing its bit for the emerging markets.

What this brief, somewhat schematic narrative demonstrates is that as the system has lurched from bust to boom, each successive trough in interest rates has plumbed lower depths; each ensuing crisis has become more alarming; each legacy of debt that they left have grown more burdensome as, in turn, we have first wrecked and then partially repaired household, corporate, and government balance sheets, now in the developed countries, now in the emerging.

Along the way, we always tend to bail out those hothouse heroes, the banks – while suborning said banks into bailing out the governments who have done the bailing (a.k.a. the 'Doom Loop') – while leaving the more prudential elements of the financial fabric – the insurers and pension funds – either to twist in the wind or to have no option but to gamble on the acceptance of otherwise inappropriate levels of risk if they are to have any chance to meet their obligations to their customers in their hour of maximum vulnerability.

What all this also shows is that we have developed an irrational fear of putting our hands up in admission of our faults and of then purging the system of its toxic waste after each bout of policy-induced (or policy-facilitated) mass error. This has not only tended to clutter up the landscape with barely viable dinosaurs whose continued existence has required ever more transfers – both overt and covert – to be made from the healthy remnant, but has allowed the inexorable arithmetic of never-shrinking principal times interest divided by disposable income to paralyse utterly our precautionary-principle policy-makers to the end that these ostriches not only have no discernible exit strategy but that they have come to disbelieve in the very existence of the exit itself.

Trees do not Grow to the Sky

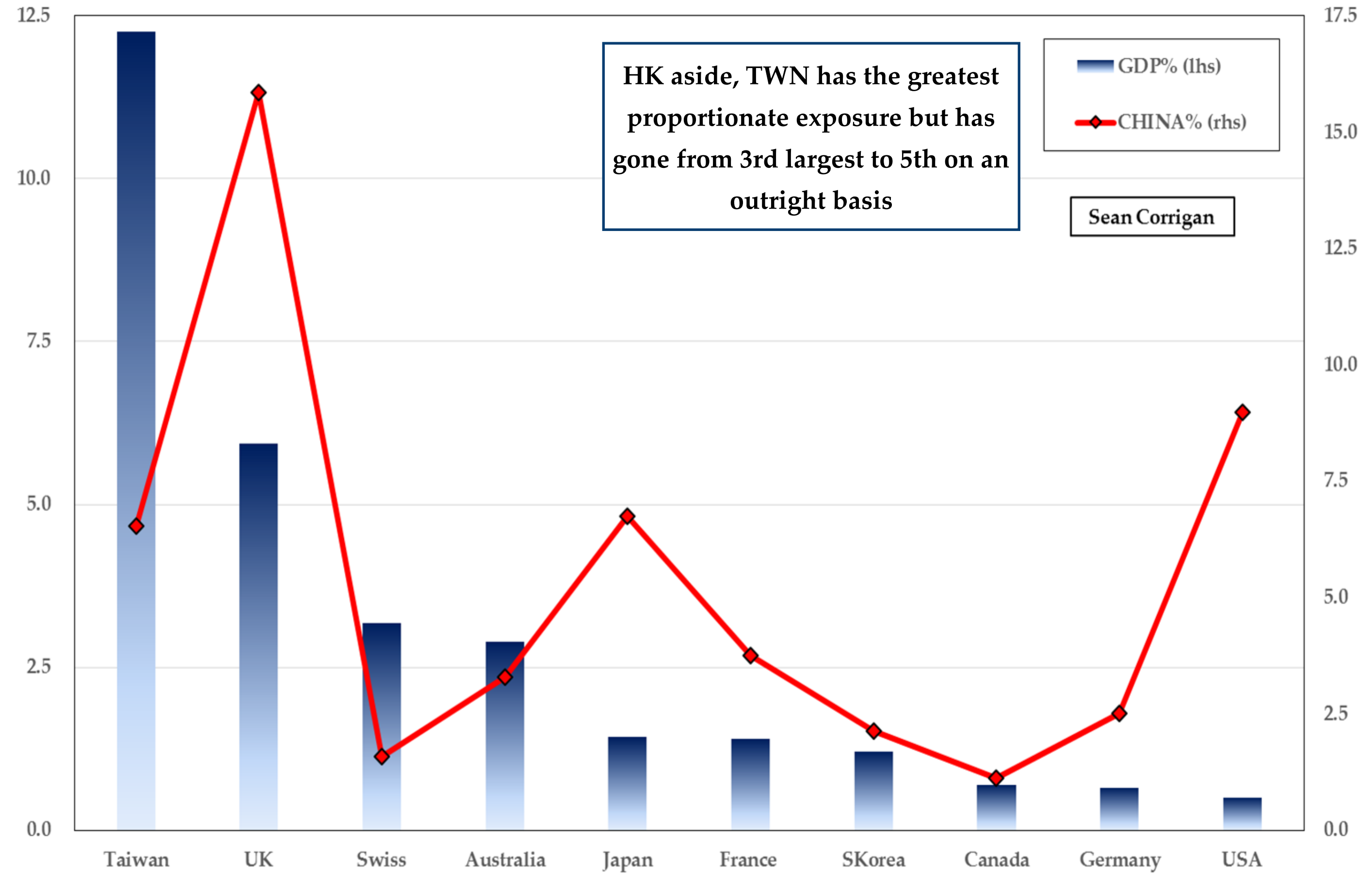
In this latest iteration, since the 2008 crash, it has been mainly the EM non-financial corporates (together with the bloc's banks) which have volunteered to be the fall guys in the faltering efforts at global reflation. Their temptation was made all the easier when they were being lulled into a false sense of security by the dollar's weakness and commodities' concurrent strength. It was given full licence by the developed world's eagerness to earn a return by throwing at them a good part of that superfluous pile of new money with which their domestic central banks had deliberately glutted them.

In that short seven years, total Debt:GDP for the ensemble has risen by 90%, with household debt rising 135% and NFC debt gaining 165%. Expressed as a percentage of the debt stock in developed economies, the total of this grouping's obligations has more than doubled from 21% to 46%, led by a 43% change in the NFC proportion from 25.5% to 68.3% alongside a similar set of numbers for the banking sector.

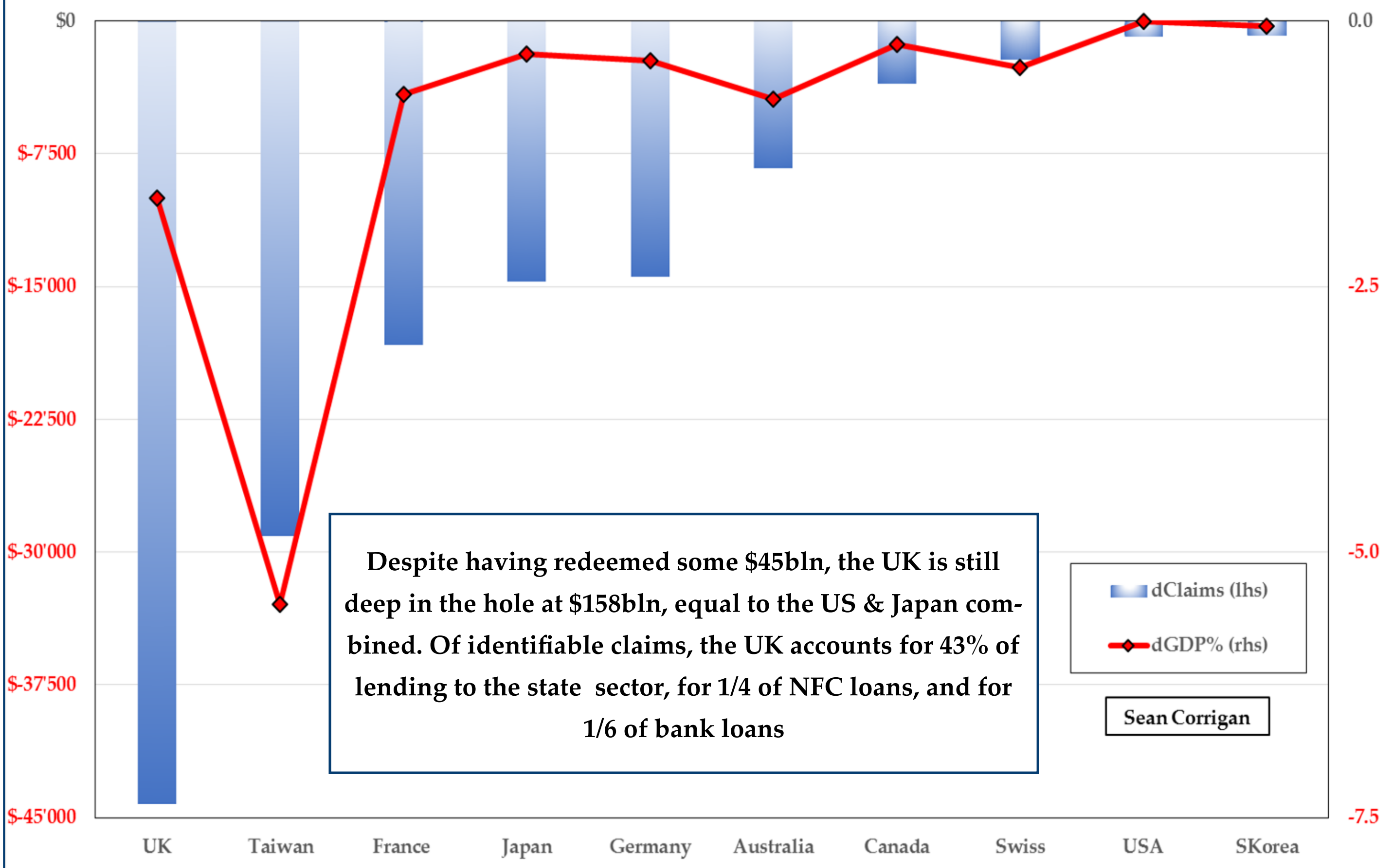
The salient feature of this shift has been the dominance of a China which has accounted for 2/3 of the total increase in EM government debt, for almost 3/4 of the gain in household debt, for 4/5 of that of bank debt, and 5/6 of the NFC debt additions.

This is the same China struggling to stem the haemorrhage of hot money and to master its own internal contradictions. The scale of the forex drain can be seen by the fact that QI registered net receipts of $25.2bln in terms of the current account plus net FDI but still managed to lose $123.5bln in reserves. Even April's partial data suggests a continuation

BIS Bank Claims on China: *Source - BIS*



BIS Bank Claims on China 2-year change, mlns: *Source - BIS*



with a revaluation-boosted gain of just $7.1 billion on a stock basis coming in a month when the merchandise trade surplus hit a seasonal record of $45.6 billion and (gross) FDI inflows were just shy of $10 billion.

This is also the same China where a lengthy editorial in the *People's Daily* - attributed to an 'authoritative figure' - spoke of the likelihood that the country would undergo nothing more dynamic than an *'L-shaped recovery lasting for several years'* – which translates to 'no immediate prospect of improvement'. That same op-ed went on to disavow any policy of increasing leverage or of indiscriminately flooding the system with credit – in total contrast to the experience of the past few months, the cynic might add.

Such is the contrast between this statement of intent and the reality of what has just transpired, that one must wonder whether the experience of the mini-boom in commodities which this sparked – and which has already frustrated restructuring efforts in the steel and aluminium industries – has been sufficiently chastening to the authorities that their resolve has genuinely been stiffened.

As our unnamed authority insisted: *'Trees can't grow to the sky. High leverage will bring high risks, which could trigger systematic risks and weigh on the country's GDP growth, destroying the savings of the public.'*

Passing swiftly by the tempting vision of spray-painting this on the portals of every central bank in the world, we must emphasize the fact that theme of this lilting exordium was hammered home the very next day in the form of the release, in all its multi-page glory, of a peroration which Xi himself had actually delivered at the 8th session of the 5th Plenum, back in January, one in which a comprehensive overview of his programme was laid out for all to hear.

After insisting to his audience that the *'New Normal'* was neither *'good'* nor *'bad'* but simply an *'objective state'* of reality, nestled between the many reminders of China's historic glories and frequent quotations from the clunky, dialectical scriptures of Marx and Engels, Xi had the following key words to say:-

'Domestically, the economy is facing… [a] decline in economic growth, falling industrial prices, corporate profits and revenues, leading to a rise in economic risk. The main… problems are not cyclical, but structural ones which involve severe discoordinations. Demand management is thus of diminishing marginal benefit and a sole reliance on stimulating that domestic demand will do little to solve the structural problems of overcapacity and the like. Therefore, our main emphasis must be to improve the structure of supply.'

To afford the President a full-throated reprise of this in the pages of the nation's premier state mouth-piece for the regime in this manner can only mean that Xi feels the moment has come for him to try to make good on his resolutions.

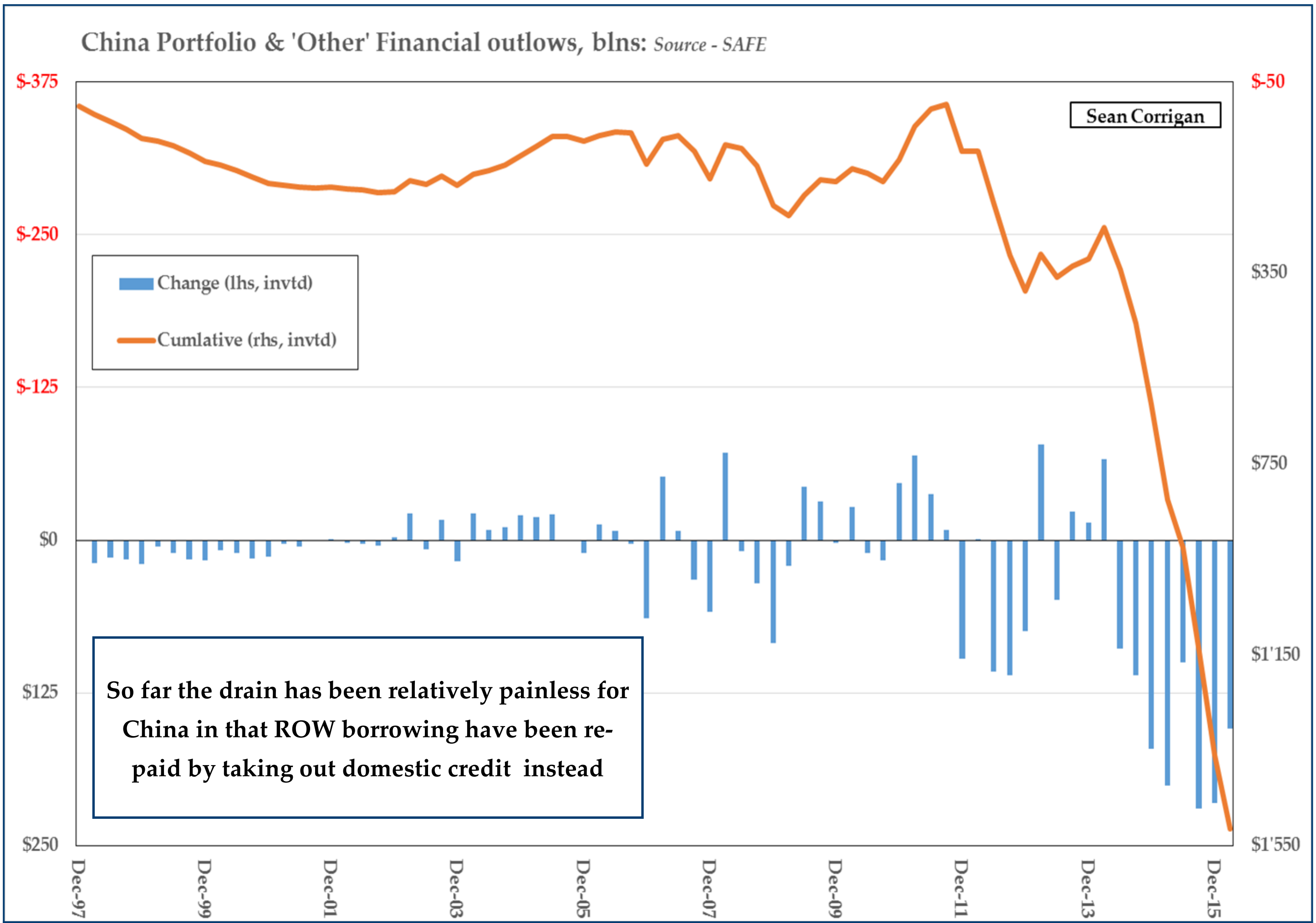
Whether it was deliberate or simply highly opportune, we might also note that this has all been orchestrated at the moment that it is becoming clear that the current Baidu scandal – a matter which is ostensibly about the internet company's duty of care to customers of the advertising it carries – seems to have far wider ramifications.

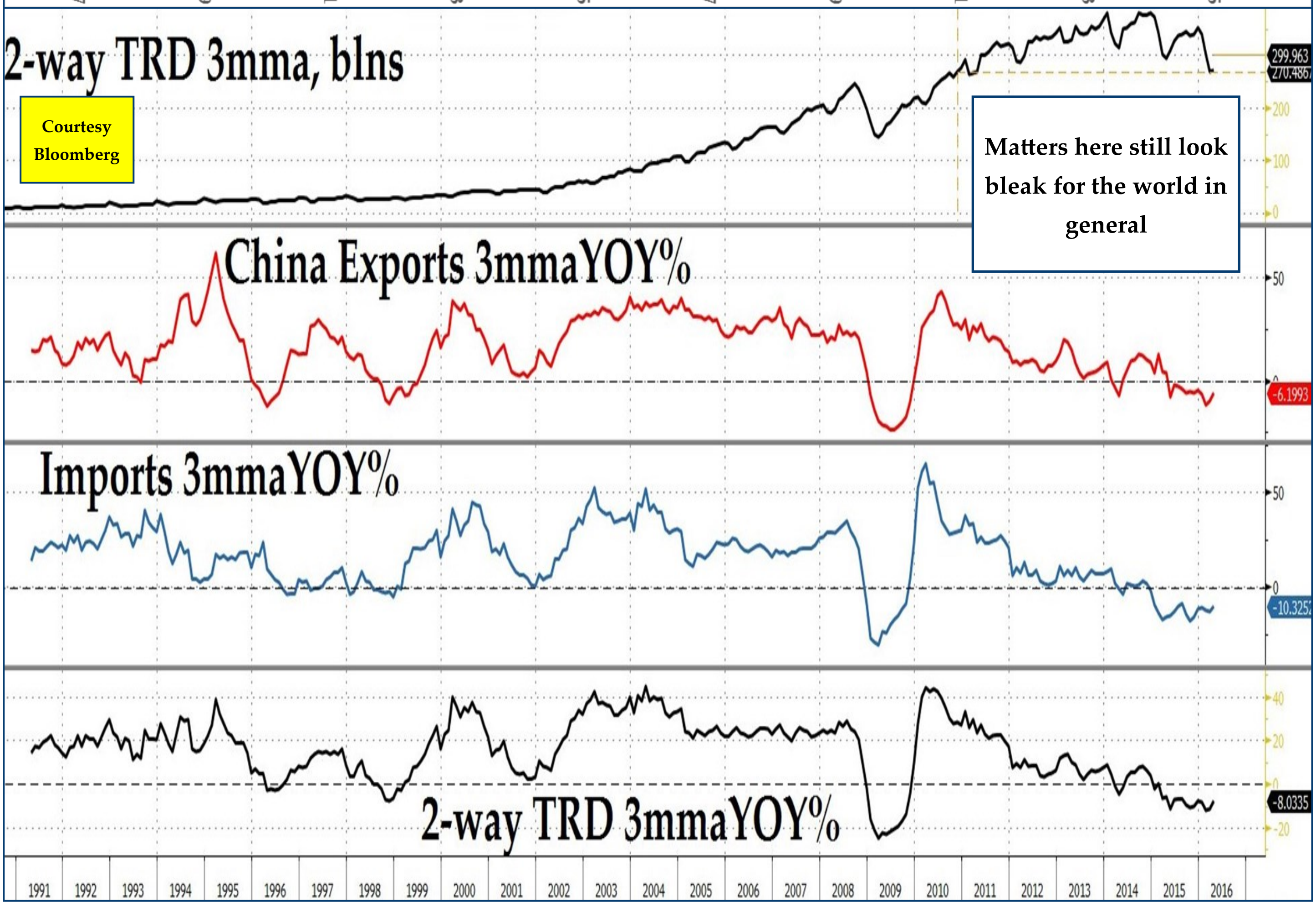
As a first step in the treatment of this, note that the firm has been prohibited from dealing henceforth with the *military*. That latter body, meanwhile, has been forced to carry out an embarrassingly public investigation into its hospital service, one branch of which was involved in the tragic case at hand, that of a desperate cancer patient who unavailingly tried out the dubious last-ditch treatment proffered by a private concern which seems to have been piggy-backing off the army medical service, in direct contravention of the rules.

In the coverage of all this by Hong Kong's weighty *SCMP*, Chen Daoyin, an associate professor at Shanghai University of Political Science and Law, was bold enough to remark of the affair:

'The military is an independent kingdom alongside the central government that was not subject to monitoring in any form. The more power one gets, the more corrupt one becomes'

Here it is then, that we get to the deeper context for, as *Xinhua* relates, the Chinese Central Military Commission has just dispatched teams from its ominous-sounding Commission for Discipline Inspection to all its major branches and to the headquarters of all five military theatre commands besides - the first time in communist army history that such a thing has occurred, we are rather pointedly informed.


China Portfolio & 'Other' Financial outlows, blns: Source - SAFE
Sean Corrigan
Change (lhs, invtd)
Cumlative (rhs, invtd)
So far the drain has been relatively painless for China in that ROW borrowing have been re-paid by taking out domestic credit instead
$-375
$-250
$-125
$0
$125
$250
$-50
$350
$750
$1'150
$1'550
Dec-97
Dec-99
Dec-01
Dec-03
Dec-05
Dec-07
Dec-09
Dec-11
Dec-13
Dec-15


2-way TRD 3mma, blns
Courtesy Bloomberg
Matters here still look bleak for the world in general
China Exports 3mmaYOY%
Imports 3mmaYOY%
2-way TRD 3mmaYOY%
299.963
270.4867
-6.1993
-10.3252
-8.0335
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016

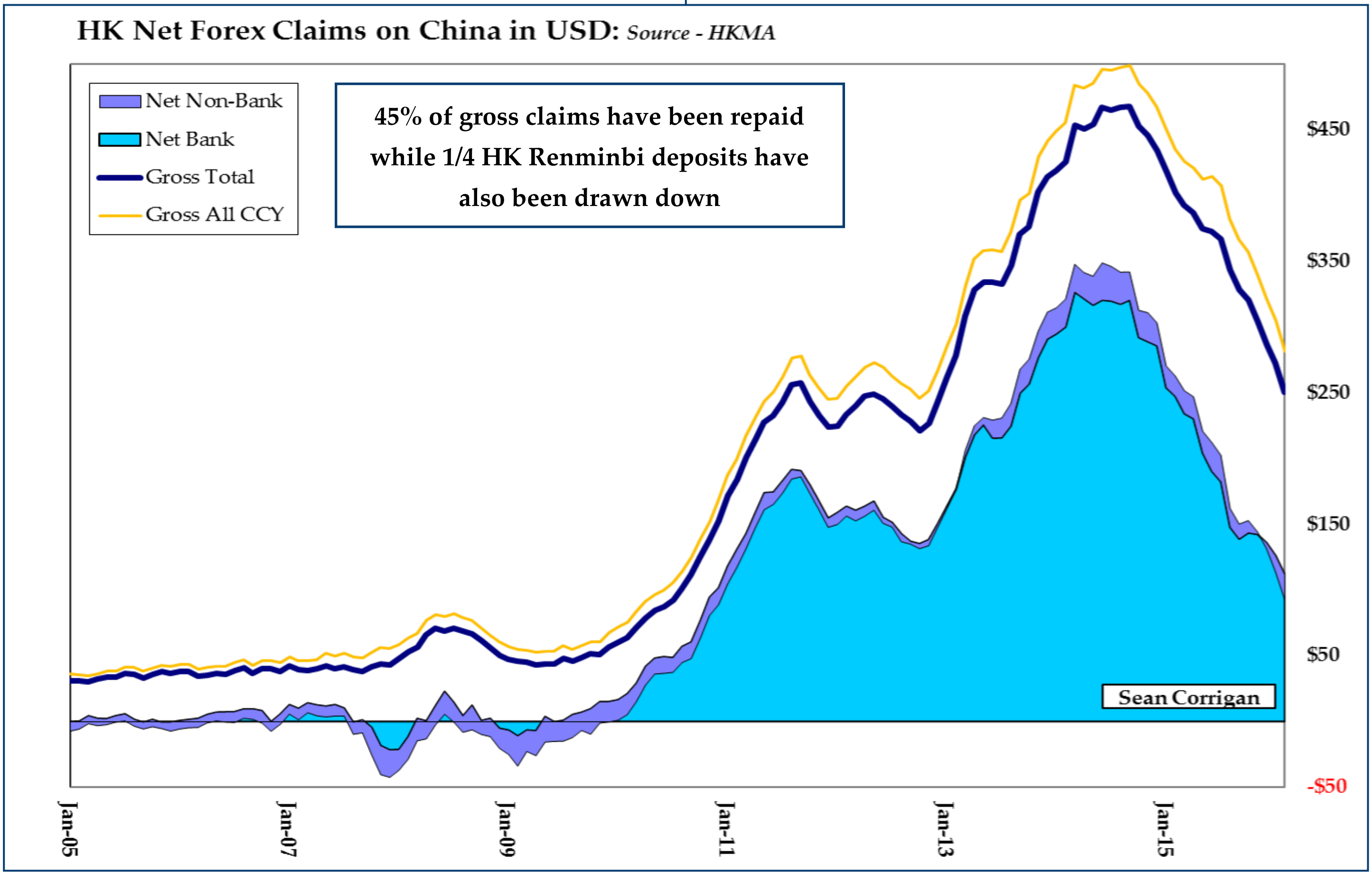
By launching this 'inspection' at this particular moment, Xi – who has recently moved to secure unprecedented personal control over the armed wing of the Party apparatus – may be trying to root out what has long been rumoured to be a widespread nest of corruption and, more germanely in the present situation, a stubborn source of resistance to his reform efforts.

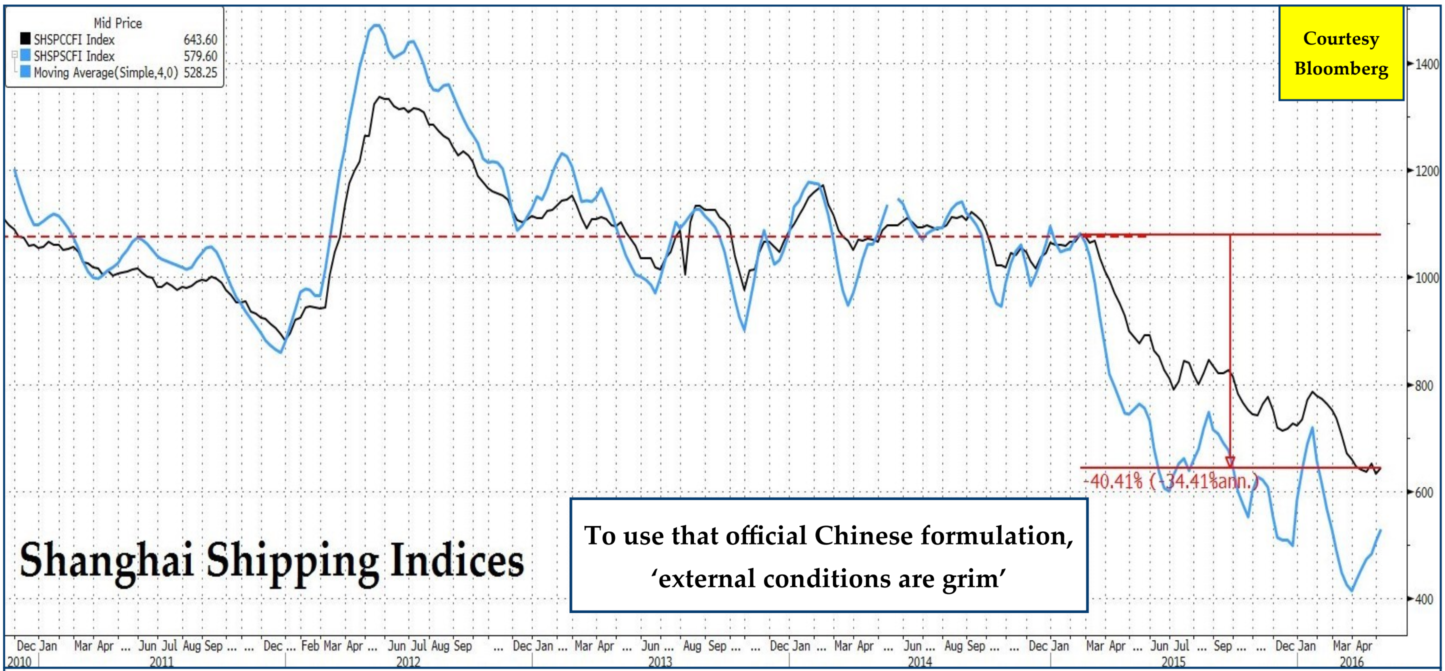
Tying all these seemingly unrelated strands together, as *China Securities News* reported, the NDRC and the Ministry of Industry and Information Technology are about to release what the paper says is *'a detailed plan'* under whose auspices *'emerging sectors and those more traditional ones which are upgrading will receive more support, and financial institutions will be encouraged to make long-term loans to high-tech firms, technical equipment manufacturing and some basic industries'* while simultaneously *'loans to zombie companies that have suffered continual losses and are unable to pay back their debts will be slashed or withdrawn.'*

All the signs then are that Beijing is about to lurch back to the side of restraint, at least until the wrath of the masses – among them the 2.8 million migrant workers still waiting impatiently for around four months' arrears of pay to be made over to them by firms principally in the construction, manufacturing, and transportation industries – becomes once more unbearable and the weathervane swings back to the pump-priming quarter of the compass

Whatever the outcome, one thing this combination has done is take the air rather violently out of the commodity rally. Rebar and iron ore are now 20% off their highs, having surrendered around half their recent gains; all manner of other contracts such as aluminium, zinc, plastics, cotton, flat glass, and rubber are also in trouble. Just as well when the annualized rate of change for PPI this past three months has just come in at +3.6% - a notable reversal from the -6.2% annual rate of the previous trimester.

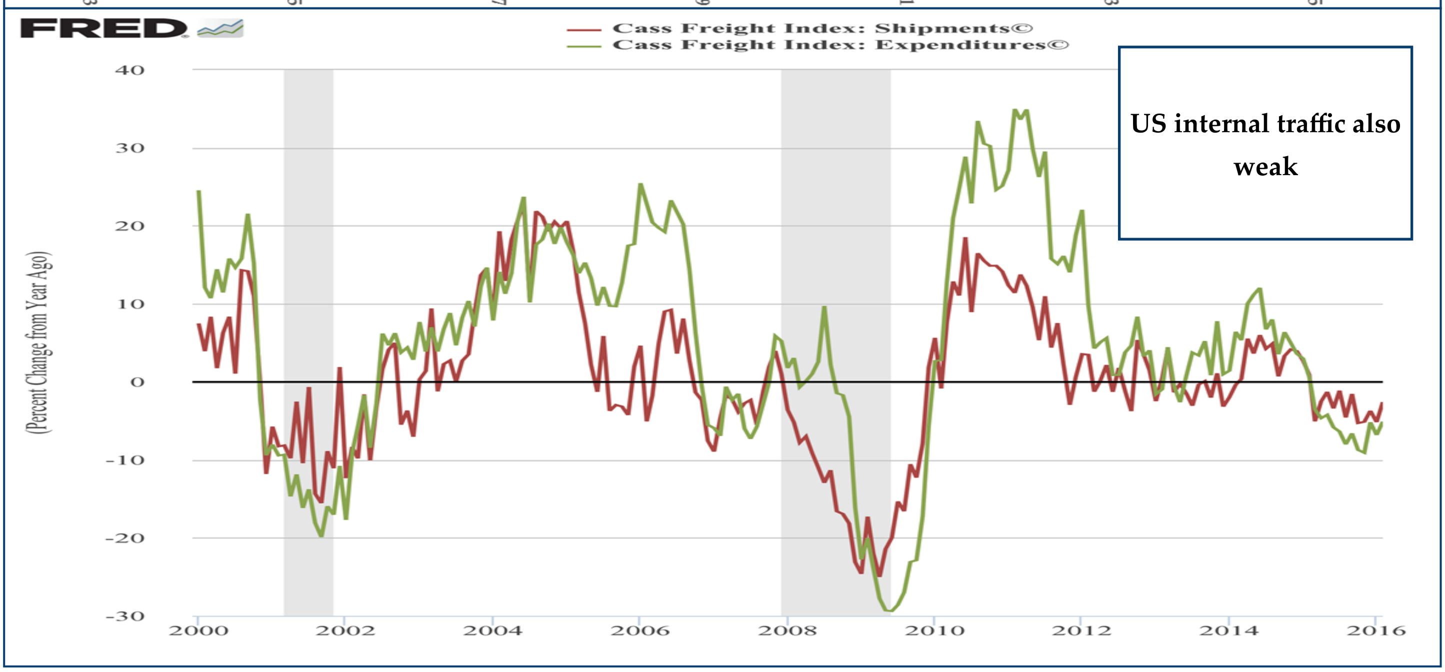
Now that we know what we have to watch for in China, the larger problem we face is to wonder what the Fed will make of developments there. Bad enough that Madame Chair will have half an eye on the Brexit vote without her having to decide whether a bout of tough love from President Xi is good or bad for the US stock market - sorry! – for the *economy*.





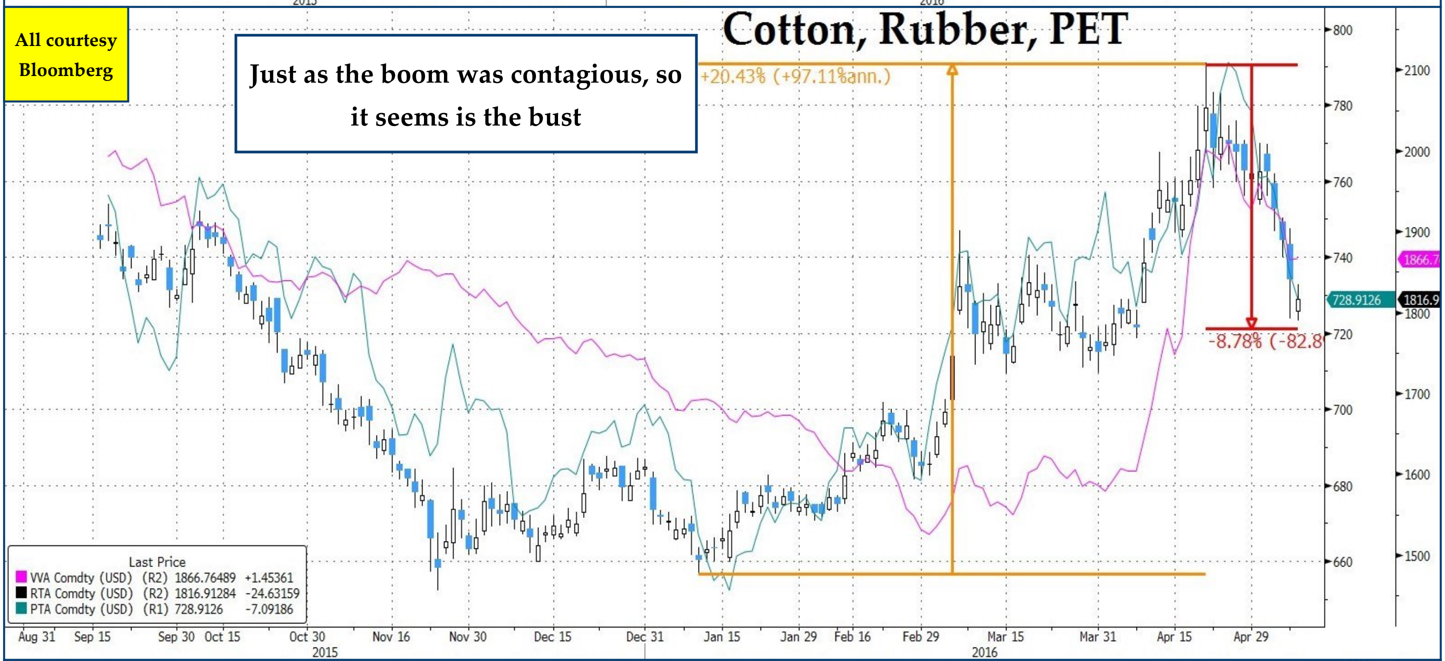
Mid Price
SHSPCCFI Index 643.60
SHSPSCFI Index 579.60
Moving Average(Simple,4,0) 528.25
Courtesy Bloomberg
Shanghai Shipping Indices
To use that official Chinese formulation, 'external conditions are grim'
-40.41% (-34.41% ann.)
1400
1200
1000
800
600
400
2010
2011
2012
2013
2014
2015
2016

IATA Asia-Pacific FTKs, 2-yr CAR%: Source - IATA
Nor does airfreight in the region look an awful lot better
Sean Corrigan
25.0
20.0
15.0
10.0
5.0
0.0
-5.0
-10.0
-15.0
Dec-03
Dec-05
Dec-07
Dec-09
Dec-11
Dec-13
Dec-15

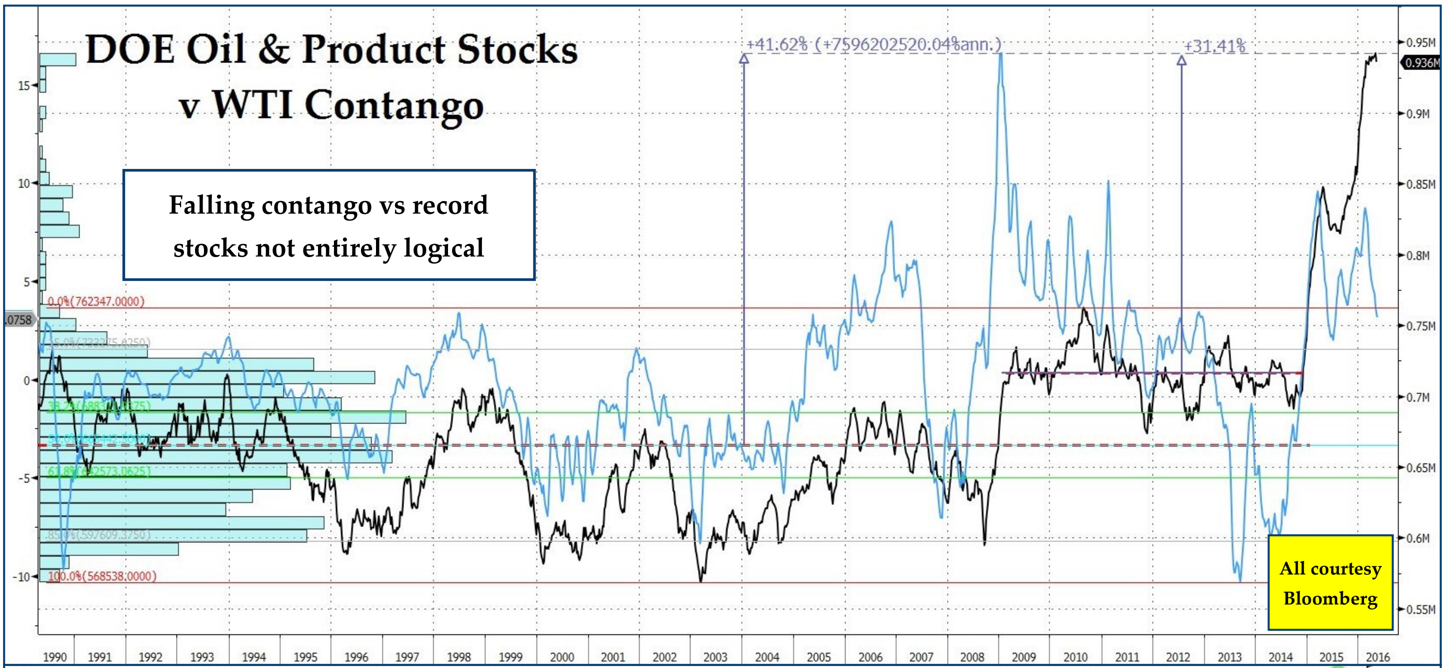


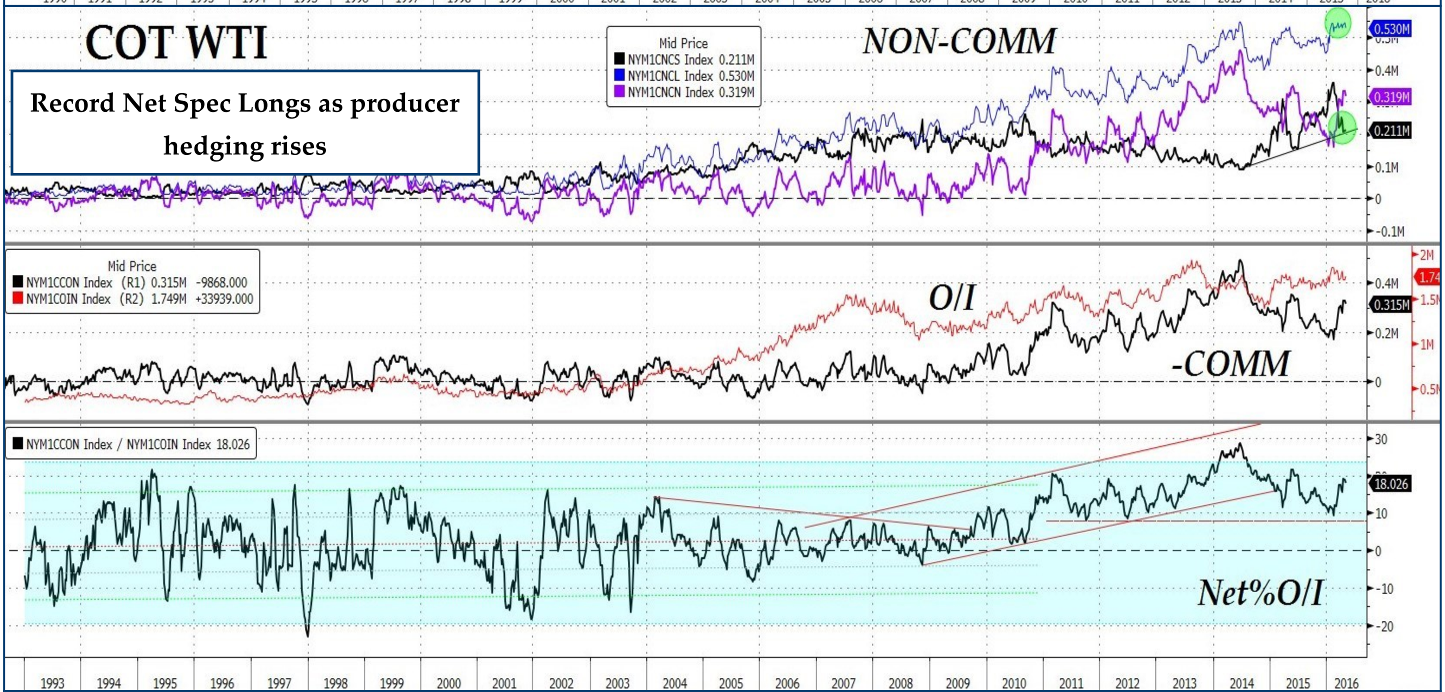
FRED
Cass Freight Index: Shipments©
Cass Freight Index: Expenditures©
US internal traffic also weak
(Percent Change from Year Ago)
40
30
20
10
0
-10
-20
-30
2000
2002
2004
2006
2008
2010
2012
2014
2016


Though impressive, this was one of the shorter bubble on record. For the record, Platts' China Steel Sentiment Index, hit 46.98 in May, down from April's 69.12 and March's 89.42
Steel, Iron Ore, Coke
+69.90% (+620.10%ann.)
-20.76% (-98
Last Price
RBTK6 COMB Comdty (USD) (R1) 376.42078
IOEA Comdty (USD) (R2) 58.97873
KEEA Comdty (USD) (R3) 142.42326
Sep 15 Sep 30 Oct 15 Oct 30 Nov 16 Nov 30 Dec 15 Dec 31 Jan 15 Jan 29 Feb 16 Feb 29 Mar 15 Mar 31 Apr 15 Apr 29
2015
2016

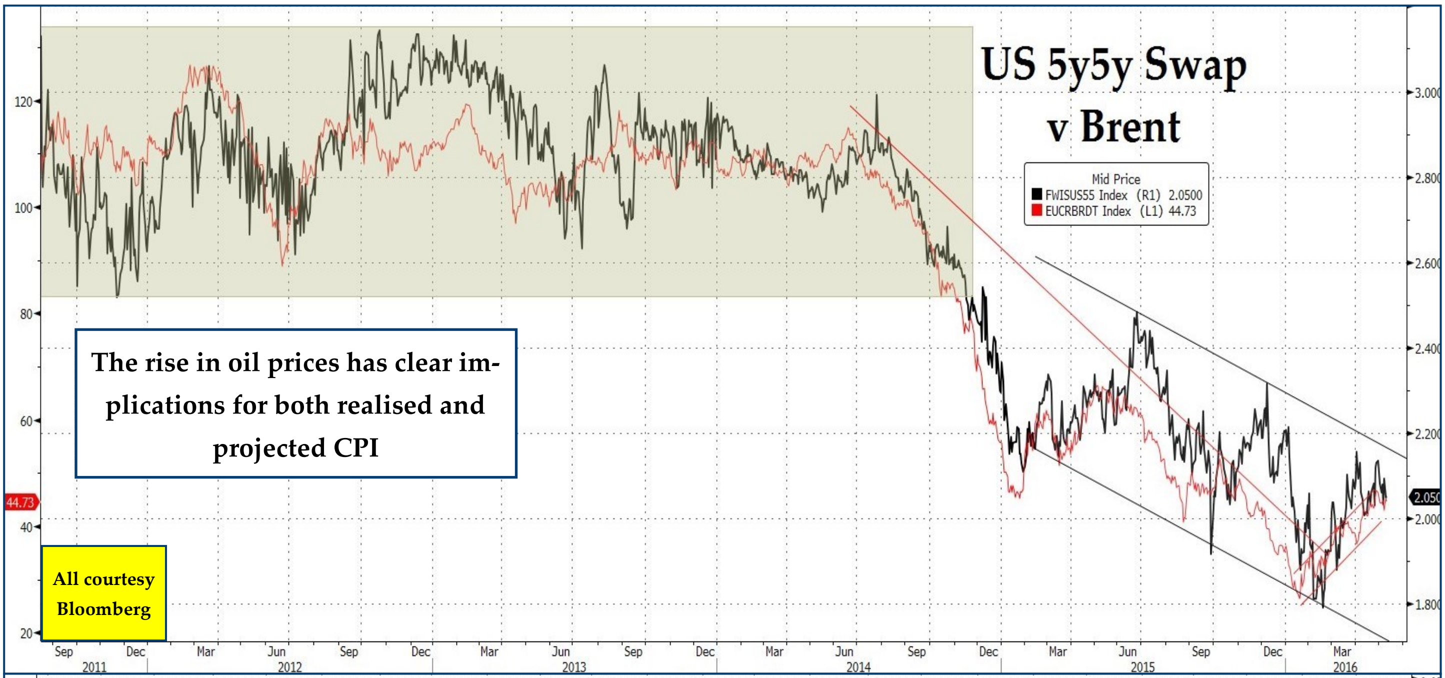

All courtesy Bloomberg
Just as the boom was contagious, so it seems is the bust
Cotton, Rubber, PET
+20.43% (+97.11%ann.)
-8.78% (-82.8
Last Price
VVA Comdty (USD) (R2) 1866.76489 +1.45361
RTA Comdty (USD) (R2) 1816.91284 -24.63159
PTA Comdty (USD) (R1) 728.9126 -7.09186
Aug 31 Sep 15 Sep 30 Oct 15 Oct 30 Nov 16 Nov 30 Dec 15 Dec 31 Jan 15 Jan 29 Feb 16 Feb 29 Mar 15 Mar 31 Apr 15 Apr 29
2015
2016

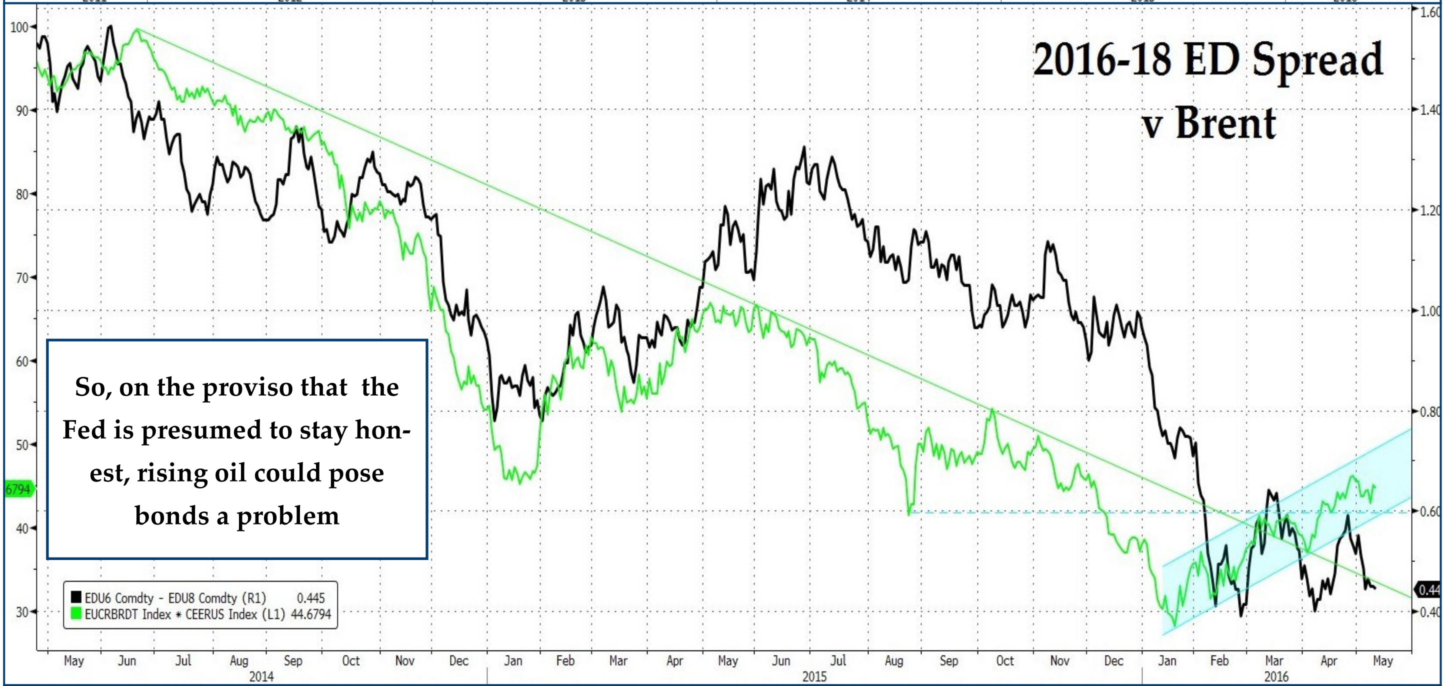

CSI300 v Margin
Meanwhile, stock prices and margin debt continue to erode
Last Price
.CHMARGIN U Index (R2) 854.4230
SHSZ300 Index (R1) 3069.1123
Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar Apr May
2014
2015
2016

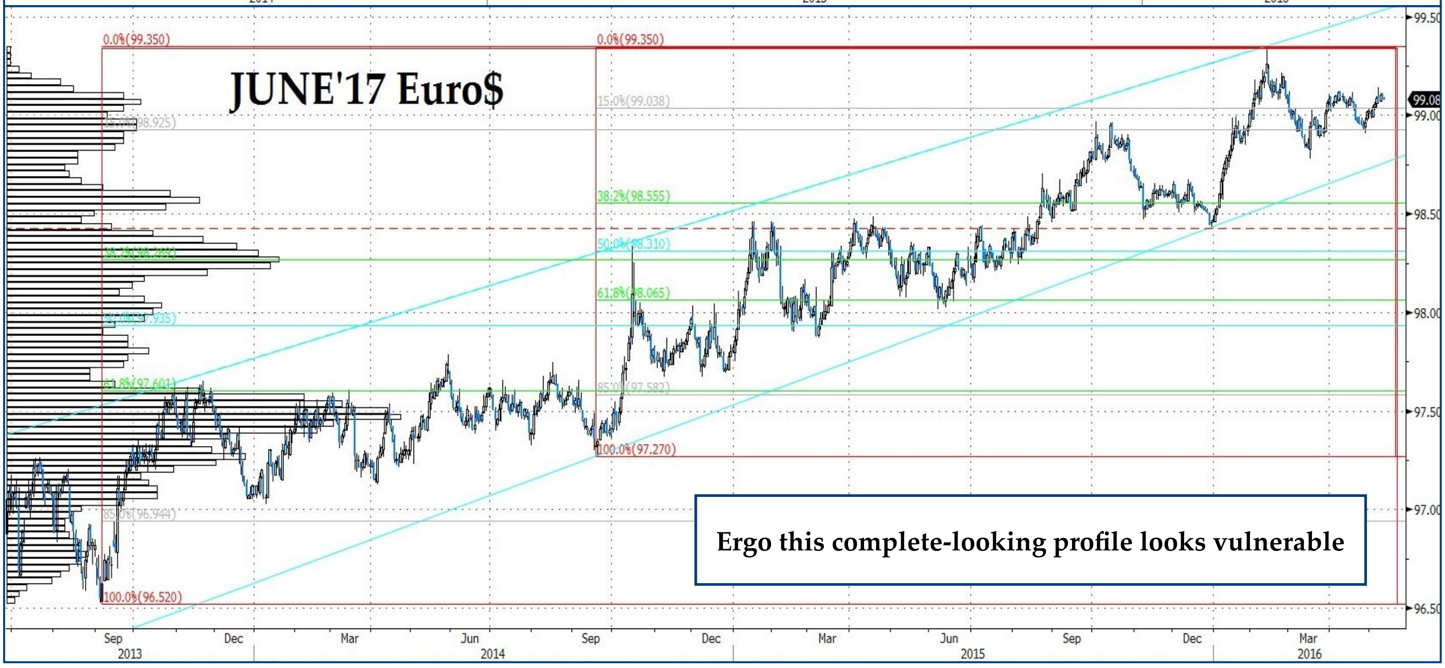

DOE Oil & Product Stocks
v WTI Contango
Falling contango vs record stocks not entirely logical
All courtesy Bloomberg
+41.62% (+7596202520.04%ann.)
+31.41%
0.936M
1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016


COT WTI
Record Net Spec Longs as producer hedging rises
NON-COMM
Mid Price
NYM1CNCS Index 0.211M
NYM1CNCL Index 0.530M
NYM1CNCN Index 0.319M
Mid Price
NYM1CCON Index (R1) 0.315M -9868.000
NYM1COIN Index (R2) 1.749M +33939.000
O/I
-COMM
NYM1CCON Index / NYM1COIN Index 18.026
Net%O/I
1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016


WTI18x24 x USTWI Broad
But, next target the HVP (marked in blue)
100.0%(93.108)
61.8%(75.8603)
38.2%(65.2046)
0.0%(47.9569)
100.0%(74.0053)
61.8%(64.0548)
50.0%(60.9811)
38.2%(57.9074)
0.0%(47.9569)
Sep Oct Nov Dec Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar Apr May Dec
2014 2015 2016

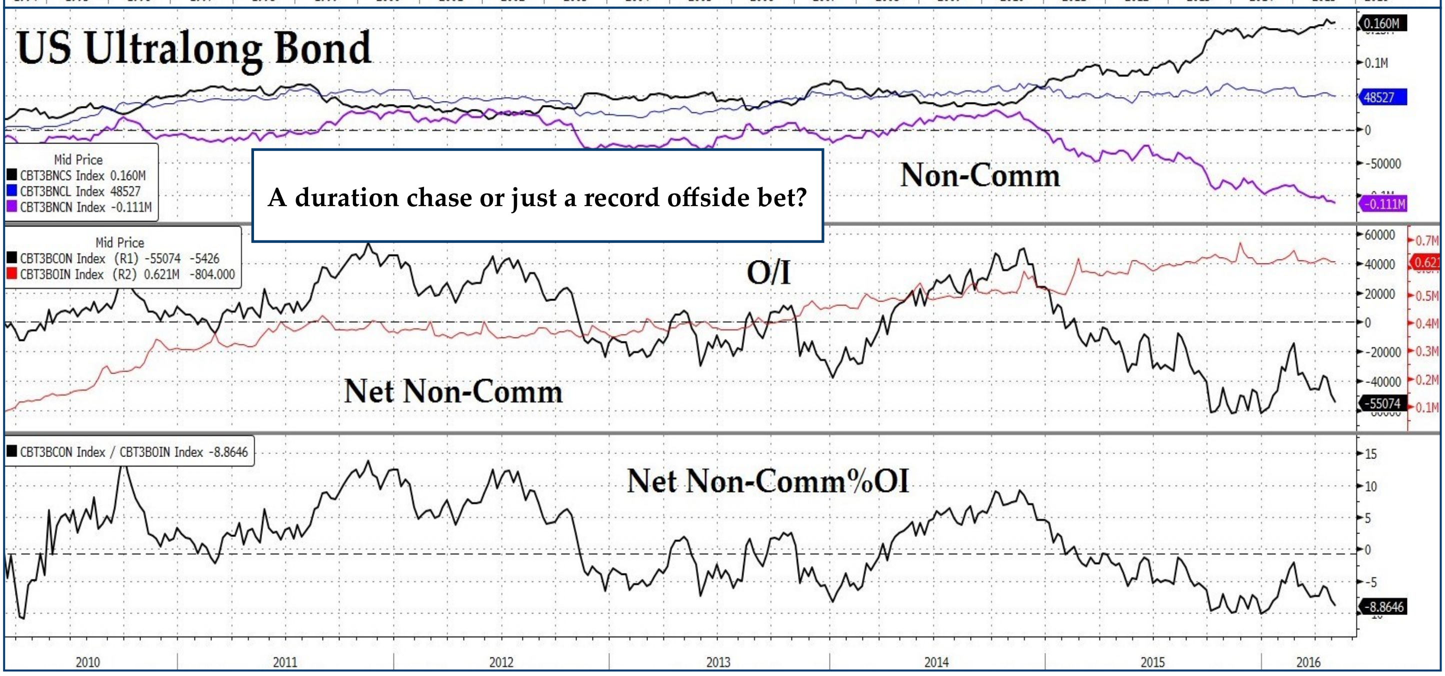

US 5y5y Swap
v Brent
Mid Price
FWISUS55 Index (R1) 2.0500
EUCRBRDT Index (L1) 44.73
The rise in oil prices has clear implications for both realised and projected CPI
All courtesy Bloomberg


2016-18 ED Spread
v Brent
So, on the proviso that the Fed is presumed to stay honest, rising oil could pose bonds a problem
EDU6 Comdty - EDU8 Comdty (R1) 0.445
EUCRBRDT Index * CEERUS Index (L1) 44.6794

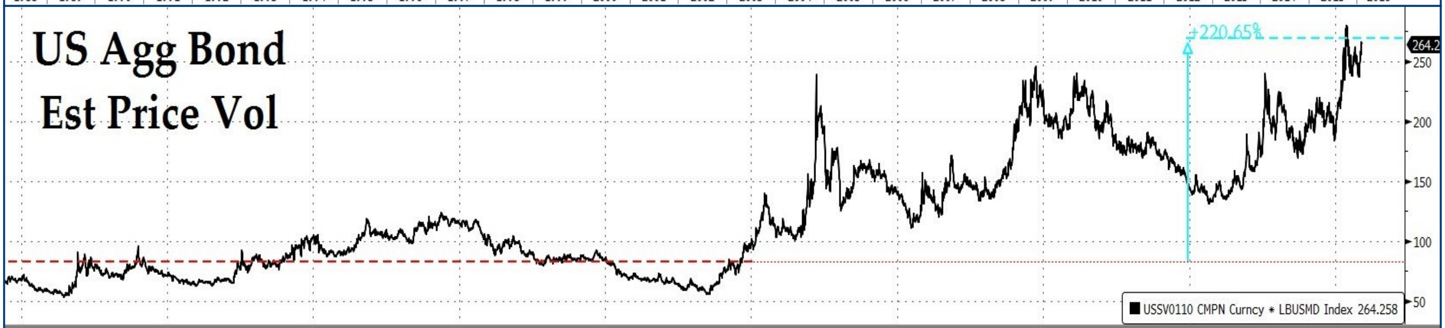

JUNE'17 Euro$
Ergo this complete-looking profile looks vulnerable


US10yrTIPS
Another finished-looking profile suggests real yields should stay positive
All courtesy Bloomberg
100.0%(4.4000)
85.0%(3.60)
61.8%(2.3651)
50.0%(1.7365)
38.2%(1.1080)
15.0%(-0.1279)
0.0%(-0.9269)
0.1094
1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016

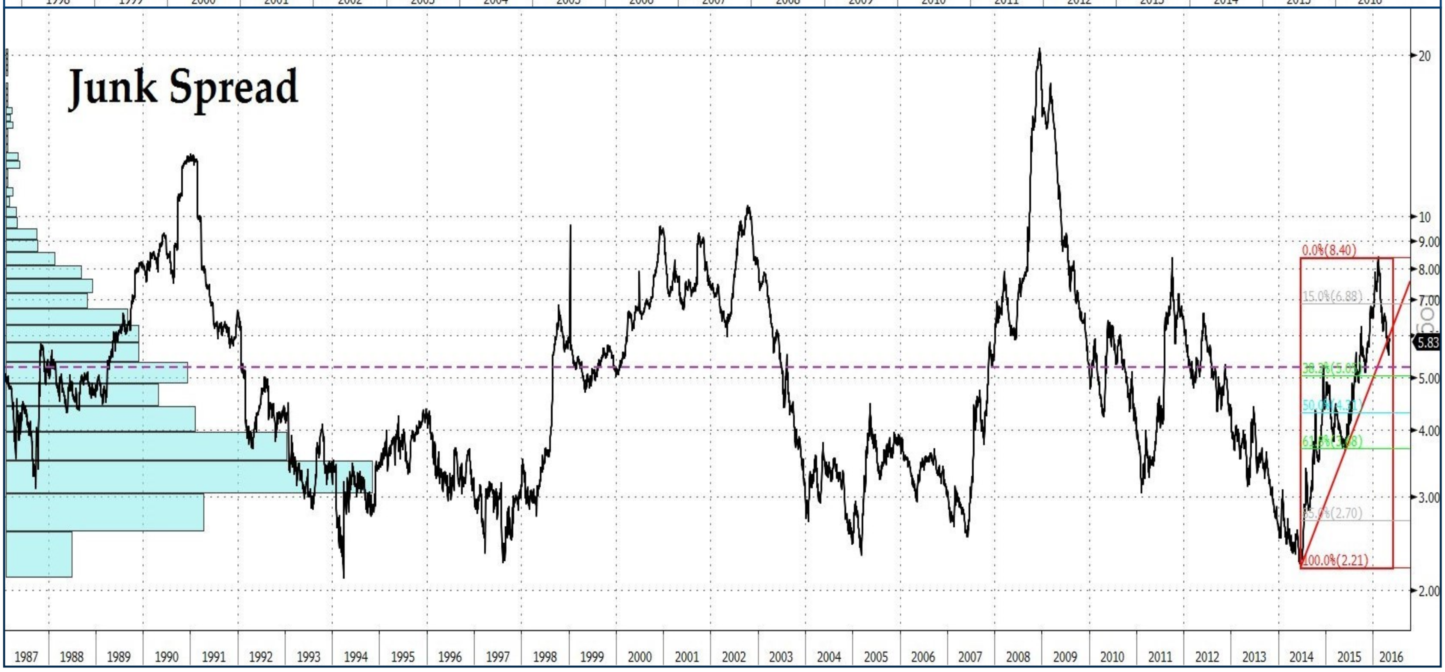

US 30-yr LIBOR
Given the above, rising oil-BEIs means reversal here, too
100.0%(8.6800)
2.1040
1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016


US Ultralong Bond
Mid Price
CBT3BNCS Index 0.160M
CBT3BNCL Index 48527
CBT3BNCN Index -0.111M
A duration chase or just a record offside bet?
Non-Comm
Mid Price
CBT3BCON Index (R1) -55074 -5426
CBT3BOIN Index (R2) 0.621M -804.000
O/I
Net Non-Comm
CBT3BCON Index / CBT3BOIN Index -8.8646
Net Non-Comm%OI
2010 2011 2012 2013 2014 2015 2016


JPM Global Govt YTW
The lowest yields & therefore the highest risks. Sleepless nights for fiduciaries
100.0%(9.296)
85.0%(7.083)
61.8%(4.652)
50.0%(3.756)
38.2%(3.033)
15.0%(1.992)
0.0%(1.518)
1.525

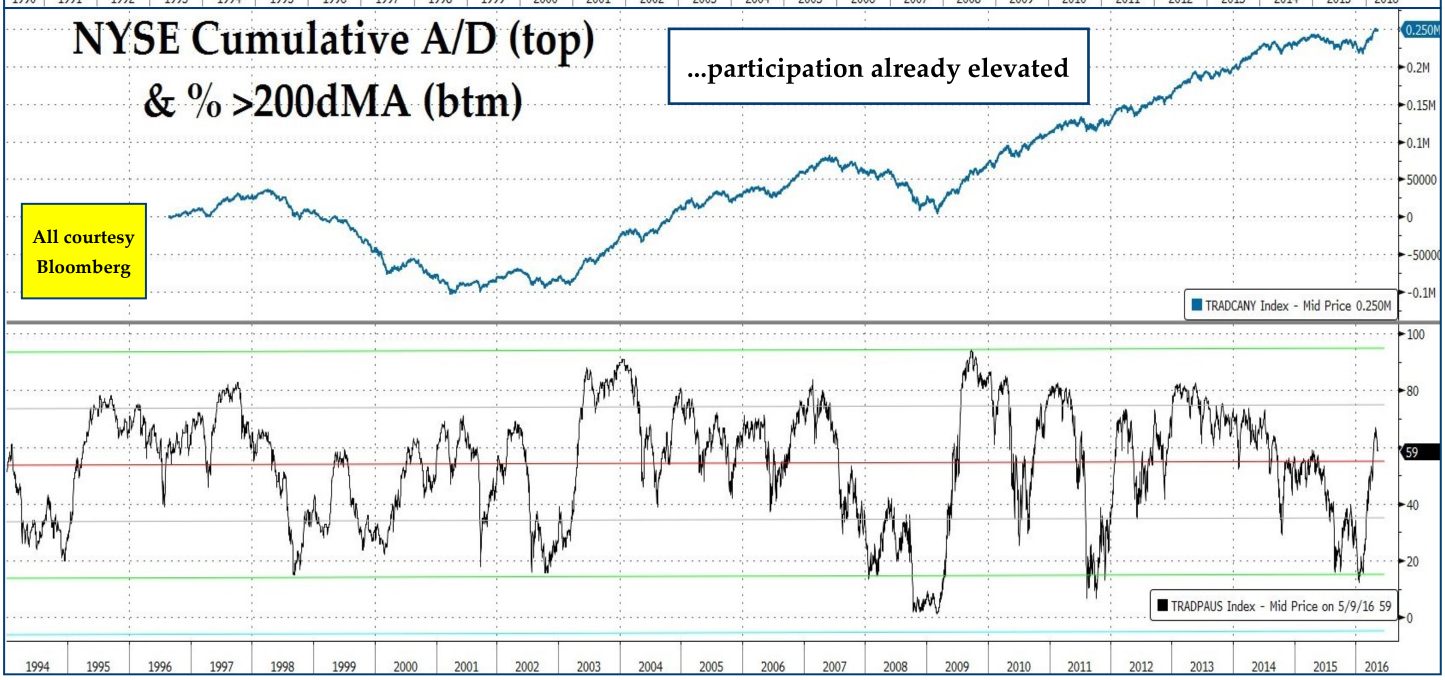

US Agg Bond
Est Price Vol
+220.65%
264.2
USSV0110 CMPN Curncy * LBUSMD Index 264.258


JPM Global Govt
Risk/RWD
All courtesy Bloomberg
+275.05%
4.558
JGAGGMOD Index / JGAGGYLD Index 4.5583


Junk Spread
0.0%(8.40)
15.0%(6.88)
100.0%(2.21)
5.83

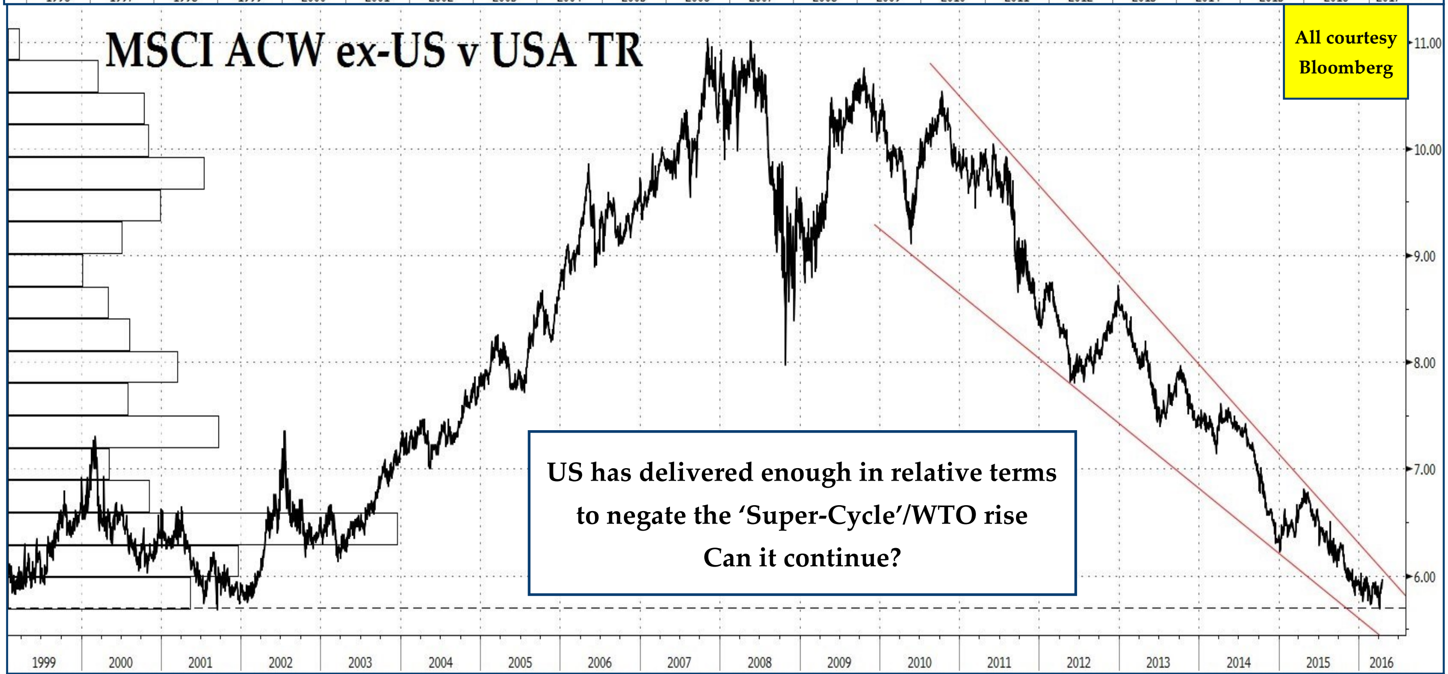

Value Line v Junk
IF this were to make a new high, objective lies ~15% above...
+16.12%
0.0%(4938.78)
15.0%(4346.83)
38.2%(3431.28)
50.0%(2965.61)
61.8%(2499.95)
85.0%(1584.40)
100.0%(992.45)
Last Price
VALUA Index (R1) 4612.16
LF98MVU Index - on 5/10/16 (R2) 1.298M


...but ratios stretched and...
SPX Ex-FIN v REVS
0.0%(51.432)
15.0%(46.6628)
38.2%(39.3373)
50.0%(35.6013)
61.8%(31.8653)
85.0%(24.5398)
100.0%(19.7706)


NYSE Cumulative A/D (top)
& % >200dMA (btm)
...participation already elevated
All courtesy Bloomberg
TRADCANY Index - Mid Price 0.250M
TRADPAUS Index - Mid Price on 5/9/16 59

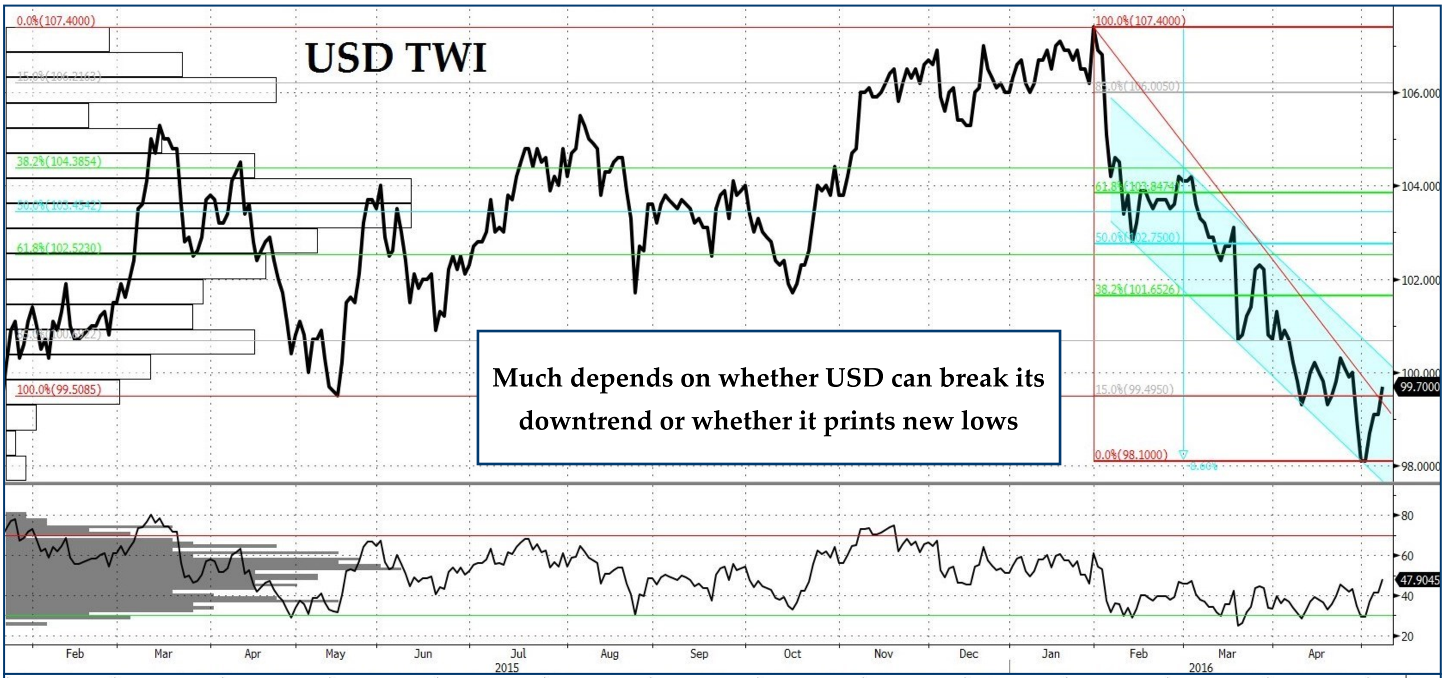
Hard to pinpoint a single most likely origin, but these three point to a possible H&S top for stocks, both absolute & relative to a climactic spike into negative yield readings for Bunds

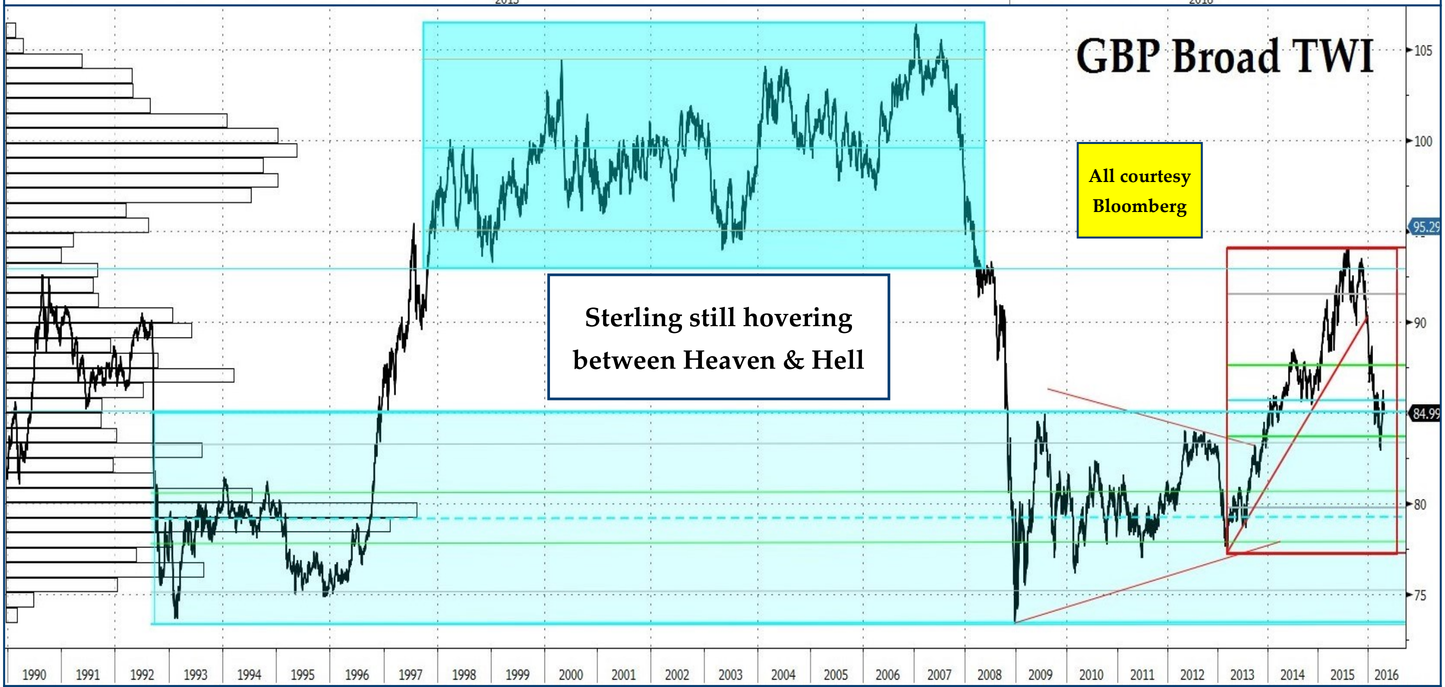
MSCI LATAM v ASEAN
Watch the resistance levels here to gauge probable future trend
100.0%(6.7261)
61.8%(5.1597)
50.0%(4.6758)
38.2%(4.192)
0.0%(2.6256)
3.235
7.00
6.00
5.00
4.00
3.00
2.00
1.00
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017



MSCI ACW ex-US v USA TR
All courtesy Bloomberg
US has delivered enough in relative terms to negate the 'Super-Cycle'/WTO rise
Can it continue?
11.00
10.00
9.00
8.00
7.00
6.00
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016

MSCI EM
0.0%(1345.18)
38.2%(933.80)
61.8%(679.65)
806.91
EMs struggling against base of reflationary era lows
1200
1000
600
400
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016

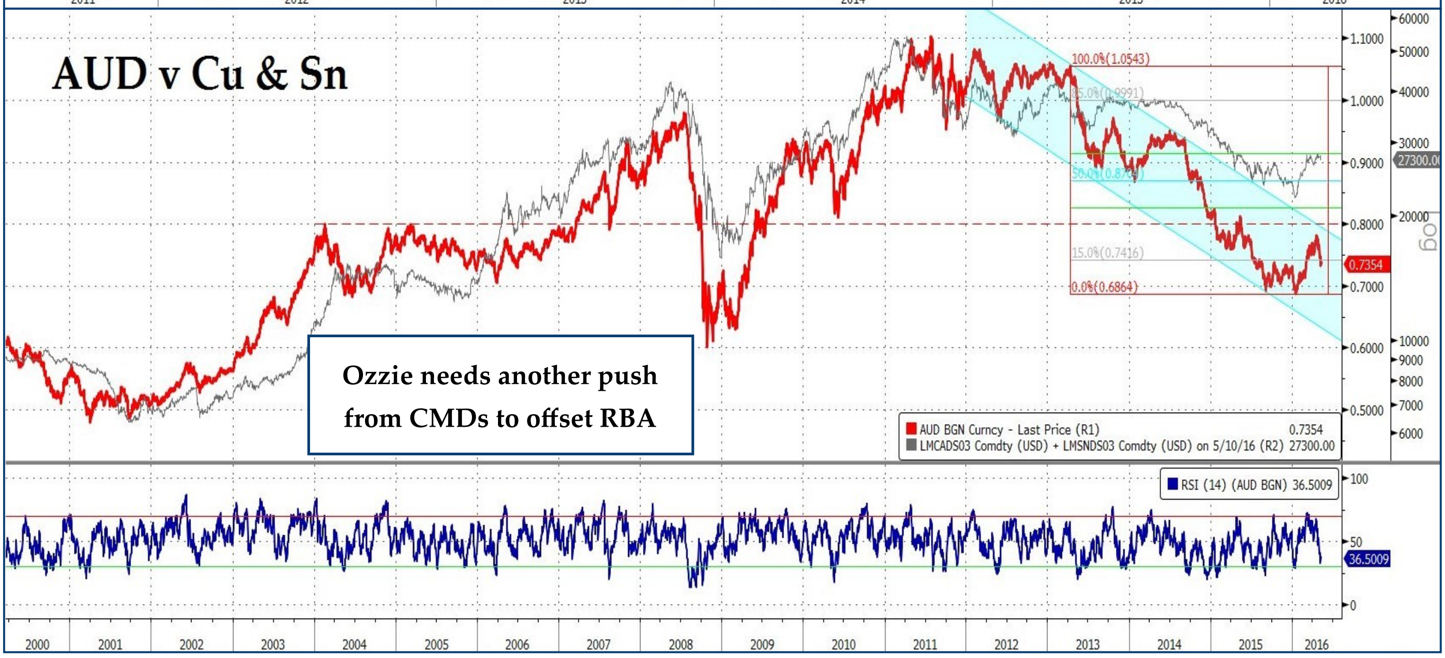

USD TWI
Much depends on whether USD can break its downtrend or whether it prints new lows

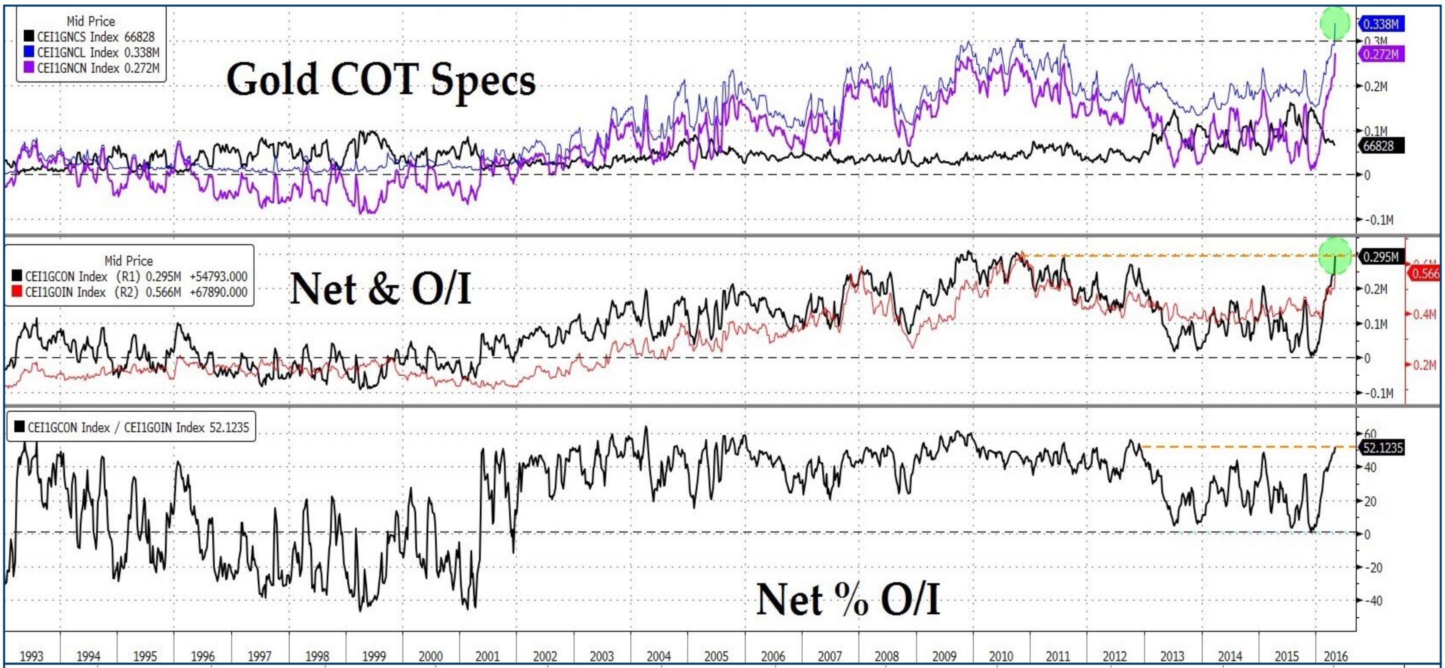

GBP Broad TWI
All courtesy Bloomberg
Sterling still hovering between Heaven & Hell


JPY
JPY just holding above the 2013 peak; still feeling the pull of Y102

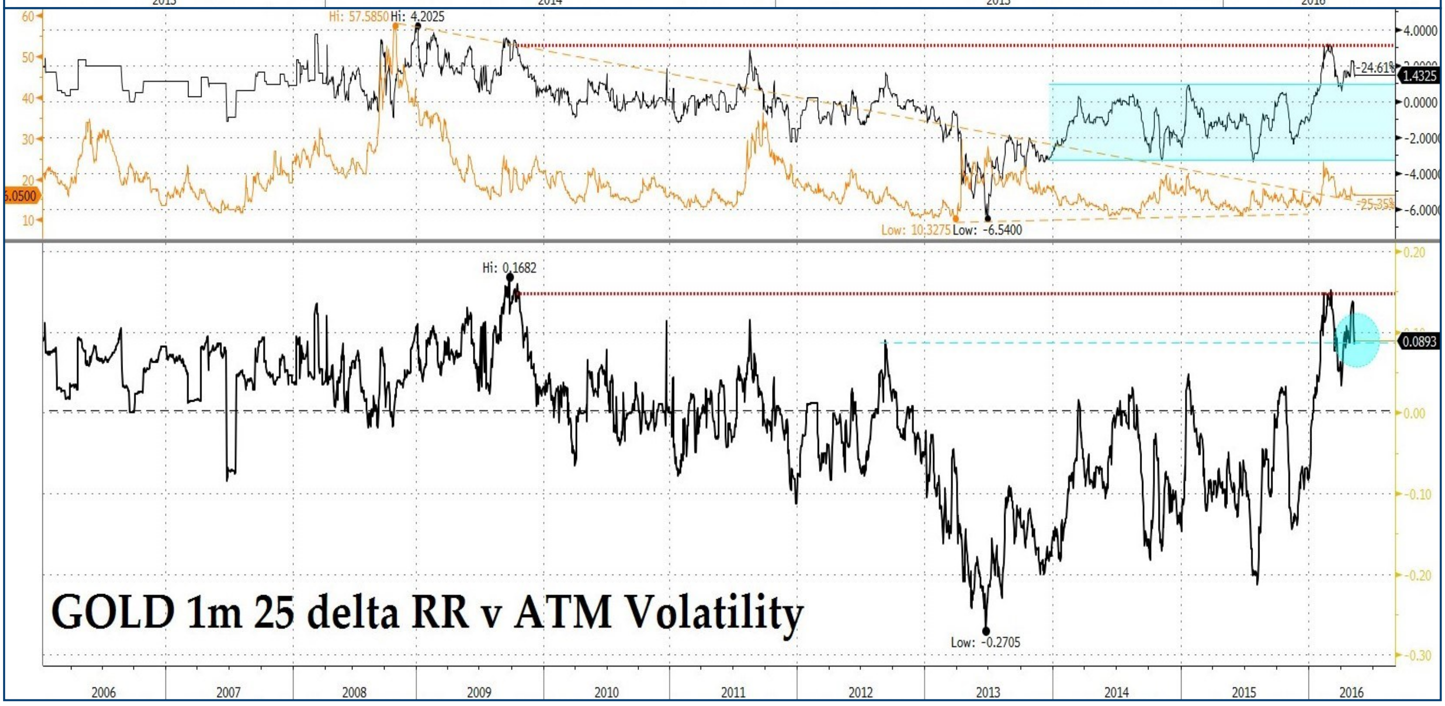

EUR
Watching for EUR failure against upper bounds of 16-month range
Log


All courtesy Bloomberg
Despite the rising oil price, peso could not break the bear trend
MXNUSD


AUD v Cu & Sn
Ozzie needs another push from CMDs to offset RBA
AUD BGN Curncy - Last Price (R1) 0.7354
LMCADS03 Comdty (USD) + LMSNDS03 Comdty (USD) on 5/10/16 (R2) 27300.00
RSI (14) (AUD BGN) 36.5009


Mid Price
CEI1GNCS Index 66828
CEI1GNCL Index 0.338M
CEI1GNCN Index 0.272M
Gold COT Specs
Mid Price
CEI1GCON Index (R1) 0.295M +54793.000
CEI1GOIN Index (R2) 0.566M +67890.000
Net & O/I
CEI1GCON Index / CEI1GOIN Index 52.1235
Net % O/I
1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016


All courtesy Bloomberg
Gross longs 2/3 mine output; net longs ~1/2 with options bullishness high but capped in the congestive wash
GOLD
100.0%(1495.72)
38.2%(1218.06)
0.0%(1046.44)
Jun Sep Dec Mar Jun Sep Dec Mar Jun Sep Dec Mar
2013 2014 2015 2016


Hi: 57.5850
Hi: 4.2025
Low: 10.3275
Low: -6.5400
Hi: 0.1682
Low: -0.2705
GOLD 1m 25 delta RR v ATM Volatility
2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016

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