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Money, Macro & Markets Monitor
Insight & Support for the Managers of Wealth
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November 9th, 2018

Market Observations

In association with Phenix CAM

PCAM
PHENIX CONSULTING & ASSET MANAGEMENT

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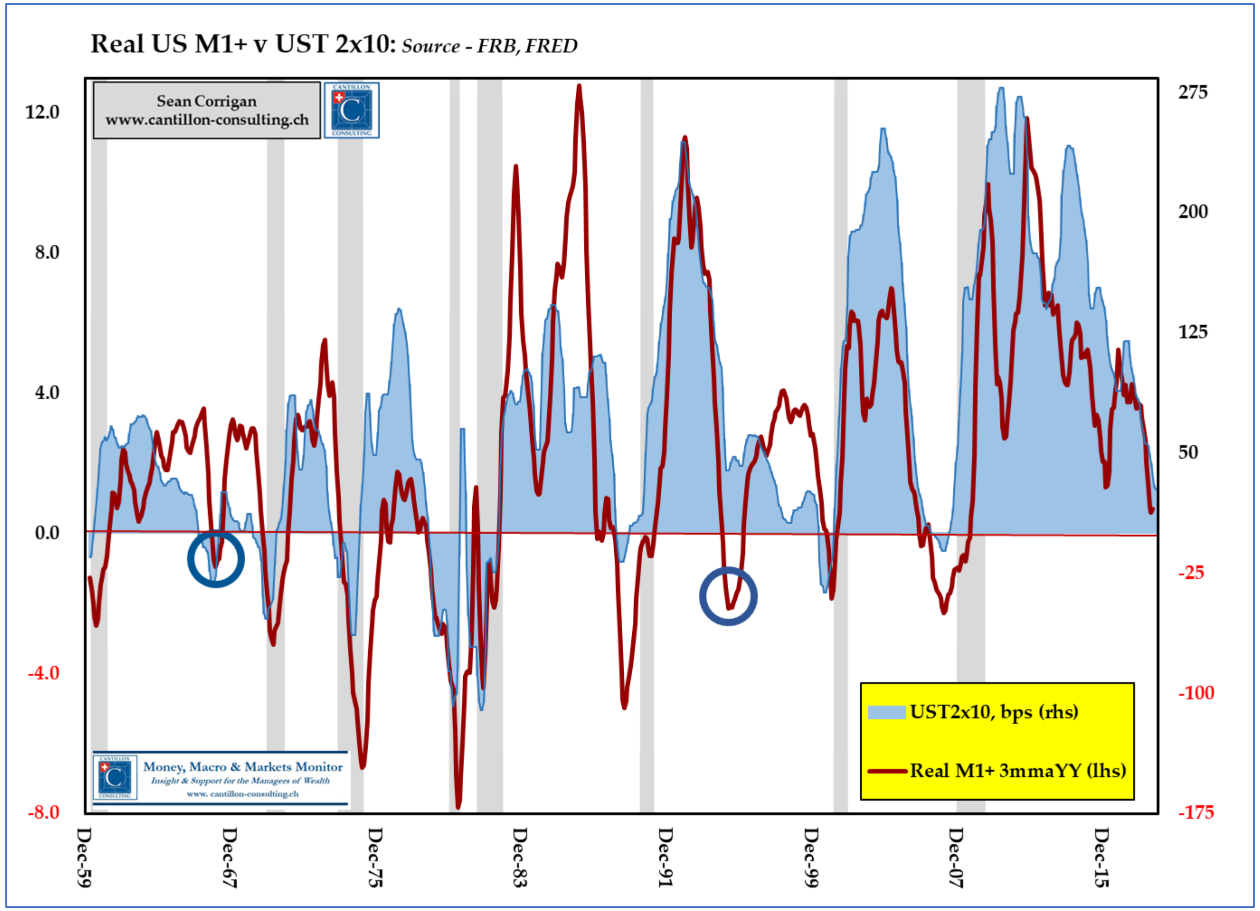
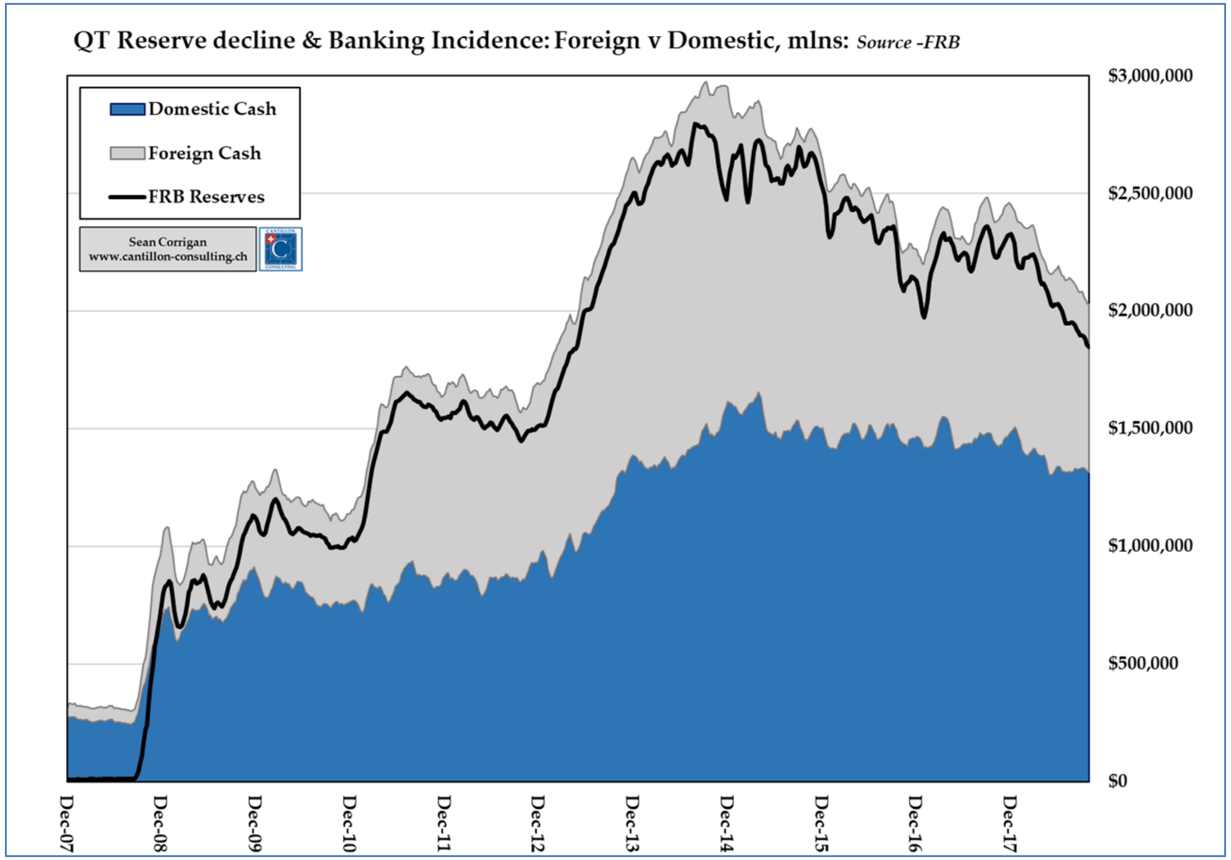
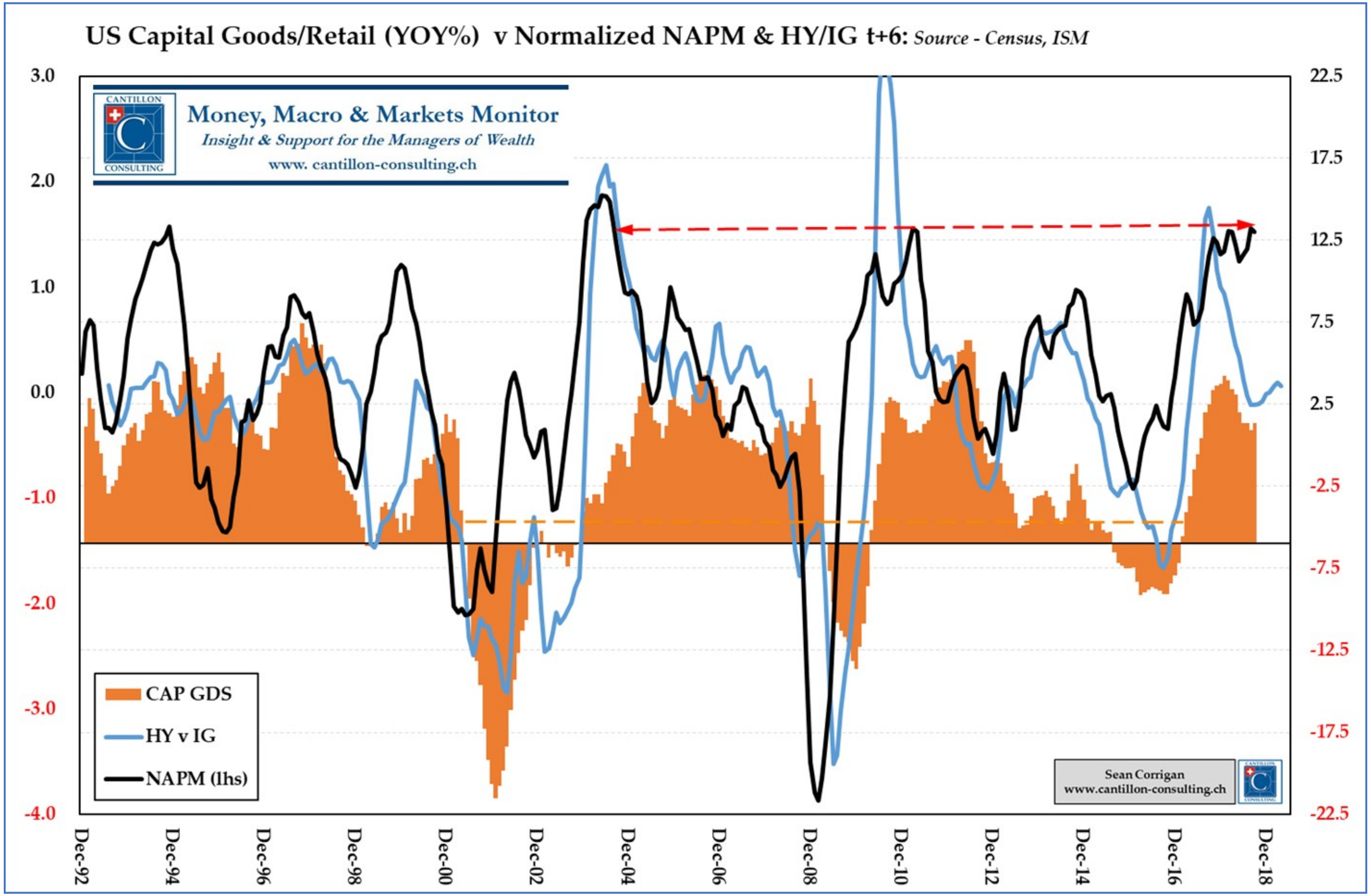


Tight money & flat curves together do tend to portend recessions and we currently appear to have little margin for error on either.
However, the unwind of the extraordinary ZIRP-QE drive into money-as-savings is complicating the analysis as some of that IOER-subsidised cash goes back to where it more naturally belongs, in other, more traditional vehicles.



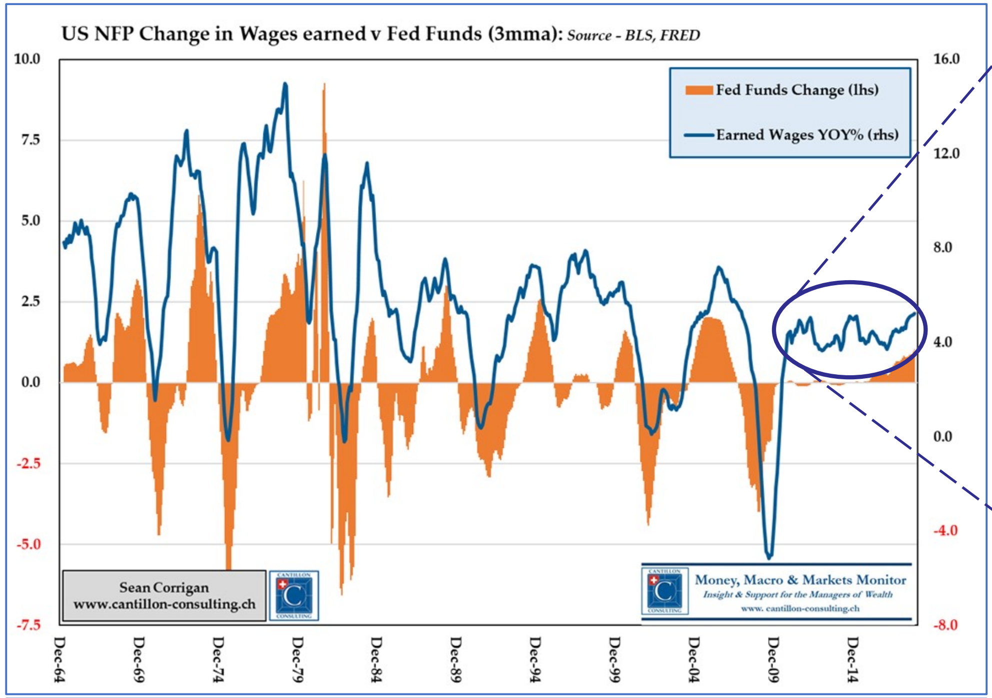
Note too, that over half of the easing (and ~2/3 of the 2nd & 3rd QE rounds) primarily benefitted FOREIGN banks & it is *they*, not domestics, who are surrendering their abnormally high reserve holdings in a >6 to 1 proportion. **So-called 'QT', therefore, is not as severe as it looks for US entities.**

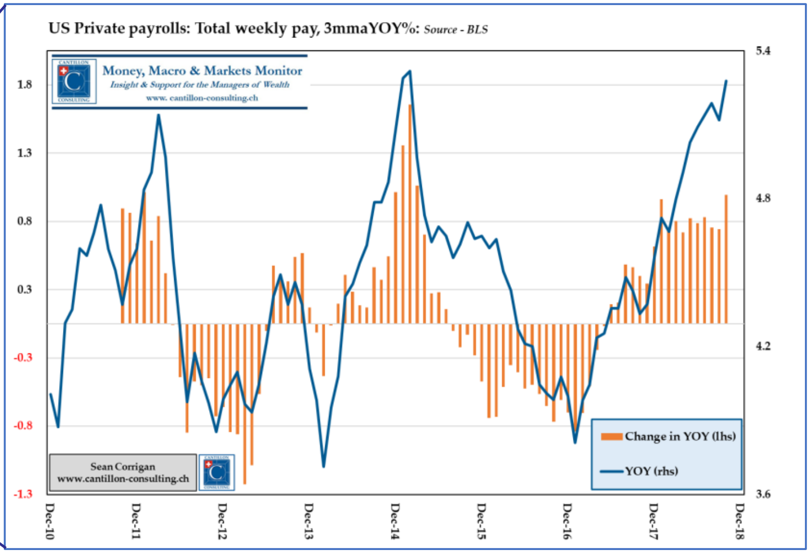
Disclaimers at end of publication



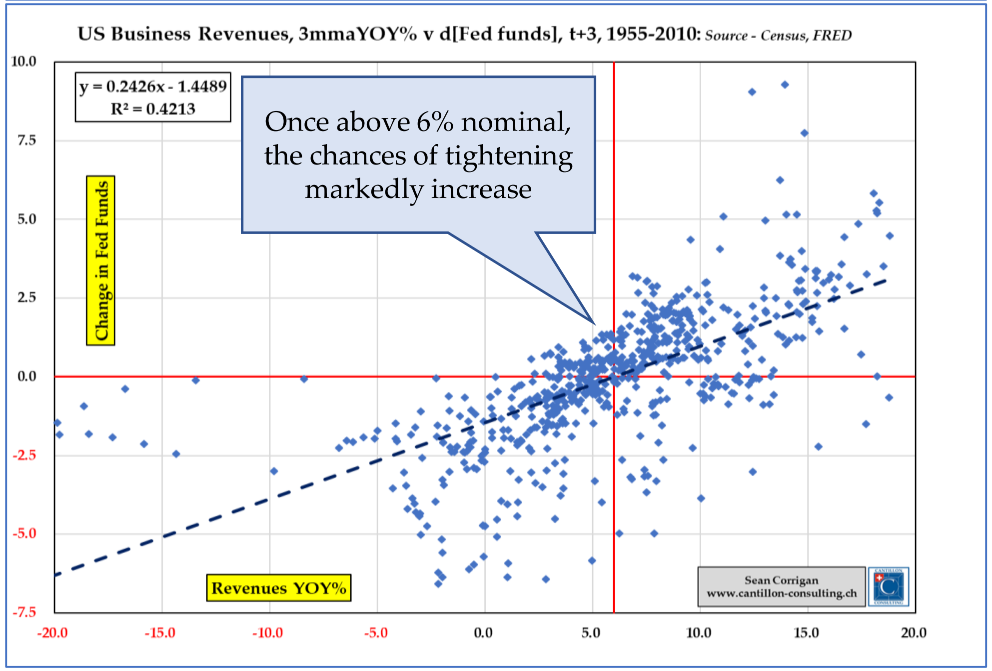
There is a solid relation between high ISM readings, quickening revenue growth, and what we Austrians call 'productive lengthening' – i.e., the preferential direction of business activity to 'higher order' sectors such as capital goods.

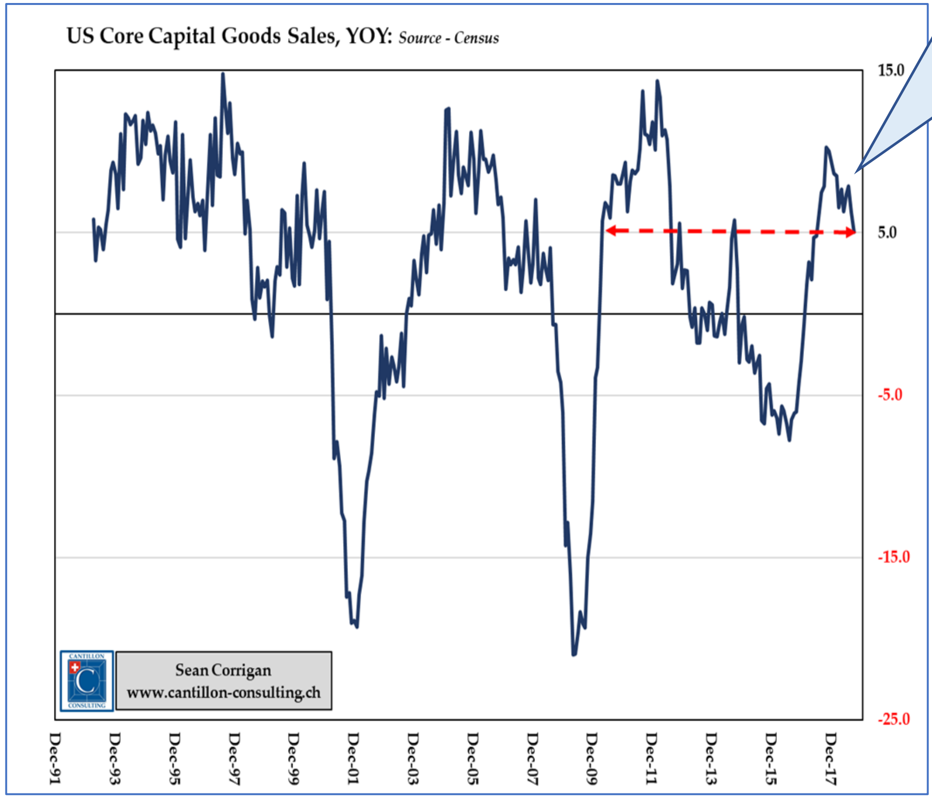
Such conditions also tend to accompany high yield outperformance over investment grade credit. This last bears watching in the pullback to see if it is heralding a reversal of what has been a very solid, but widely unappreciated, economic performance to date.





As the FOMC noted, the rip-roaring pace of capital goods sales has indeed been tempered somewhat over the summer, but the economy in general is still running hot enough to keep the Fed very much in the game.





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10-year Treasuries, therefore, look likely to test 3.35% resistance. Stocks for now have found support, but will probably range at best, not trend higher, from here.

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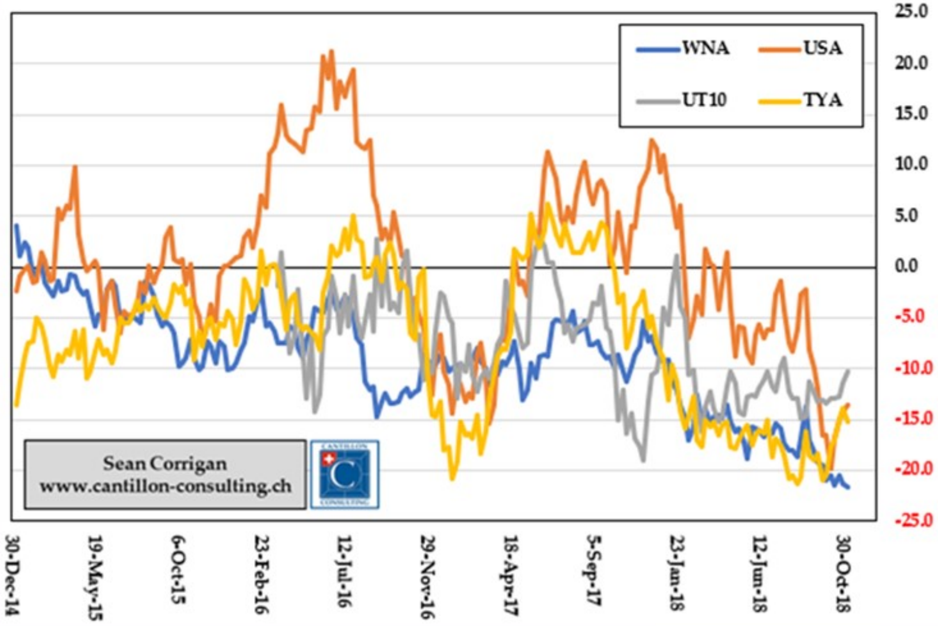
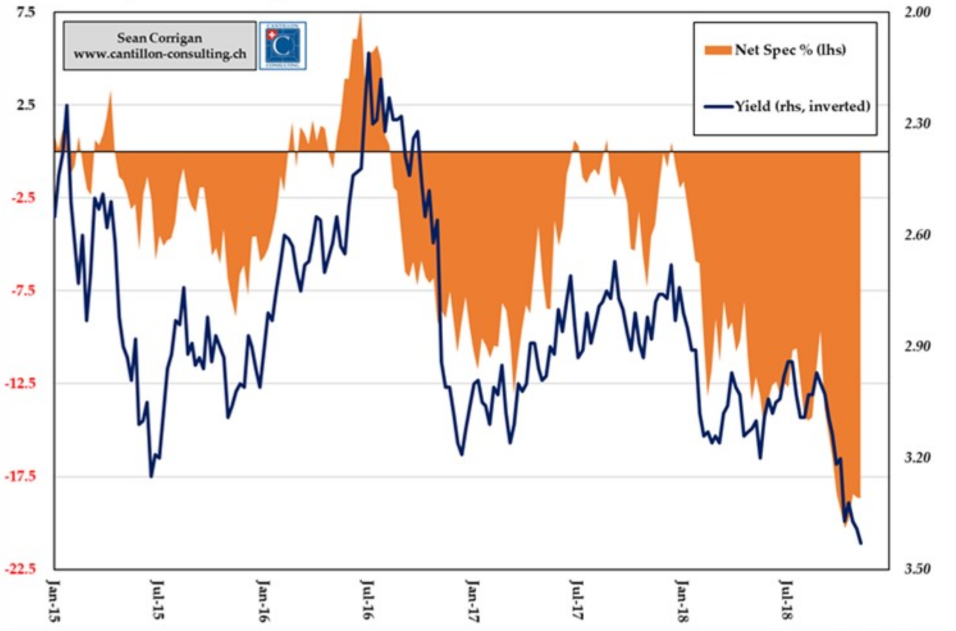
Net Spec as % of O/I



UST 30-yr Futures Net Spec % O/I v Yield: *Source - CFTC, FRED*



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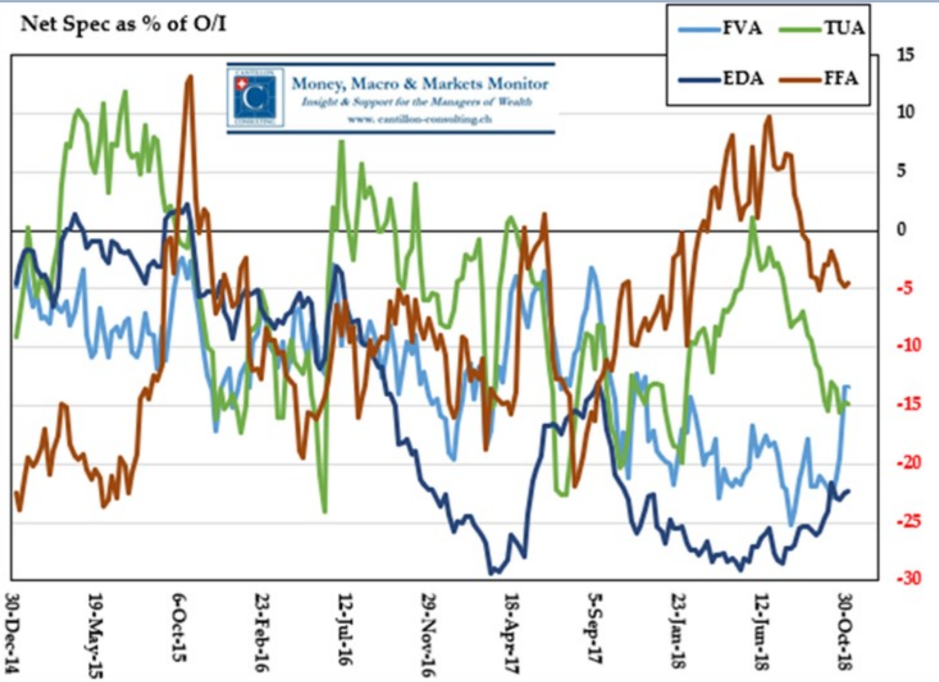

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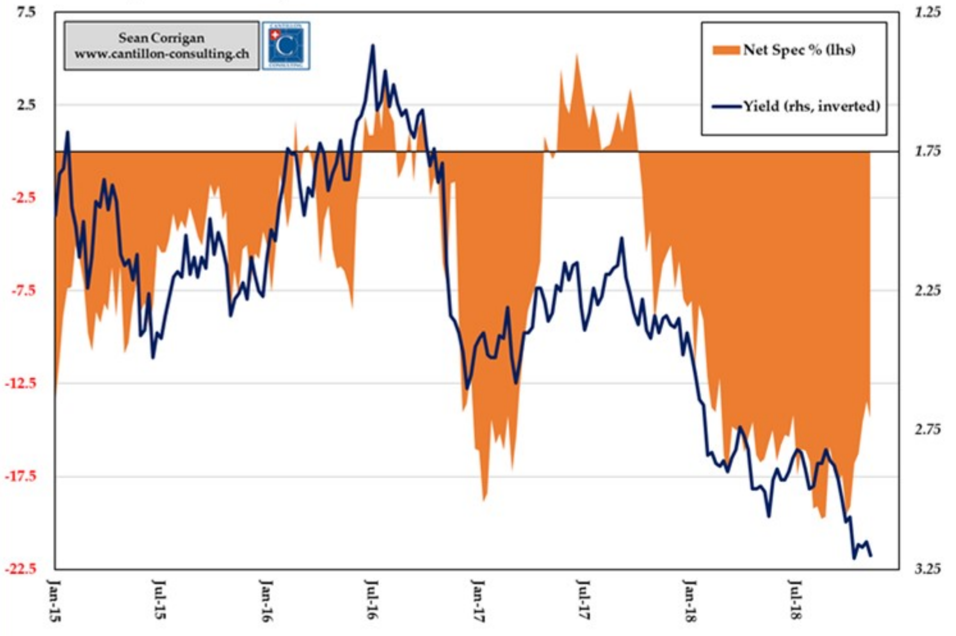

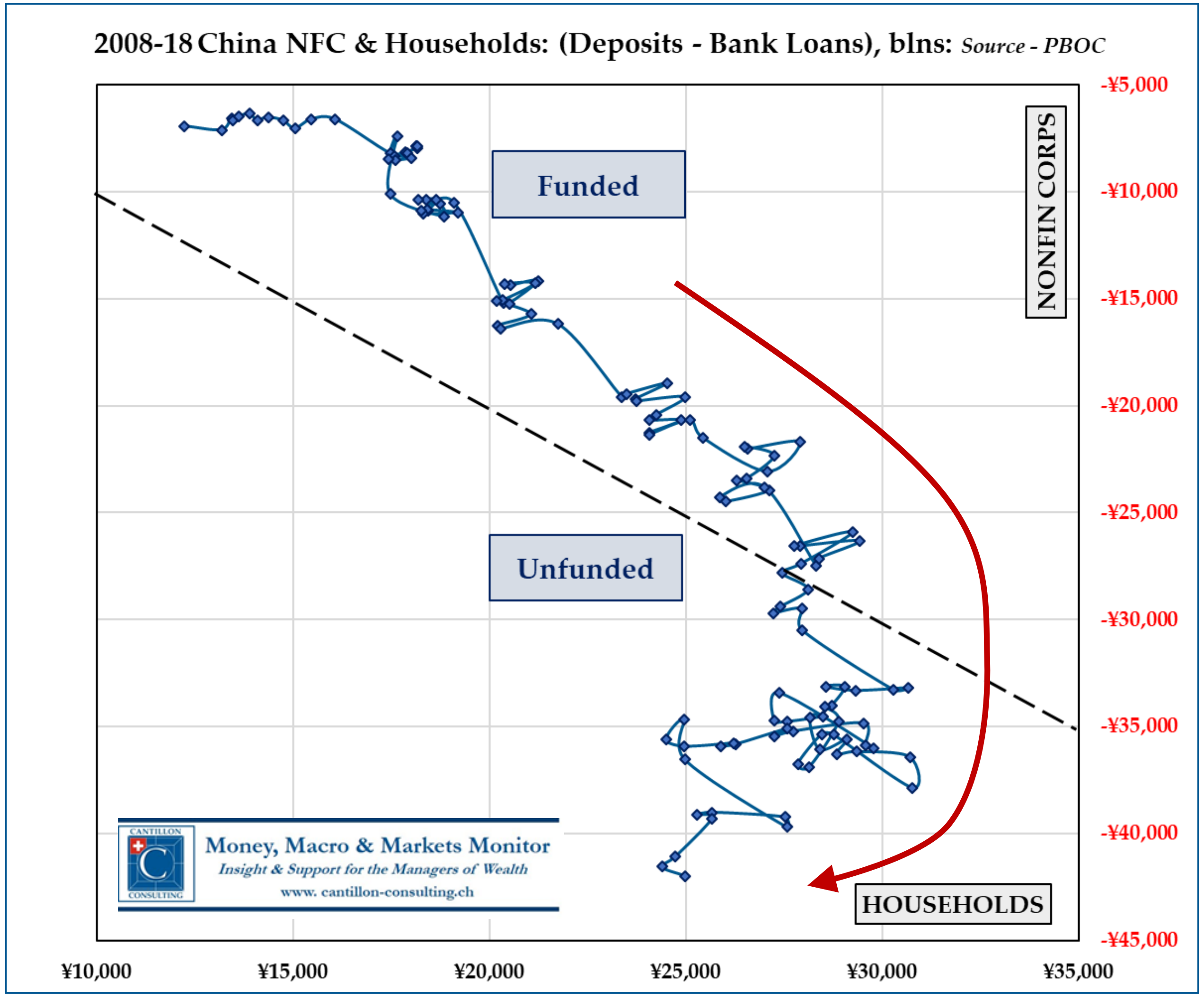

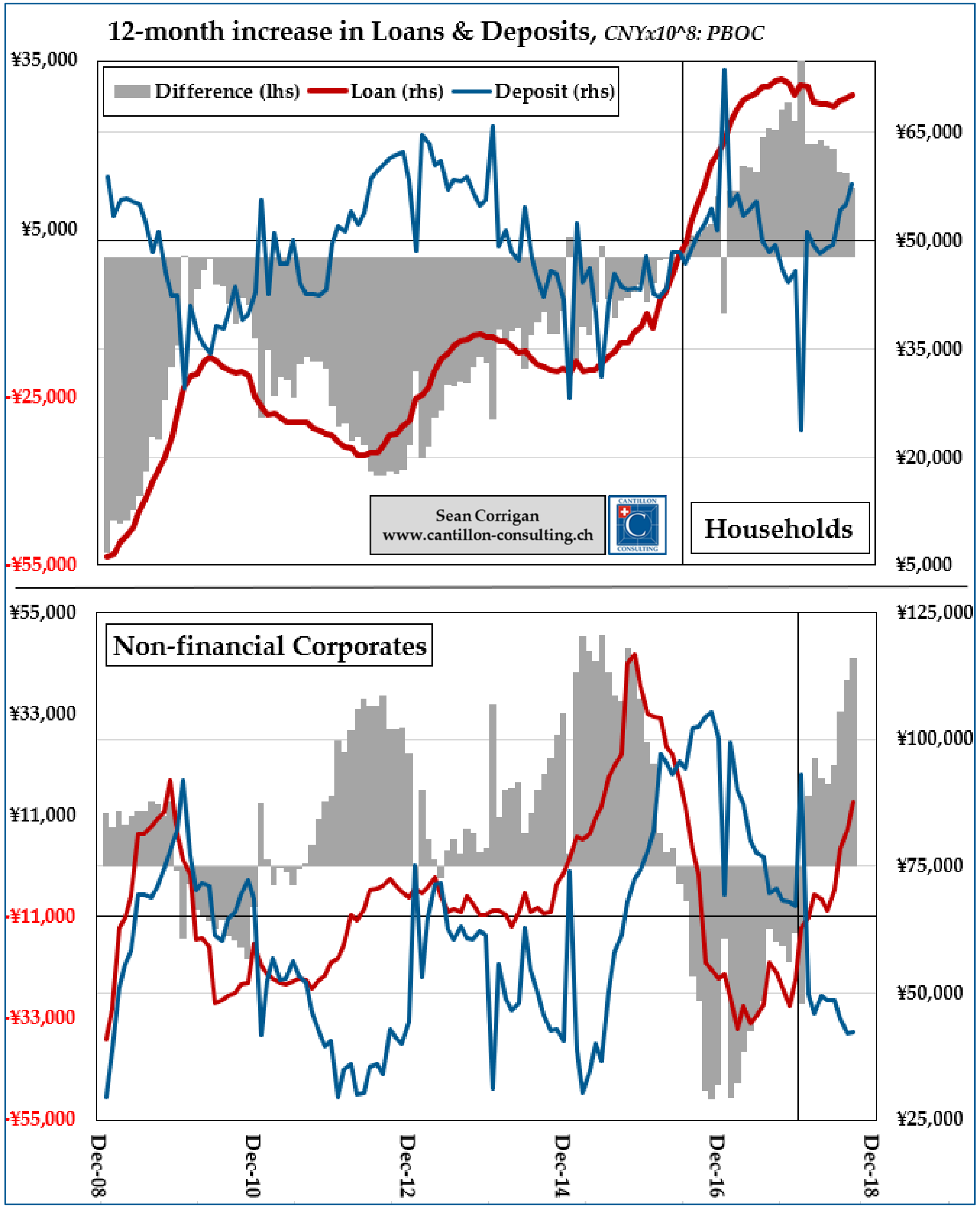

Bad news: China's private sector no longer finances itself via the banks. Households have borrowed more that they have saved since mid-2016 with loans up eightfold in a decade. NFCs also in deficit since early 2017 for a combined shortfall of CNY6.3 trillion over that stretch.

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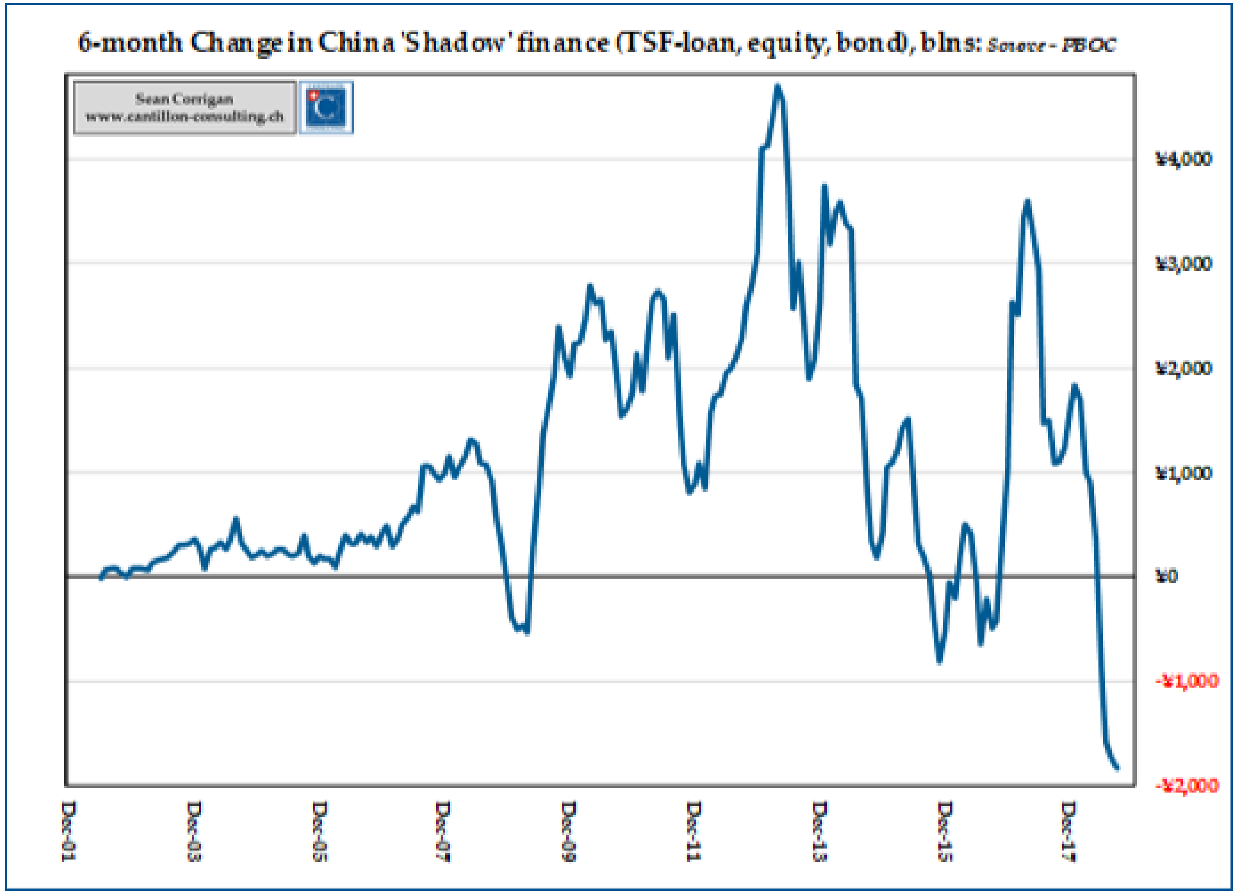
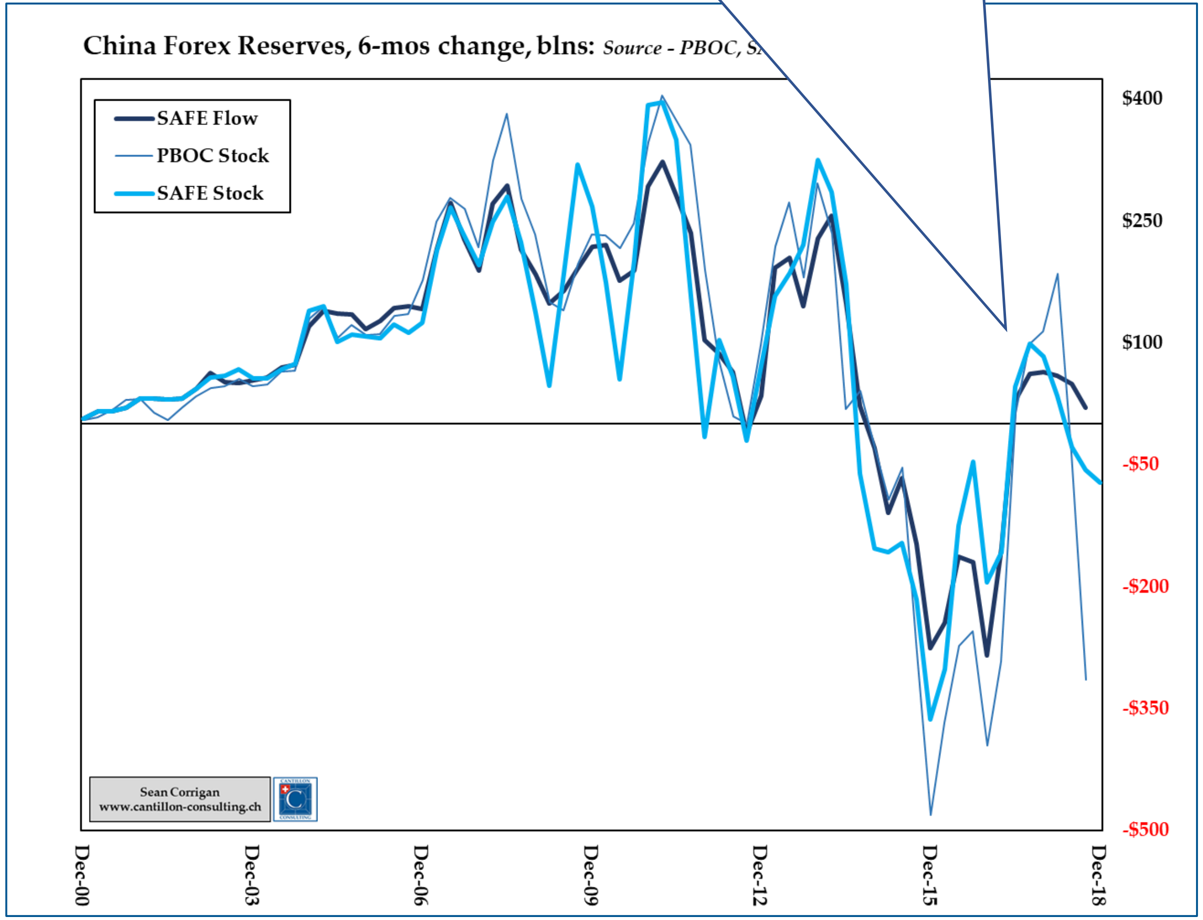


The question here is: to what degree does the more substantial drop in the sum reckoned via the PBoC balance sheet an accounting artefact and how far does it represent FX being used for, e.g., OBOR funding but still being included in the reserve total?

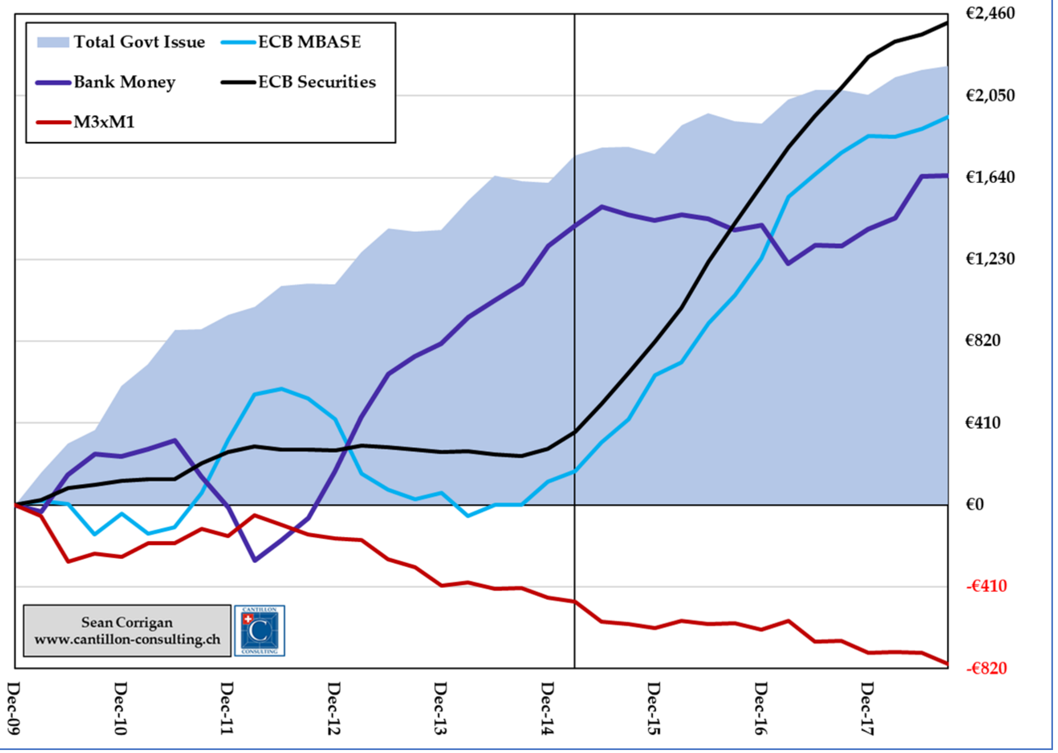


As a result, China is a mess. #DONTPANIC, as we tweet with reference to the '*Hitchhikers Guide to the Galaxy*' – as well as to the peerless Corporal Jones of *Dad's Army*!

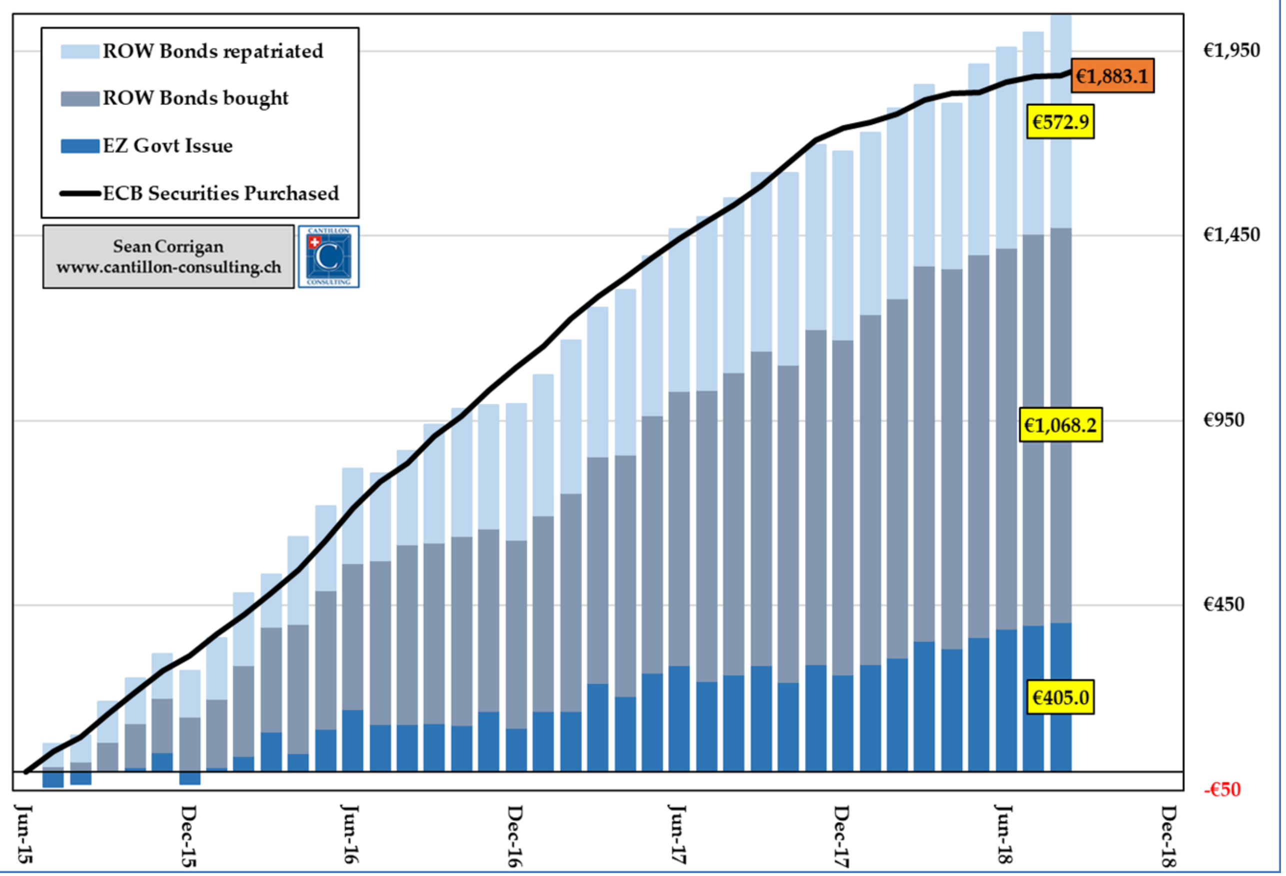
'Deleveraging with Chinese characteristics' after the Shadow Banking collapse now involves giving anyone with a pulse borrowing facilities in order to prop up its innumerable, overstretched enterprises.

All that effort to prop up stocks and – thus far – so little return. The scale of monetary support, plus the deep-seated worries about the future can only keep the pressure very much on the yuan.

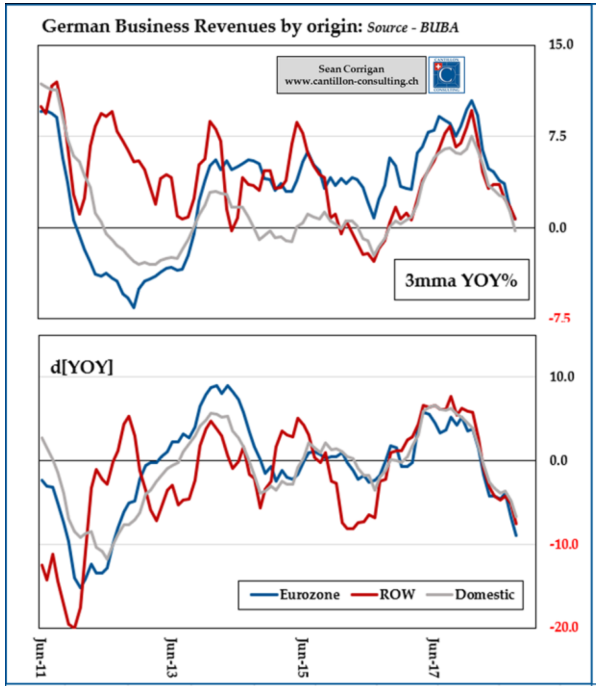
Eurozone Money Supply: 'Outside' (ECB) v 'Inside' (Banks), blns: *Source -ECB*

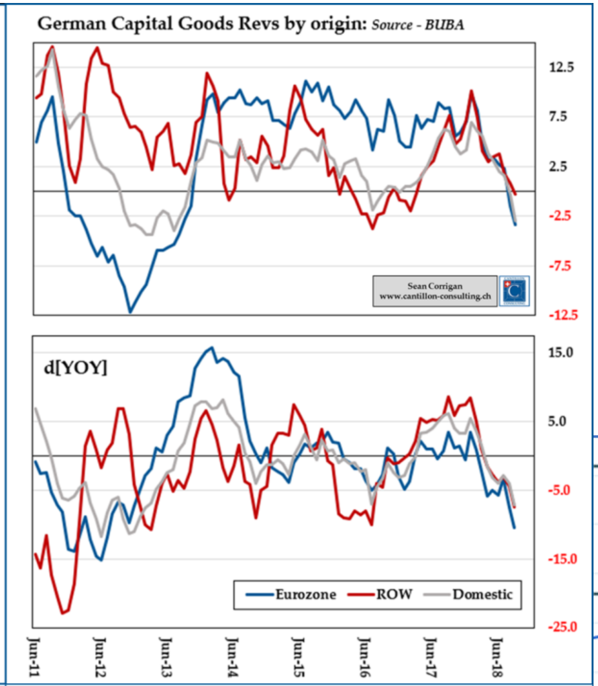


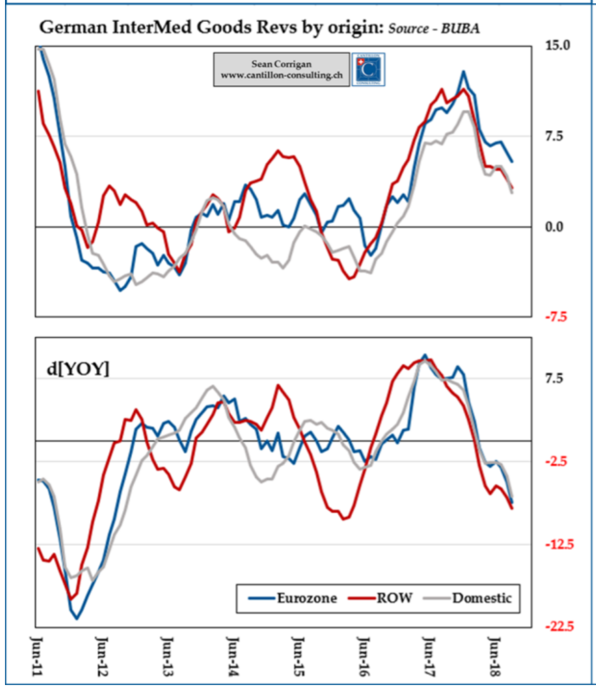
Cumulative ECB Security Purchases since June'15 v Outlets, blns: *Source - ECB*

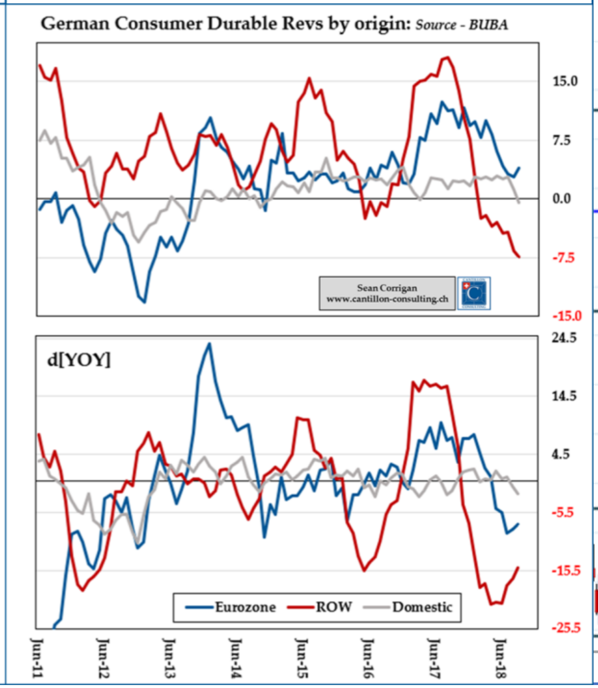


The sheer fatuity of ECB policy is illustrated here. €1.9 trillion in bond purchases has simply replaced money creation and destroyed savings incentives in the broader banking system. Those purchases have swamped government issuance at home, spurring much domestic buying of foreign bonds and foreign selling of domestic. *QE Über Alles*, we might say









The upshot of all this is that EZ money supply is showing its lowest real growth in 51/2 years while the higher aggregate (M3 ex-M1) is off 35% since its peak, having fallen to its lowest level since 2001.

If not the sole cause, this has surely been a contributing factor to the violent deceleration of German business revenue seen this year. **Draghi may not be done yet!**

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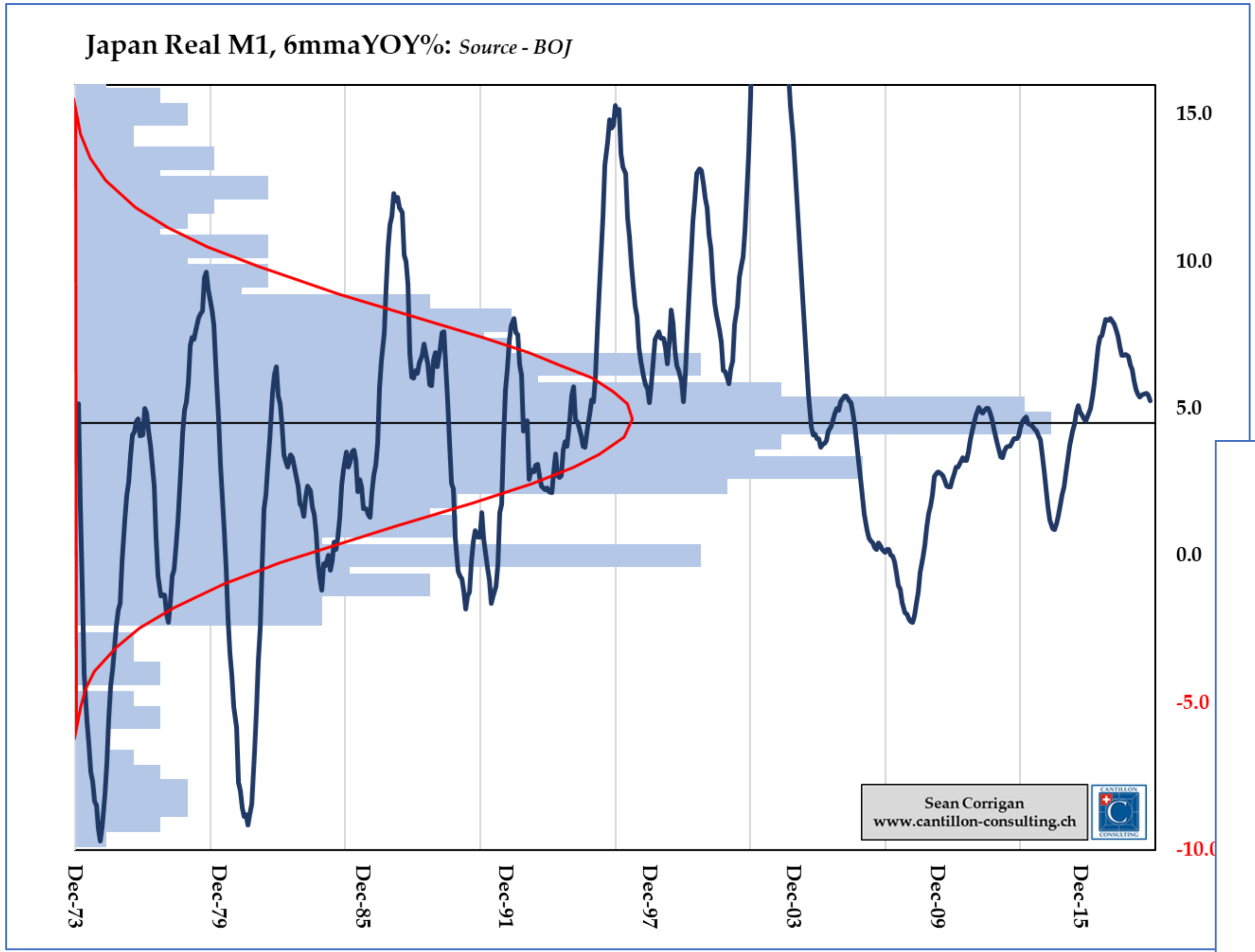

Up until the summer, things were looking rosy in Japan but, even before Donald Trump turns his baleful gaze fully in Tokyo's direction, the Chinese slowdown seems to have taken the bloom off the recovery. Manufacturing has suffered its first sales decline in 2 years, after the quickest deceleration in 3 ½.

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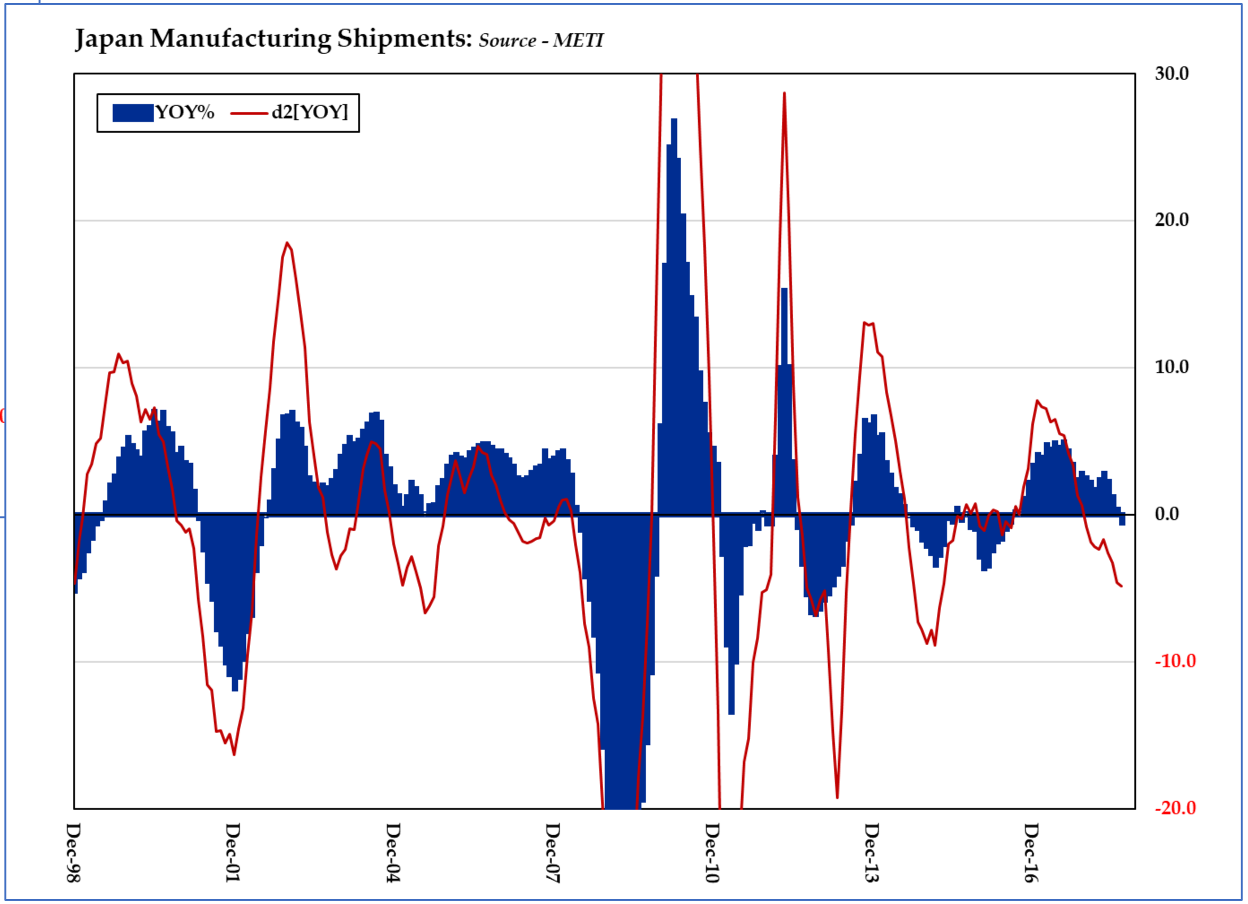
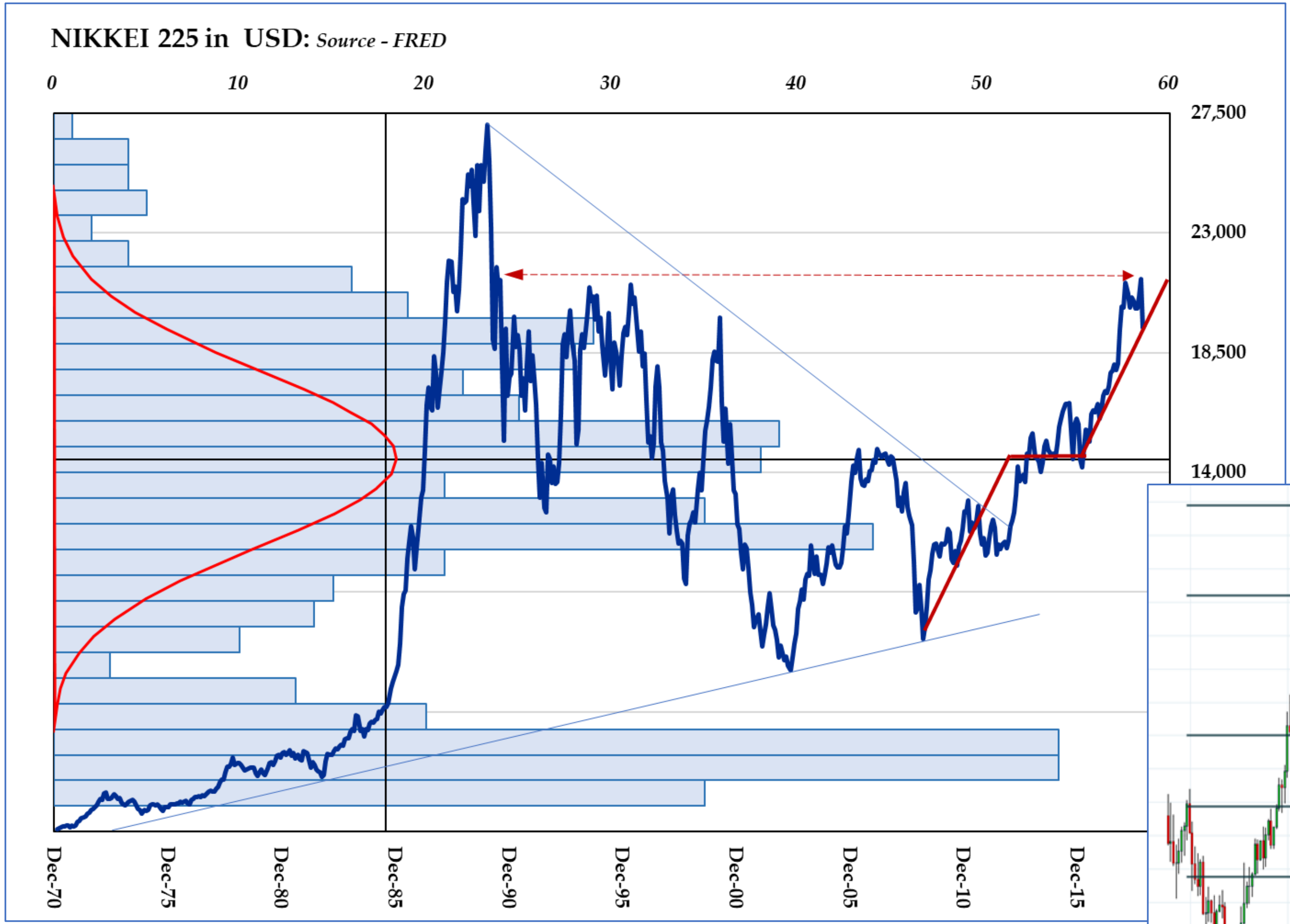


Money growth is still nicely above par, but has distinctly and progressively slowed of late.



After its sterling performance of the past several years, the Nikkei may well have reached its peak for now. Nor must the yen break Y115, or else…

Market Movers

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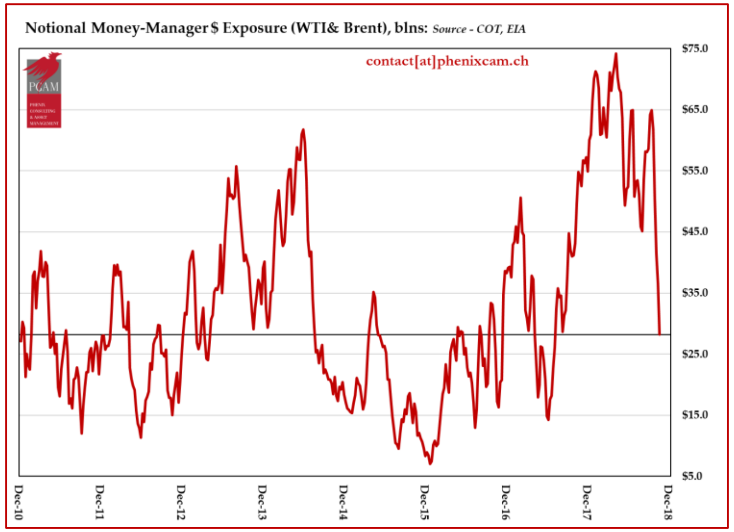
After its avalanche of stale longs subsides, crude may find a base at the 50% retracement mark. Base metals are nervy, but holding for now. Gold – for all the brouhaha, is still effectively rangebound.



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