Zika Strikes Speculators - Microencephaly Spreads

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Over the weekend China replaced the head of its Securities Regulating Commission (Xiao Gang with Liu Shiyu). Xiao was in charge at the time of the August plunge of the Shanghai Composite. He then instituted a trading break and a shutdown depending on percentage of downturn, but that caused the panic to boil over rather than cool down. Since the same brakes exist in American and other markets, the Chinese deviant behavior shows that their investors haven't as yet developed a speculators' backbone with the strength of their western counterparts. A significant underlying cause is that a greater proportion of participants in the Shanghai Composite are actual investors rather than speculators.

Monday was a good market day worldwide. First, European PMI manufacturing figures were largely down with Germany showing a particularly poor figure of 50.2. Then Markit came in with PMI manufacturing for the US. Instead of the 52.4 estimate it came in a 51.0. It was the lowest in 3 years - that may signal a recession is in the near future. The markets were probably also spurred by an International Energy Agency report that oil prices may have a sharp rise after 2017 when production cuts through shutdowns and lack of expansion investment kick in and stockpiled oil is consumed.

Bloomberg's C. Langner solved the mystery of why markets have risen in lock-step with commodity prices increases. Normally the rise would have the opposite effect because it tends to reduce the profit margin of industrial firms. But investors currently have more concern about debt overhang of commodity companies. In a Bloomberg study of the 5000 biggest publicly traded companies in the iron, steel, metals, mining and energy sectors, combined debt totaled $3.6 trillion -- twice what it was in 2008. The more prolonged the price slump, the more bankruptcies and debt defaults will increase. Last month the Bloomberg Commodity Index hit a 25 year low. It's now managed a mere 3.9% recovery.

WSJ reported on the systematic false earnings reports by S&P 500 companies. What gets into the news is the initial Pro Forma earnings calculation. That is later followed by an earnings reports that meets government requirements (GAAP - Generally Accepted Accounting Practices). In all cases, reports from 2009-through 2015 showed the GAAP as being less than the Pro Forma, but the gap was huge in 2015 with the Pro Forma around $120 per share to a GAAP of about $90.

Wednesday and Thursday had two of those higher market days that should convince even the most skeptical -- when the bad does happen, it will be *very* bad. In both days the market started down -- then, wham! -- it shoots up to end with a significant gain. All this supposedly caused by minute changes in oil prices (today's upward fractional jolt the result of an announcement that several oil producers will meet in March to discuss production cuts). Meanwhile there have been major negative reports regarding the real economy -- manufacturing output is approaching negative territory; new home sales, expected to be 520,000, came in at 484,000, and yesterday, the biggest surprise of all, Markit's PMI report for the service sector not only fell for the first time in 27 consecutive months, but all the way from 53.2 to 49.8. Chris Williamson, Markit's chief economist -- "the PMI data show a significant risk of the US economy falling into contraction in the first quarter." Not even authoritative reports of negative GDP growth in the first quarter casts a shadow on market enthusiasm. Poor David Stockman, he's becoming as anxiously hysterical as the Tyler Durden loonies. He's been predicting that the juggernaut of all financial collapses is about to kick over the flimsy traces of Fed papering and follow its natural course, but, darn, even less than nothing keeps managing to generate something -- a manic speculative optimism based on a sense of guilt that they still have illicit loot to lose.

And he's having no better luck in China. After an almost 7% fall in their markets Wednesday, DS wrote a special column the following day that the mother of all collapses was on the verge. Then Zhu of the PBOC said that the bank still has tools available to aid the economy, and those words (the only effective tool available) as of now set the markets on an upward course. Stockman has yet to learn that the alleged inherent rationality of his beloved system has never existed. You would think that he and his Libertarian associates would know better -- but maybe not. To them anything related to planning and capitalism is anathema, and it's quite true that planning doesn't work well within a market economy. Meaning -- Capitalism is inherently irrational and what it will do in the short run cannot be predicted, only that its increasing entropic disorder will eventually cause it to fall to pieces.

According to China based Hurun, Beijing now leads the world in billionaires with 100. NYC has dropped to second with 95, and Moscow a distant third with 66. A report that perfectly illustrates the increasingly freakish world that we live in. Two former *communist* states (with one still idiotically thought to be so) lead the world in capitalist robber barons, yet there is no re-examination of just what those two states were at their inception. Is it at all plausible that the rulers of a capitalist state can just up and make a complete reversal as a class and decide to become communist? No -- and a clue as to what happened is that Stalin, after seizing power, murdered every prominent Marxist participant in the revolution that he had access to, that is, he set out to reverse what happened in 1917, but as the structure of the revolution was in place and could not be dismantled without mass opposition, it took a few generation to reverse the process. China, of course, was nothing more than a clone of Stalinized Russia. As they say, the proof is in the pudding, and it now can be said without fear of contradiction -- Marxism has never been the system in place, in any state, since early 1920's Russia.

The Japanese have been stockpiling 10,000 yen notes in vast sums. Apparently it's because the government has been attaching ID's to the accounts of those that avail themselves of government services. The fear is that they will do the same with bank accounts and thereby have knowledge of everyone's savings. Safe manufacturing companies have done a land-office business. There is also the threat of negative interest rates entering the realm of personal savings -- rates are near that now. According to BOJ and Fed data 92% of yen value outstanding is in the 10,000 note -- while only 78% in the US is in $100 bills (is this the typical bill used by Americans in their daily cash transactions? not down here toward the bottom).

Friday the markets were mixed. First they shot up and then they sunk in dribs and drabs. The upward momentum came from a report that 4th quarter GDP was revised up from 0.7% to 1%. That led to some news sources boldly claiming it as evidence the US is avoiding the negative *headwinds* of the rest of the world's economies. Then, perhaps they gave the report a clearer look -- the growth was due to an increase in inventory, and consumer spending was lowered from 2.2% to 2%. Hence the conclusion -- so much stuff was made to be sold, they thought they sold it, but it turns out not as much as they thought. In short, they judged first with their eyes, then discovered the truth with their nose. Sometimes the truth hurts -- other times it just stinks.

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