Life Forms Watch the Volcano Decay

01-22-16

Monday was a holiday so only most of the markets in the rest of the world had a major down day. On Tuesday China announced that 2015 was the worst year for GDP growth in 25 years – 6.9% from last year's 7.3%. Bloomberg reported that profits for China's industrial corporations were down 8.8% in 2015. The news boosted European markets because such bad news usually brings forth more useless stimulus promises. But nothing was heard from China during the US market period causing them to end mixed. Oil prices fell to $28/barrel. Wednesday was a bad market day throughout the world. Markets in a number of countries have joined the Shanghai composite in bear territory. All the floors were penetrated in the US – below 16,000, 4500, 1880 and 1000 in the DJIA, Nasdaq, S&P 500 and Russell 2000 respectively. Thursday produced a middling positive day because of, guess who? Mario Draghi playing the fool once again by making silly promises, this time saying there were "no limits" to his efforts to preserve the credibility of the ECB, as if it had anything left to lose. But the Chinese vice premier also tip-toed into the breach in a Davos interview by saying the government will be "looking into" the doings of market speculators in order to stabilize its markets. It's important to note that 80% of Chinese market investors are the mom and pop sort (as opposed to only 15% in the US). It is vital for the Chinese ruling Capitalist (Stalinist) class to create a modestly enriched middle class as a defensive bulwark against the wrath of the super exploited working class. By the close on Thursday world markets had lost almost $17 trillion equity value in the past 6 months. According to Bloomberg, markets in 19 nations were between correction and bear (10-20 percent down). Among the countries already with bear markets -- Canada, UK, China, Russia, Japan, Brazil, Italy, France, Spain, Poland, Sweden, Norway. Friday the Japanese government threw it's stimulus promise into the pot. The Nikkei rose almost 6% followed by the rest of the world having decent increases. US markets recovered their last floors -- DJIA 1600, SP500 - 1880, Nasdaq 4500, Russell 2000 - 1000. To obscure the fact that the rises were due to a stimulus generated "buy-on-the-dip" cue, part of it was ascribed to oil's rise to $32/barrel. Of course, that rise was also due to stimulus talk -- the real economy is dying, not reviving.

China news reports reveal a $16 billion cash influx in preparation for the February 8 Chinese New Year. During the week following that date the markets will be closed and millions will celebrate the New Year. The heavy capital outflow caused a shortage in readily available party-time cash. A Capitalist/"Communist" version of bread and circuses. Will be interesting to learn if the closed markets will ease foreign concern or increase it because no financial news from the second biggest economy may mean and even bigger downer when they reopen for business.

In that other part of China, the Hong Kong Hang Seng fell below net value of assets for the first time since 1998.

US jobless claims jumped to a 6 month high (293,000) in the week ending January 16. A move back above the 300,000 number in weekly claims will be a signal that more sectors of the economy are joining the slide.

One of the supposedly positive reports earlier in the week was Netflix's announcement of 5.6 million new subscribers in the 4th quarter. The company has now expanded into 130 countries and the number was a record high for a quarter. Because of the expansion the number loses significance (it's like selling more of a product by opening more stores -- sales increase due to an increase in availability rather inherent demand for the product). What deserved the focus of attention was that the company failed to meet its own 6.1 million projection, and that most of loss was in American growth (of the 5.6 million (all above 1.6 million was abroad). Considering that the company stands or falls based on how it does in its home territory, and that loads of companies are getting into the relatively cheap to create streaming business, this was not good news. When AOL was the giant dial-up internet company sending out masses of free monthly trial disks, that company inflated its subscribers by counting the freebies. Netflix offered two free weeks when it started business here, and are probably doing something similar in their expansion abroad. Are they counting foreign freebies in their subscriber report? An important missing detail.

Oxfam reported, based on data compiled by Credit Suisse Group AG, that the world's richest 1% is now wealthier than rest of humanity. 62 of the richest individuals have wealth equaling the bottom half of the people of the world, that's 3.5 billion. For the safety of the 62, their names were not revealed.

Streeteasy reported that price of luxury homes in NYC fell 2.2% in October year over year, and have been falling monthly since February. Another possible sign that the Chinese capital outflow is receding from Manhattan.

The S&P 500 has lost $1.6 trillion in equity value since the beginning of the year. Goldman Sachs presented 4 reasons why there is still nothing to worry about. (1) Most of the stock downturn revolves around energy companies. (2) As for the decline in corporate profits -- deflation undermines the real value and the real earnings of goods and services sold. (3) Profits are also diminished by the minuscule increase in wages (but that's a good sign of the real condition of the economy and should have a positive effect). (4) Insofar as American markets react to foreign downturn, the latter have more to worry about because a third of the GDP of many of those countries comes from exports. It's only 12.5% for the US. Such narrow nitpicking rationality has no meaning when challenged by the irrationality of the unrealeconomy.

In an interview with the Telegraph (UK) William White, the former chief economist of the BIS and currently chairman of the OECD Review Committee, was quoted as saying, "The situation is worse than it was in 2007. Our macroeconomic ammunition to fight downturns is essentially used up..." Many corporations will be unable to pay their debts as the slide intensifies, which means they, and their creditors, will be threatened with liquidation unless viable ways to "purge the obligatory files" are found. Popular displeasure with recent bailouts will make that very difficult in this country. Normally, whichever party is in power will bite the bullet and sacrifice themselves if necessary to save the bacon of their ruling classes. Just imagine if a perfect storm of mass rejection of mainstream politics comes into being and either, populist, racist, anti-Wall Street Republican, Trump, or on the Democrat side, the party of Wall Street, the party that virtually set up a private office in the White House for Goldman Sach, the party whose desired candidate received $650,000 in speaking fees from G-S, selects Independent, "socialist", anti Wall Street, Bernie Sanders as its candidate. Or almost as bad, if one or both, after being screwed out of a nomination, runs as a third party candidate. February 1 we have the Iowa caucus. On the 9th the NH primary, and the 20th the SC primary. If Trump or Sanders do well in any of those votes, that will undermine the "always available" comfort of state capitalist backing, and may signal the end of any chance for the reversal, or even the stoppage, of the current slide.

http://www.unrealeconomy.org