Stupid Communism Reborn as Stupid Capitalism

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An interesting recent history of China steel production from David Stockman's Contra Corner. It produced about 70 million tons annually in the 90's, production peaking in 2014 at 875 million tons. Much of that high point came as a result of the government promoting high steel-using projects around the country as a stimulant. That still didn't come near the 1.4 billion ton steel making capacity (about 70% of the world's capacity). For the first time in decades steel production fell last year by 2-3% and it expected to continue to do so with many plants being closed. China exported 110 million tons last year but that is expected to fall both because of the world slump but also because many nations are setting up trade barrier to protect domestic production. Shipbuilding had been the largest domestic consumer (China is the world's second biggest shipbuilder), but with the trade slump worsening (most Chinese built ships are bulk carriers) there is little demand for more ships. 140 Chinese shipyards were shut down last year. The question that is always passed over in these mainstream reports is -- How could any sort of planned economy (which is what Stalinist China is said to be) permit such vast over capacity when *planned* means having some folks with brains calculating future needs? Shuttered, never- again-used-plants, will become part of China's very own rust belt and a testament to its waste of resources, but it's undeniable that China has transitioned -- from a stupid form of communism to what might be said to be a stupid form of capitalism, if an intelligent form can even be imagined.

Italy has set up a private bank fund with 4 billion Euro assets to bail out weak banks. The Italian banking system has 360 billion Euros of bad debts -- one third the total of the entire Eurozone. The only thing that 4 billion E. will ever be useful for is getting Italian bank shares to rise today. And only for one day. On Tuesday the Italian market declined more than 200 points while all other main markets in Europe gained.

From the IMF report on the spot analysis of the world economy -- It's growth has been "too slow for too long." This year's growth was lowered to 3.2% (last year's prediction for 2016 was 3.6%). World markets thought the news was splendid and rose accordingly. The excuse: they already knew the cut would be made. Maybe -- but the two *too's* were fresh news -- They evoke a sense of the indefinite, maybe even permanent -- Perhaps slowness preparing for stoppage and a fall. The other supposedly positive news was the firm rise above $40 for oil. Oil already made it there simply because of the weakening US dollar, but today there were 'rumors' that some oil producing nations will be once again begin talking about a price ceiling. The same rumor was bruited about recently and nothing came of it. Saudi Arabia, Iran and Iraq pumped more oil in March than ever. Now is the perfect time to sustain the best possible price.

Another positive report came from China which has been reported as a possible turnaround in the China economy. Exports rose 18.7% in March. A person with a bit of common sense would tie that to the 21% decline in February (during which there was a week long new year holiday), and recognize its insignificance, especially since imports fell for the 17th month in a row. But touts and shills are not from the common people. Fact: March exports were the lowest in 5 years. Exports for the first quarter were lowest since late 2008. The Chinese economy, with all of its government induced stimulants, is still sinking. Thursday Bloomberg reported that the economy now seems to be stabilizing after a report of 6.7% GDP growth. Since the government reported 7% growth for 2015, that confirms that the slide is right on course. Sliding is not synonymous with stability.

Banks had a good day in the US. The first earnings report will come out tomorrow. Thomson Reuters 1/B/R/S data projects the top 6 banks reporting a 20% decline on average. Where's the good news? Maybe they know it will come in at 19% -- thus a positive response in advance, and another when it's actually out. It happened. JP Morgan Chase reported only a 6.7% decline in first quarter profits year over year. The markets boomed because it was much less than the estimates concocted by the shills and touts. Revenue was down 3%, and JPM almost doubled its loan losses to $1.8 billion from the $959 million first quarter last year. So earnings per share will continue to fall (unless there are buybacks or layoffs), but bogus estimates are preferred to accurate valuations of share prices when central banks have your back.

Retail sales, 40% of the American economy (largest part of consumer spending which totals 70%), for March were down 0.3%. No problem.

The Fed and the FDIC rejected the operational emergency plans in a financial crisis by the five biggest banks. The idea is to work out plans to throttle down business to a halt without the need for government bailouts. Called a 'living will' it amounts to something like an internal bailout which, of course, is impossible. It's crazy to expect a dead person to bury himself, but at least banks don't rot and smell when they die, in fact their demise is much like a refreshing spring breeze.

Bank of America earnings were down 18% in first quarter (just perfectly below consensus average), Revenue down 6.6%, and bad loans increased by 30%. Wells Fargo earning were down (percentage not reported), bad loans increased to $1.1 billion (slightly less than double last years).

Citigroup earnings were down 27% YOY. Fixed income revenue down 11.5%, investment revenue down 27.7%, and a big increase in cash being set aside for more bad loans. But the shills and touts were happy with the report -- How so? Earnings per share increased to $1.10 from an estimated $1.03. See about for the ways that figure can be toyed with.

US industrial production fell 2% in March -- the largest decline since February 2015 -- and minus 0.6% for the quarter. This is apparently due to weakness in the one strong manufacturing component, auto sales. There is evidence of worse days to come in that, while production is falling, inventory is rising. January and February levels are the highest since those two months in 2009, that is, the depth of the recession, and higher than at least as far back as 1992. It may be that they've used up their sub-prime customers and may have to get down to the FICO 500's level.

The winters of 2014 and 2015 were quite harsh, but our last one was the warmest in 121 years. Nasty winters have been used as an excuse for weak GDP growth. It's true that it can slow things down, but on average, growth in the first quarter since 1967 came in at 2.7%, almost the same as the 2.8% yearly figure. The fourth quarter was a weak 1.4% -- if the first quarter isn't significantly higher -- that may mark the beginning of a trend.

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