Another Bale Added to the Camel's Back

10-2-15

For the first three days American markets had a major fall, a mixed day, and a major gain. All volumes were somewhat above the norm. All eyes are on commodity tectonics – is the slide gradually coming to a halt? Bloomberg's index of commodity futures has fallen 50% since 2011. Copper is the lowest since 2009. This is the curse of stock buybacks rather than productive endeavors, and ultimately the lack of demand due to the non recovery of wage worker income.

Lagarde said today that world GDP will be worse than last years' weak growth. She also repeated for the umpteenth time that even a minuscule 25 basis point interest increase by the Fed may generate world financial disaster – especially in the emerging markets. You see, those emerging markets took advantage of cheap loans to increase their debt from $4 trillion to $18 trillion over the past 10 years. That means there are a huge number of debt-ridden profitless corporations that may go under even with a tiny increase in the cost of borrowing. In other words, this horrendous problem (also known as the recovery) was caused by easy money and must be maintained with more easy money until she and other top banking moguls pass on and are then removed from taking responsibility for their disastrous policies.

Krugman had a column discussing the world infamous Fed interest rate policy. Why would anybody want to raise the rate, he asks. It's practically zero – normally a low rate for so long would have generated an inflationary threat. But there is no inflation (as they count it) – in fact, there has been probably more concern about deflation. Without inflation the concern switched to the easy credit generating an equity/securities bubble. He doesn't dispute that as a possibility (or acknowledge its reality), rather he switches the discussion to why bankers want an increase. The low rate means a low savings rate as folks with extra money look to other ways to get a better return. Banks need that money to make loans. They can lower their savings rate only so much – the gap between that rate and what they can charge for loans has greatly narrowed. That is not good for profits. But why does Krugman also want the rate to remain low? Because the bubble that may be in the process of bursting is the famous recovery for which he has proudly taken his share of credit. He has traveled the world calling for lots of credit and lots of debt as the only solution until a real one comes along.

The Institute of International Finance projects that Emerging Market nations will experience a net outflow of capital this year for the first time since 1988.

According to the ISM the September manufacturing index fell to 50.2 – barely above contraction – down from 51.1 last month. Lowest since May 2013. 11 of 18 categories were down.

Friday was the big “jobs numbers” day which turned out to be a big “joy in disaster” day for world markets. The Establishment Survey consensus was

205,000 for September. The first reading number was a much lower 142,000 jobs. Furthermore July and August jobs numbers were cut by a total of 59,000. The unemployment rate, determined by the House Hold Survey remained at 5.1% because 350,000 hopeful workers gave up looking. The Labor Force Participation rate fell to 62.4% – the lowest in 38 years. Of course, to investors this must mean a further extension of near zero prime interest rate, so after an initial shock downturn US markets made a neat recover – the largest about face from a drop of this significance in four years. The American economy was supposed to be the strongest one still standing, but behind the smoke and mirrors, it turned out to be as weak as the rest. Surely they must know that staying with something that doesn't work will eventually lead to an ever more damaging collapse. A controlled collapse with a clearly effective solution in place is by far the best option. As stated in previous articles the financial tail of the economy must be trimmed to a stub while a confiscatory extraction of trillions of loot from the one percent is used, not only for much needed infrastructure improvements, but distributed to low income workers which will be spent immediately because they have their own forestalled needs that have not been met – thus, both immediate and long term real economy stimulation.

Finally, the Atlanta Fed, the one with the most accurate quarterly GDP guesses, has lowered its third quarter prediction to where it began, 0.9%. This came late in September following the very poor ISM manufactory report. Presumably it will fall further with this lousy jobs report – perhaps to the 0.6% of the first quarter. Traveling in place makes for boring scenery, yet chucking the imaginary trip may be fatal.

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