Futures in Turmoil

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Records were set this week in present and future financial freakishness. In a shortened session before the day god rests his merry speculators, the markets experienced a hefty fall even with good cheer only hours away. This was not entirely a surprise because American equity investors have lost trillions of what was hopefully free money since September.

Free or hard earned, that hurts. What would happen when the markets opened on the 26th? Will the maestros be pulling some strings while everyone else is drowning their fears in eggnog? Will they listen to Trump who called on all patriotic Americans to buy on the dip? Or will the fear that the Dow, only fractionally above a Bear Market, will recapitulate its rise if that barrier is broken in decline?

Well something did stimulate buying. All indexes were up with the Dow above 1000 points in a single day -- the highest ever. But here's the thing; it had no effect in Asia or Europe with much of the latter down more than 2%. Usually they rather closely track what happens in the US. So who is right about the state of the world economy, new world optimists or old world pessimists?

The battle was fought on Thursday. The old world started strong but the youth won out in the end with Dow traversing a more than 800 point rise at close to finish above 200. That recovery was also a record. Friday the old world admitted defeat and their markets had decent gains, and so did American markets until the last hour when all of them collapsed like a stone to end mixed. The Dow gave away a 400 point gain to close down 78.

Financial reporting has taken to using terms like 'craziness' because of the extreme turbulence seen in futures trading right up to its opening. Volatility at one point reached 36 with anything above 20 deemed quite high. It's likely something was done that we'll learn about eventually. Recently Bloomberg had an opinion piece by someone advocating Fed purchases of equities to quiet markets. Japan shamelessly confesses to the practice while China prefers quiet discretion. Before ending its QE this month the ECB bought bought bonds state bonds and corporate securities but apparently not equities.

The Fed came into existence after the 1911 scare. In that year JP Morgan personally prevented a bank collapse and financial panic by providing credit with his own funds and using his persuasive force on his comrade bankers. The Fed is essentially a “JP Morgan” team in place operating under government sanction which brings public funds to the table in emergencies. The Fed couldn’t buy stock without making it public on their balance sheet, but the bankers could engineer such purchases, or better yet, they both could behind the scenes buy equity futures to stimulate a positive outlook on the real thing.

One thing is certain, the real economy is slowly sinking the world over. China's industrial profits declined 1.8% in November, the first decline since December 2015. Retail sales growth have slowed to the lowest level in 15 years, and industrial production is the slowest in 10 years. GDP growth will probably drop below the current 6.5% which is already the lowest in decades. That's the world's second largest economy which all agree is now the driver of the world's real economy because it is now the top manufacturing country and purchaser of commodities. Japan is weakening as are the EU states, and even Powell has wiped off the statistical fog that duped him into believing the US economy is robust.

Government cheerleaders now recognize their words carry no weight with the serious investor class. The inversion of government securities, eurodollar futures and some commodities is quantitative evidence that they expect the economy to sink to a level below the projected spot price at maturity. That moment of truth has moved up from the early 2020's to next year. Of course, government securities are also a safe haven to stash wealth in times of risk. The rapidity of the oil decline, 40% in two months, is unprecedented and is an avatar for all commodities. But they are something real. What's with Eurodollar futures, they are an abstraction. Currently they are below the Libor rate which is about 2.8%.That's the inter-bank lending rate. Eurodollar futures are anticipating that Libor will track the decline of the real economy.

World equities have pissed away $13 trillion worth of invisible paper this year. The mainstream media never fails to mention that $2.4 trillion was lost in China while as yet never mentioning this country. Apparently the loss was $7 trillion until the recent rally. One source says that China and the US make up half of the $13 trillion. Subtraction reveals the US loss to be $4.1 trillion.

Mutual funds lost $56.2 billion in redemptions in the week ending December 19. That's the most since Oct. 15, 2008. It's true that Exchange Traded Funds picked up $25.2 billion over the same period, but that's interesting in itself. Mutual funds set prices at the end of the trading day. They charge many fees, including for redemptions, and there are penalties if they are made too soon after the initial investment. Furthermore, a redemption is subject to capital gains. ETF are nothing like that. They are traded like any stock and a trade is not a redemption, plus the fees are much less. Investors want the convenience of a quick exit as the dream of easy prosperity is drummed off the stage.

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