

Rally Shorts Reality

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Japan industrial output rose a hefty 3.7% in January - the first rise in 3 months. At first this seemed like great news. Then it was reported that retail sales fell 0.1% (0.5% rise expected) -- and exports have been poor for months. On Monday the nation learned that household spending fell 3.1%. Thus, the 3.7% is heaped upon existing inventory.

The Group of 20 biggest capitalist nations sent their finance ministers to *communist* China to see if anyone had even the vaguest notion of how to prevent a vigorous renewal of the Great Slump. They didn't, and the spoil sport finance minister of Germany even threw a wet blanket on those expecting great happenings coming from the ECB gathering on March 10 by saying the debt binge is now producing diminishing returns. So instead they all said they will work hard to fix the problems and promised to exchange information in advance when moves are made. Then, without saying a word to anyone, China today cut the bank reserve ratio to 17% releasing \$300 billion for debt expansion and yuan weakening -- which will increase capital outflow, which used to be *the* big worry until the next big worry pushed it aside.

The thrilling 0.3% rise in the Eurozone CPI last month became a harrowing reversal in February with a downturn to minus 0.2%. The ECB's \$1.7 trillion investment continues to work its invisible magic.

According to the National Association of Realtors, contracts for existing homes fell 2.5% in January. This was a big surprise. Last twelve months' contracts are minus 0.9%. The same in December was plus 3.1%.

China announced that it will be laying off 1.3 million coal miners and 500,000 steel workers over the next two years. So much for the days of the *iron rice bowl* when at least the Stalinist form of communism guaranteed such minor things as food, health care, education and a home. China, just like old time capitalist nations, now has an unemployment rate (5%), it's also interesting that just like its fellow capitalist nations the service sector has been absorbing much of the past layoffs. Like in America, the rich in China need more bartenders, waiters and maybe even dog walkers. That service sector makes up about half of its GDP. But weakness is spreading everywhere. Manufacturing fell to 49 in February according to an official report (Markit/Caixin has it at 48) the worst since June 2009, and the service fell the most since December 2008 to 52.7. At the end of the week China announced that it will no longer keep the world on anxious pins and needles as they monitor that country's long march towards its annual growth goal. For 2016 the goal is to keep it within a ballpark range of 6.5% to 7%.

It seems that the severely humbled president and legislature of Argentina will capitulate to the internationally sanctioned extortion of some \$4.6 billion from the working class and poor of the nation. In 2001 a congeries of hedge fund vultures helped drive the nation into financial collapse. They then bought government

bonds at pennies per dollar, and then held out for the full face value even though the majority of bondholders agreed to a settlement with Argentina for substantially less. The criminal gang, led by Paul Singer of Elliot Management, then succeeded in having their offenses sanctioned by US Judge Griesa who issued a decree that forced banks not to permit payment to those willing to accept the deal with the Argentinean government. For 15 years Argentina has had to pay twice as much interest on loans than its neighbors.

Big market rally on Tuesday. WSJ says it was based on *strong economic data* -- which was that the ISM's PMI for February factory output and orders *declined* less than expected to a still contraction figure of 49.5. This led to speculation that a bottom may have been reached since the almost continuous decline from December 2014 (forgetting that they had an actual rise from April-June, surely a better *bottom* than another decline.) This despite PMI manufacturing declines for the month in 70% of the world reports, and conditions worldwide the weakest since 2011. If that isn't enough evidence to convince, note the even more dramatic rise in Japanese industrial output -- a country where stagnation is endemic. Markit is usually regarded as being more independent and objective than the ISM. It issued it's report for February -- still in positive territory but showing a substantial fall from 52.5 to 51.3. Rather than seeing a bottom, Markit saw something else - "The February data add to signs of distress in the US manufacturing economy." Add that to the first decline in the service sector in 27 months and one must soon realize that this bottom will require a few whacks before it will be sound and found.

Chesapeake Energy's Aubrey McClendon, the day after being charged with price fixing oil and energy leases, "drove (his car) straight into the wall." Family should expect a problem cashing in on the life insurance.

Moody's, while retaining its rating, changed China's financial state from stable to negative.

The trading week ended with a much bigger February jobs figure than expected -- 242,000 -- once again to be taken in amidst a sickening swarm of flies buzzing around the ointment. The unemployment rate remained 4.9% while earnings *fell* to 2.2% from 2.5% the previous month. Weekly hours also fell. The combination of the two meant a month's decline in earnings of 0.7% -- worst than during the official recessionary period in 2009 and the 2011 hiccup. 82% of the new jobs were in leisure and hospitality, retail, health and education -- the lower income sectors. Trucking, manufacturing and mining lost 5,000, 16,000 and 18,000 jobs respectively. Since January 2015 there have been 360,000 more waiter and bartender jobs compared with 12,000 in manufacturing. Since 2007 it has been + 1.4 million waiters and bartenders and - 1.4 million factory workers. The US followed Japan in reporting an increase in output while having major declines in import/exports. American exports in February were the lowest since June 2011 -- imports the lowest since April 2011. Yes -- the world has turned. Greek markets gained 32% the past three weeks. In Brazil the Bovespa went from 39,000 to 49,000 in even less time. The world has turned, alright, away from reality.

This week also had Super Tuesday. On the Democratic side Clinton won the South while Sanders the North. Subtracting the 457 un-elected super-delegate gift of party hacks for Clinton, she has 595 delegates to Sanders' 405, she hasn't much of a lead and those super-delegates may be forced to switch in the convention. A further problem for Clinton is that she is winning states that the Republicans are likely to win in the presidential election. Coming up soon are Michigan and Ohio, if Sanders should win those and other northern states, Clinton will be finished. That would deliver the presidency to the racist, xenophobic and idiotic Trump -- a buffoon on par with his political mentor -- Mussolini.

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