Slouching To Fed-Day

12-04-15

The IMF has approved the Chinese Yuan as a reserve currency. It joins the Dollar, British Pound, Euro and Yen.

Shopper Trak reported Black Friday store sales down 10% from last year, but Adobe reports online sales up 14%. Still, there's nothing new about making purchases online, that makes the report a negative, especially since the annual routine is to report booming sales early only to admit after the smoke has cleared that it was another soft holiday season for retail sales.

According to official government statistics, China manufacturing fell for the 4th consecutive month to a 3 year low of 49.6, but Ciaxin reported a rise to the highest level since June of this year. That along with an improvement in the service sector is the focal point for the markets. The best way to deal with crap data is to examine them in terms of world conditions -- are those conditions trending upward? Clearly, they are going nowhere. The two reports cancel each other out producing a sum of nothing. That's the Chinese economy.

Iron ore fell below $40 a ton. 40% lower this year. 80% below its 2011-12 peak. The lowest price in 20 years. Steel = real growth. As steel goes, so goes the real economy.

Some interesting stats on the Chinese economy by David Stockman. GDP in 2008 was $5 trillion -- private and public credit market debt $8T. Now the GDP it $10T while the debt totals $30T. That means it took $4.50 of debt to make a dollar. Demonstrates the pitfalls of seeking to get an economy on its feet mainly by a flood of liquidity. It simply feeds on itself while it starves the real economy.

Tuesday's ISM for manufacturing in November was 48.6. The Econoday consensus came in at 50.5. Last month's ISM was 50.1. The November figure was the lowest since June 2009. Orders fell 4 points to 48.9. Backlog orders contracted for the 6th month to 43. Only 5 of 18 industries showed growth (Bloomberg says it was 10). How did the market take the terrible news? It loved it, with main indexes rising about 1%. A perfect picture of the discordance between the real and the unreal. Perhaps they think this will affect the Fed.

Here is the reason for having a for profit private healthcare and why Obamacare was enacted primarily as a stimulus capitalist profit making. Health spending increased 5.3% last year, the fastest rate in 7 years. Pharmaceutical spending up 12.7%. The healthcare industry now makes up 17.5% of American GDP. The GDP range for the rest of the developed world is 9-11 per cent. The average annual cost per American is $9,523. Yet there are still plenty of common folk who think that "socialised medicine" is a way to rob them of a precious right -- to be skinned alive by the system.

Since Q3 2007 to the present household wealth grew by $18 trillion -- that's a 24% gain, while labor hours have risen less than 0.5% and productivity grew 0.4% the last five years. More evidence that most wealth is being generated by the Federal paper factory than as a product of renewed life in the real economy.

Brazil is in crisis. It's GDP is shrinking at a 7% rate. It's most prominent banker has been jailed on corruption charges. And today the legislature announced it will impeach the President on corruption charges. Oh, and another thing, the legislator that began the impeachment process is also likely to be charged with corruption.

Big worldwide market downturn on Thursday, most likely because Draghi of the ECB under achieved on his promised stimulus enhancement. The overnight deposit rate is to be adjusted from negative - 0.2 to - 0.3. Most expected more negativity. And the QE security purchases of 60 billion Euros a month was merely extended 6 months (to March 2017) while many expected a 20 billion Euro monthly increase. The main interest rate remains 0.05%.

Yellen added to the concern by making it appear more likely than ever that the Fed will raise interest rates in 2 weeks. One analyst noted that even a slight raise of 0.25% might not be that easy to do in real terms. It might require draining up to $800 billion of liquidity.

The BLS Establishment Survey came in at 211,000 -- almost exactly the number that ADP projected. Given that it was not a surprise, much of the huge market boost was due to the usual "buy on the dip." Draghi also did his bit by making amends for his non-robust Eurozone stimulus boost by saying that he's open for all sorts of adjustments for as long as it takes. As for where the new jobs came from -- 470,000 year over year gain in the health industry due to the hugely wasteful Obamacare start up and astounding inefficiency. 374,000 in food and beverage -- commonly known as waiters and bartenders. 300,000 professional services -- IT, accountants, etc. 284,000 retail. Construction 259,000. In the major industries -- ZERO -- that's manufacturing, transportation, warehousing. Information -- ZERO - motion picture, sound recording. Mining - down 124,000. The most interesting stat was the involuntary part time job figure. It had sizable falls the previous two months but in November it counted 319,000 new jobs. That pretty much establishes the gushing optimism as being in lock-step with seasonal temp jobs.

There has been so much signaling of a tiny Fed rate increase this month that there would be more negativity in not doing it than doing it. In the past both the IMF and World Bank begged the Fed not to do it, saying that it could be disastrous, especially for emerging markets. Well, emerging markets are worse than ever, but the IMF and World Bank have so far remained silent. There's a good reason why both are headquartered in the same town as the Fed. When it becomes absolutely necessary to shut them up, they merely have to go down the street.