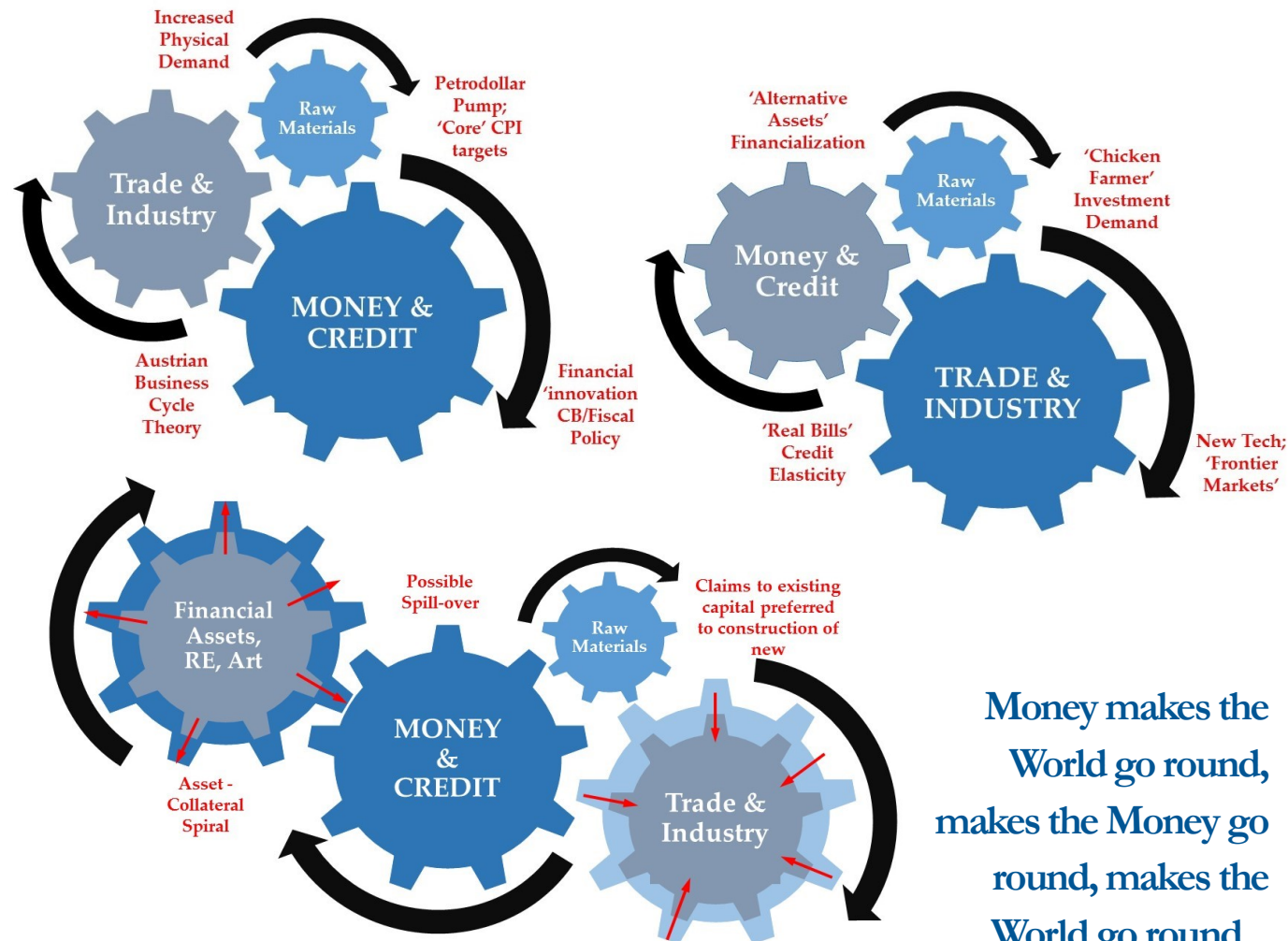


Money, Macro & Markets Monitor

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20th June 2017

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Money makes the World go round, makes the Money go round, makes the World go round...

EQUITIES:

Falling returns=rising debts

'INFLATION':

Getting hot and bothered as it cools

CHINA:

Show me the money—*please?*

JAPAN:

Good results, home and away

GOLD MINERS

In a hole and still digging

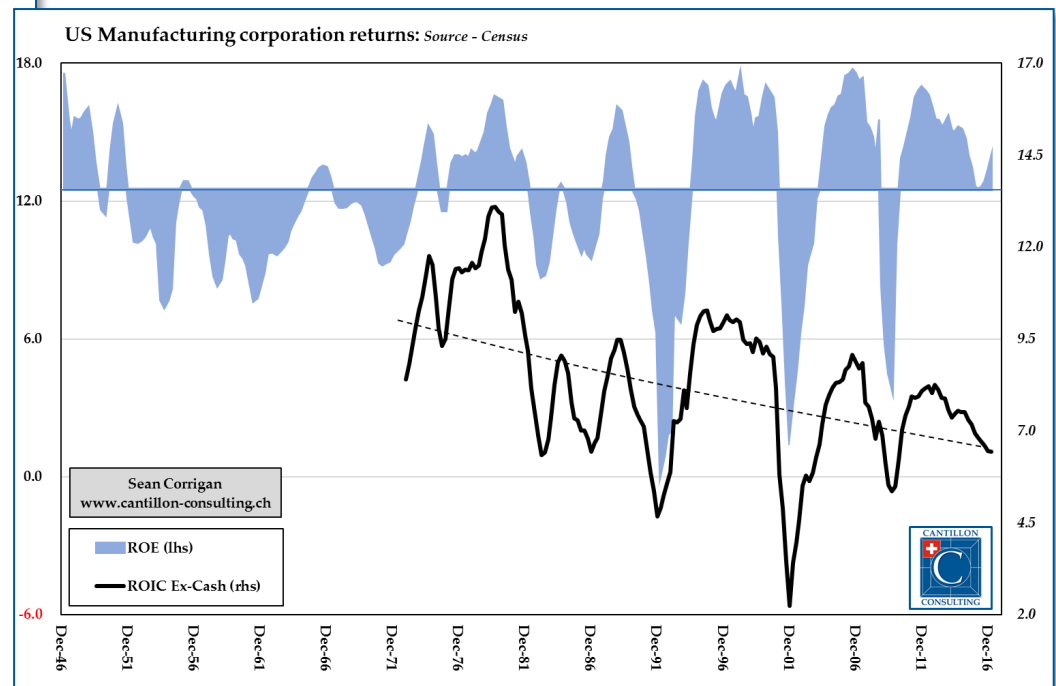
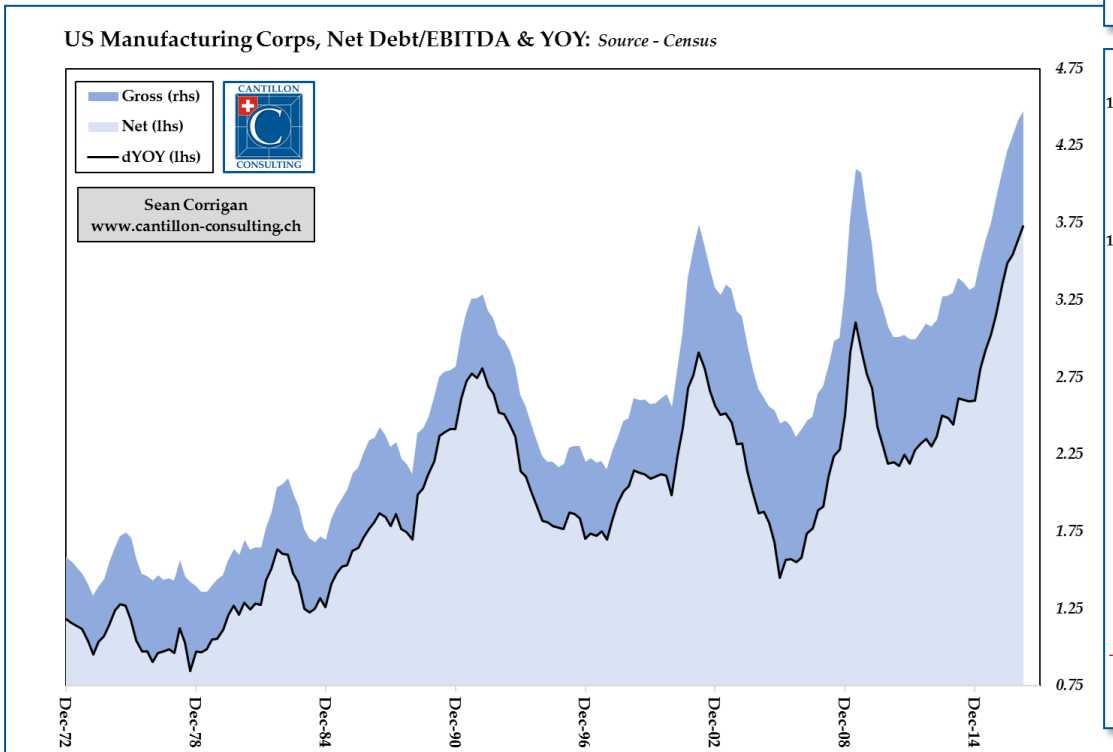
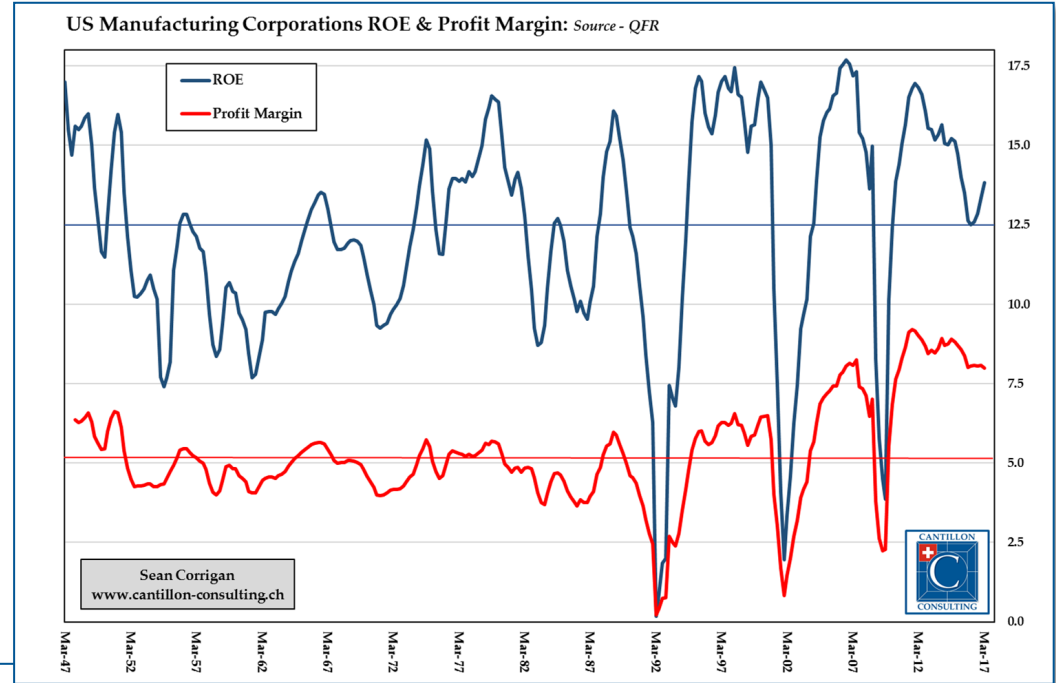
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If we could just keep our eyes focused on the upper right graph, we might soon learn to stop fretting about the fate of the stock market. In its role as bellwether, a manufacturing sector which enjoys \$6 1/4 trillion of annual turnover still boasts inordinately high profit margins alongside a return on equity not only above the long-term median, but also rebounding nicely from the recent shale bust.

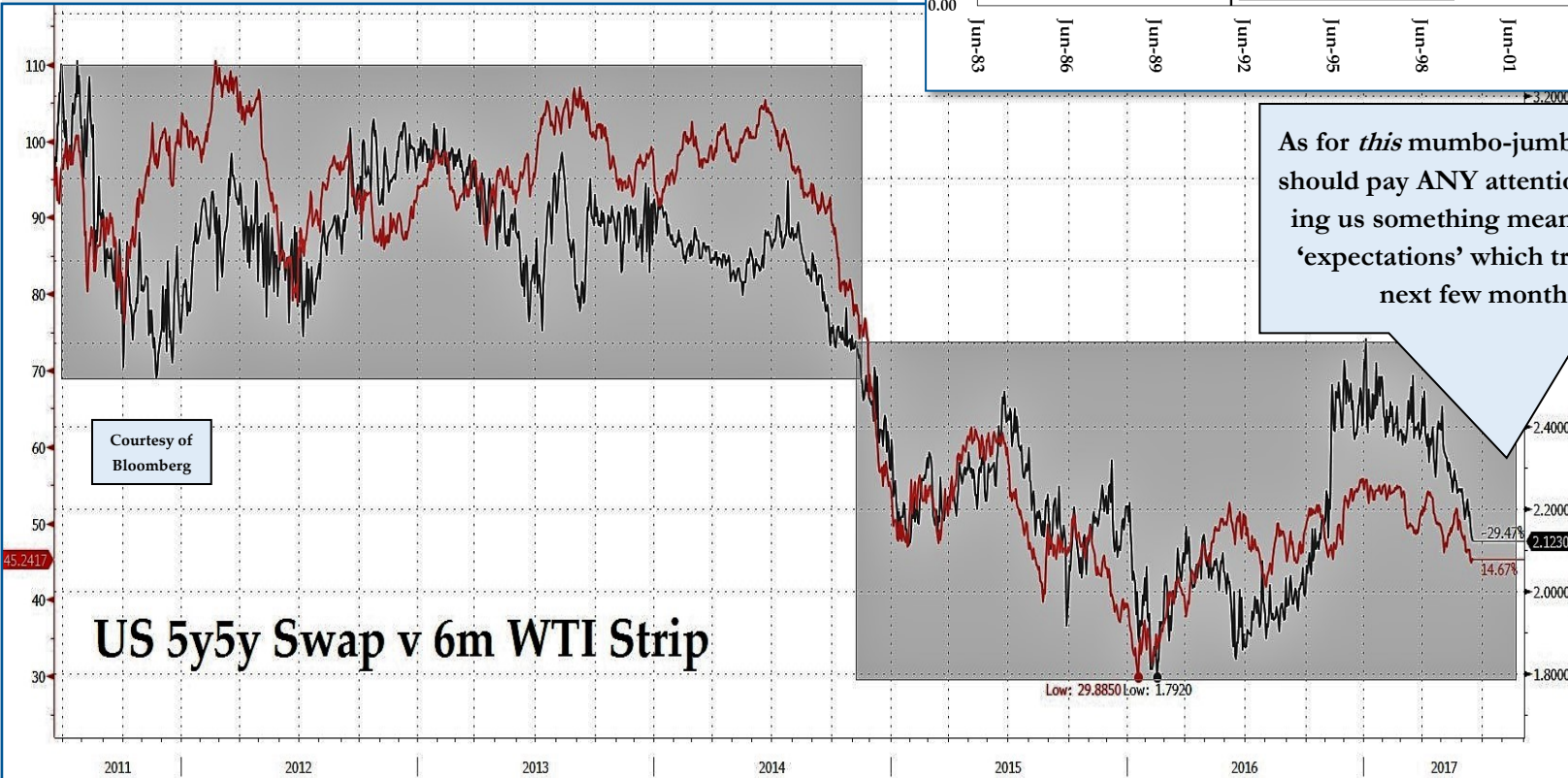
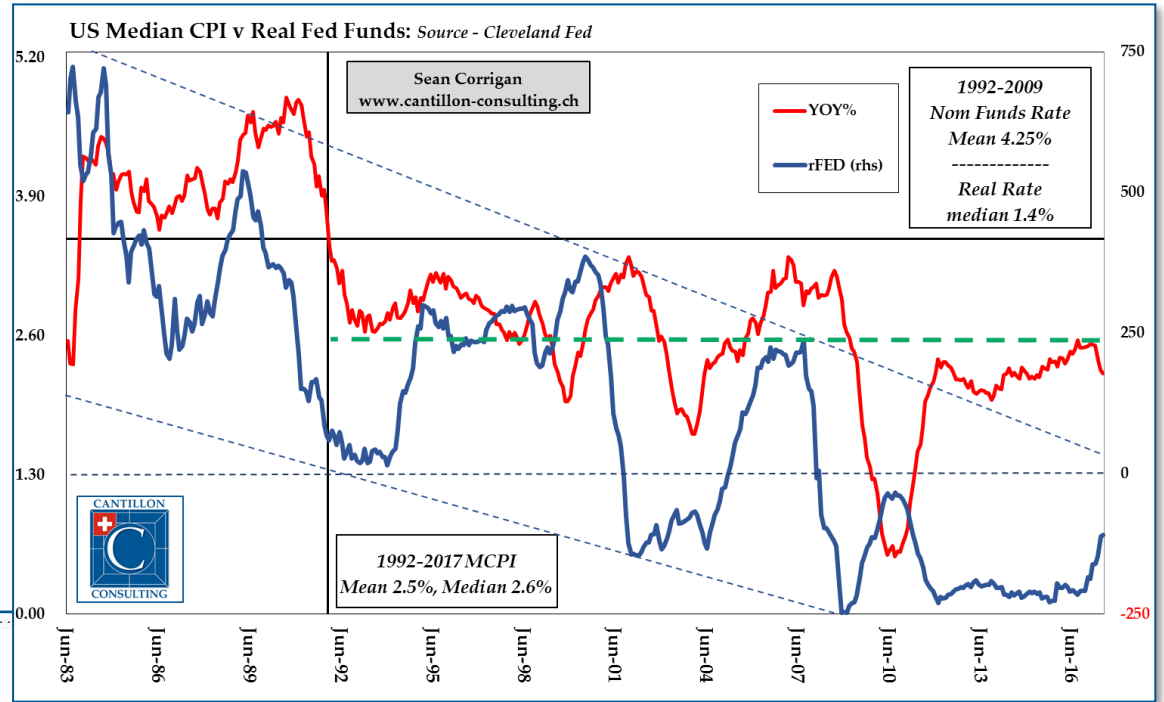
Sadly, if our eyes stray a little lower, the first sign of a worm in the bud appears: while returns on *equity* have been impressively stationary all these years, returns to *capital* have, by contrast, been in inexorable decline. The reason—and the principal source of angst? Debt levels: which, as the view below shows, are at modern-era, proportionate extremes. Low interest rates bring their own special curse, it seems.





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With the rate of climb of the various price indices finally reversing some of its slow acceleration in recent months, an outpouring of anguish has erupted to the effect that the same Fed which has been subject to so much criticism for taking too long to renormalize policy is supposedly now about to tip the economy headlong into the abyss of recession. But look at the data! MCPI is only a few tenths below a quarter-century median while real Fed funds are still 250bps from theirs. NB: the past three recessions took 315-350 bps of *real rate* tightening to brake the runaway train. So far, we've had barely a third of that. Keep calm & carry on!





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Similarly, all the blind empiricists are out in force, shaking their bone necklaces and waving their dream-catchers at the fact that long yields are moving in opposition to those at the front. ‘Flattening!’ they shriek. ‘Bad mojo!’

So, for a little context, the top chart shows 10-yr lies bang in the middle of the past 6 years’ distribution. That to the right shows the same—this time over a 35-year stretch—for 2x10s and also highlights the fact that actual inversion has accompanied the previous few recessions, not just a lessening of previous extreme steepness.

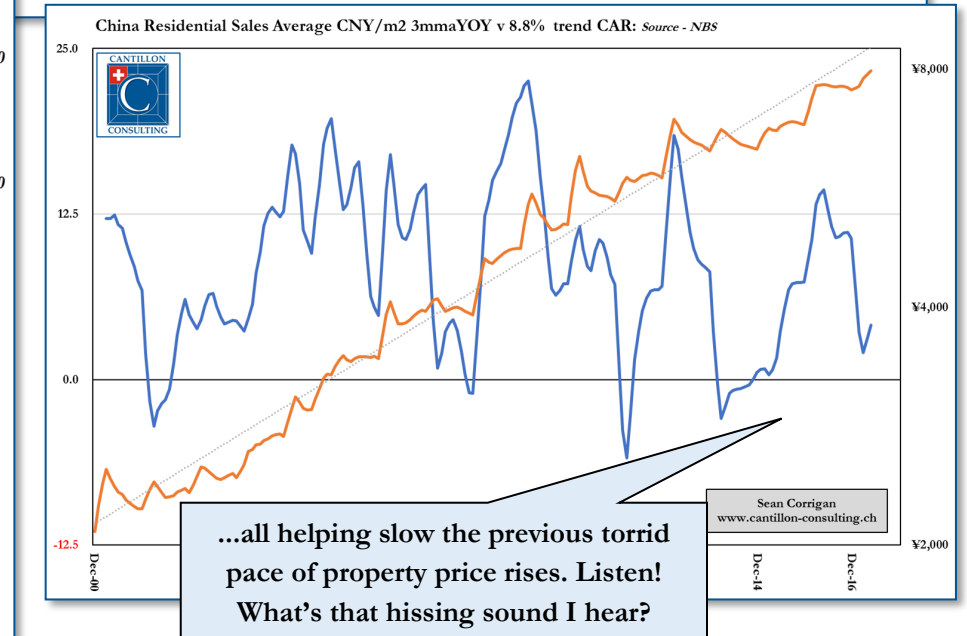
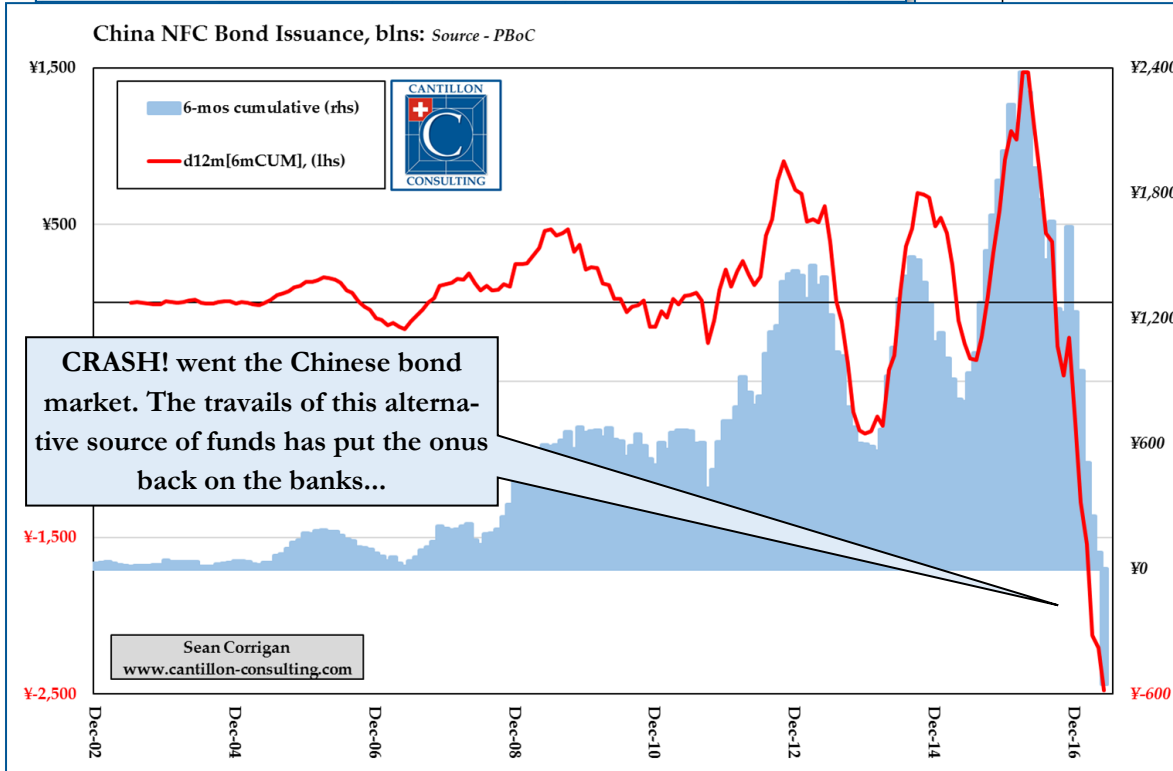
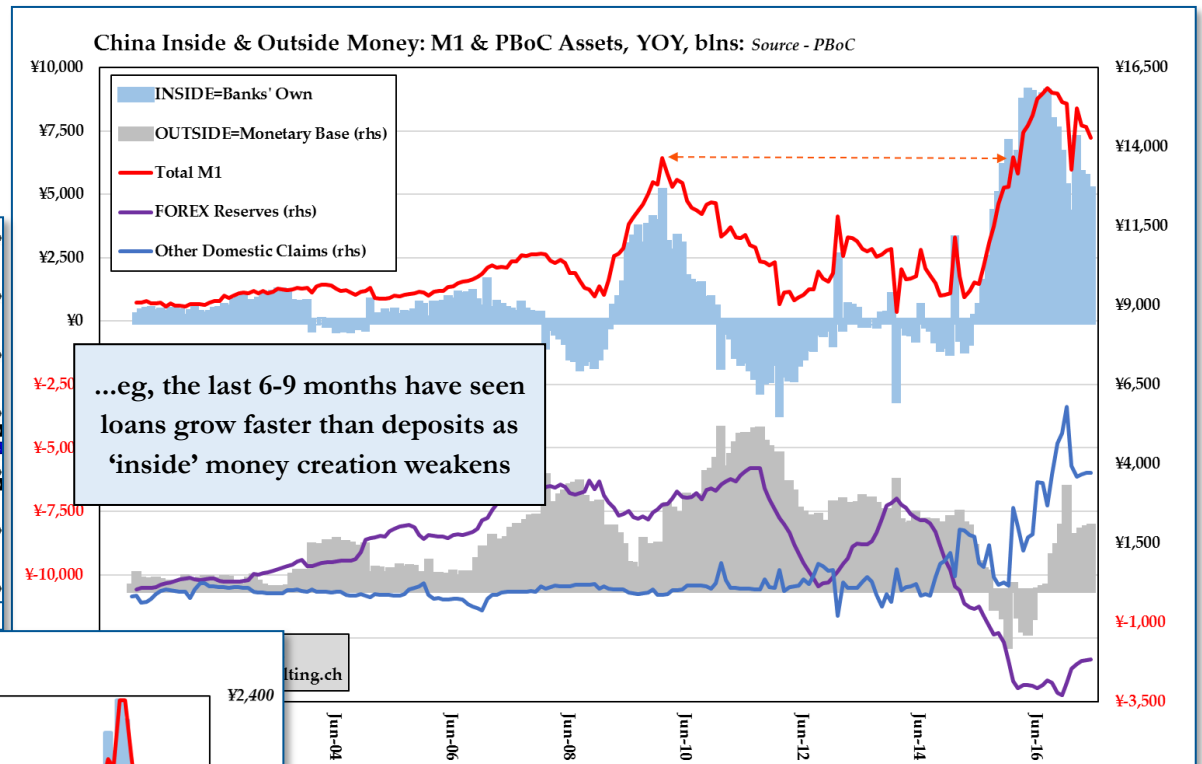


Finally, the bottom graph shows junk at a relative high to IG, very remote indeed from the double-digit, multi-sigma minimum dip below trend which has been a symptom of previous declines.

In saying all this, we must be aware that—as was pointed out on the previous page—debt levels are elevated and so borrowers’ sensitivities may be more heightened, assuming they haven’t all cannily termed it out to cov-lite eternity). Remember, too, that creditors, also have needs and so may well be ready to recycle some of that previously exiguous coupon interest to which they have been subject, thus alleviating some of the squeeze on the system, if not on the individual prodigal.

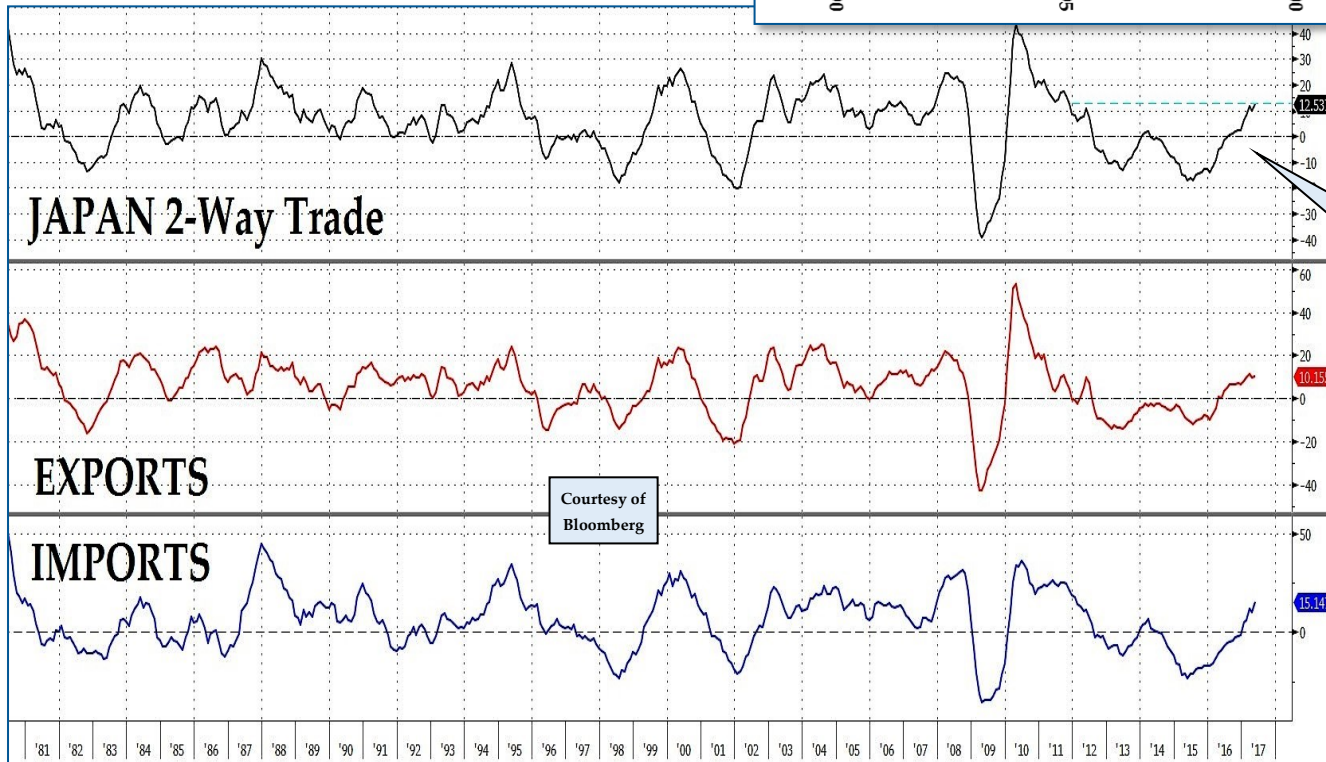
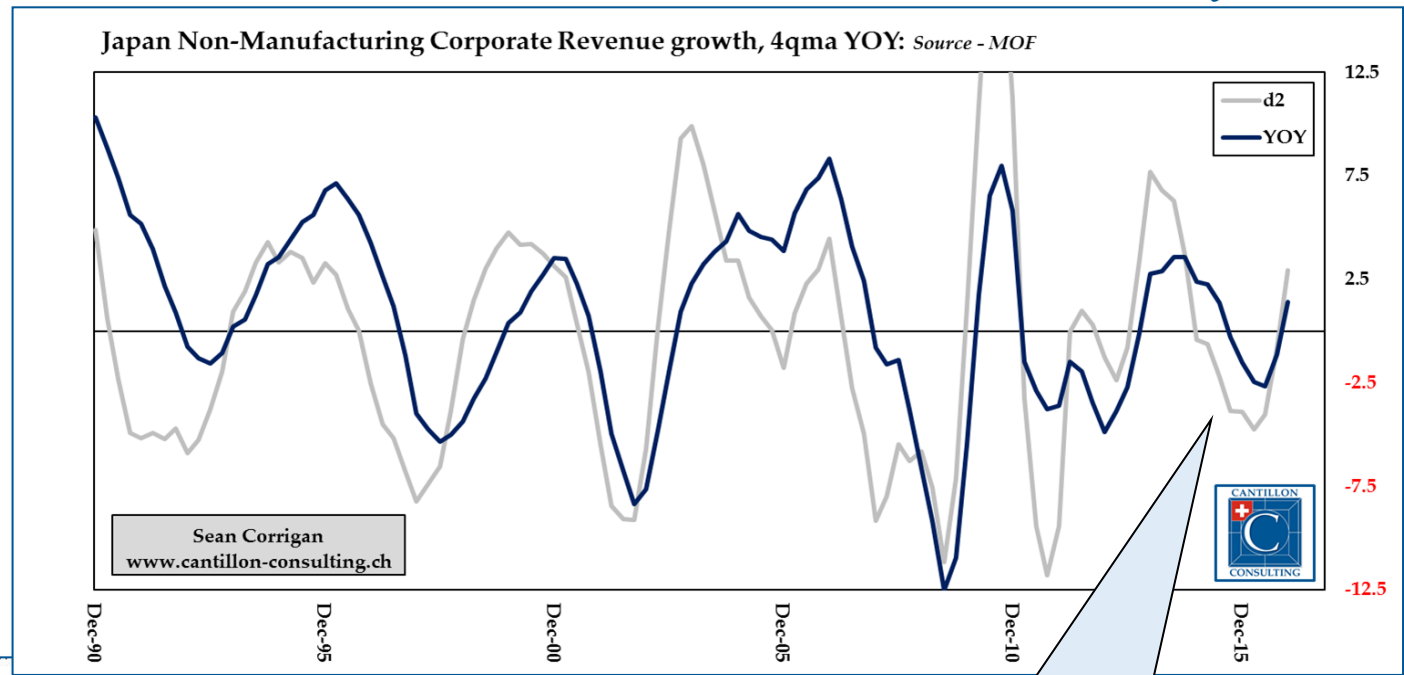


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Taking non-manufacturers as a proxy for the domestic sector, revenues are rising at their best lick in over two years at home...

...while abroad, trade is positively booming. 2-way flows are up (in USD terms) by over 12%YOY, the quickest since late 2011 and finally attaining a pace characteristic of the pre-Crash era. This helps reinforce our recent ideas about possible Japanese outperformance ahead.



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Gold's failure to consolidate upon its break of a much-watched trendline has since seen it lapse back to central-mode lethargy at one month lows and with short volatility being quoted at its lowest level since at least 2002. Bulls will hope that a bid appears ahead of \$1215/20 and so at least leaves them a run of successively higher lows to cheer.



All courtesy
of Bloomberg



There is little solace to be had for the gold miners, by contrast. Penned in, in relative terms, against the Washington Agreement lows, they have little in the way of sea-room in which to weather any renewed slide in the price of the metal itself.

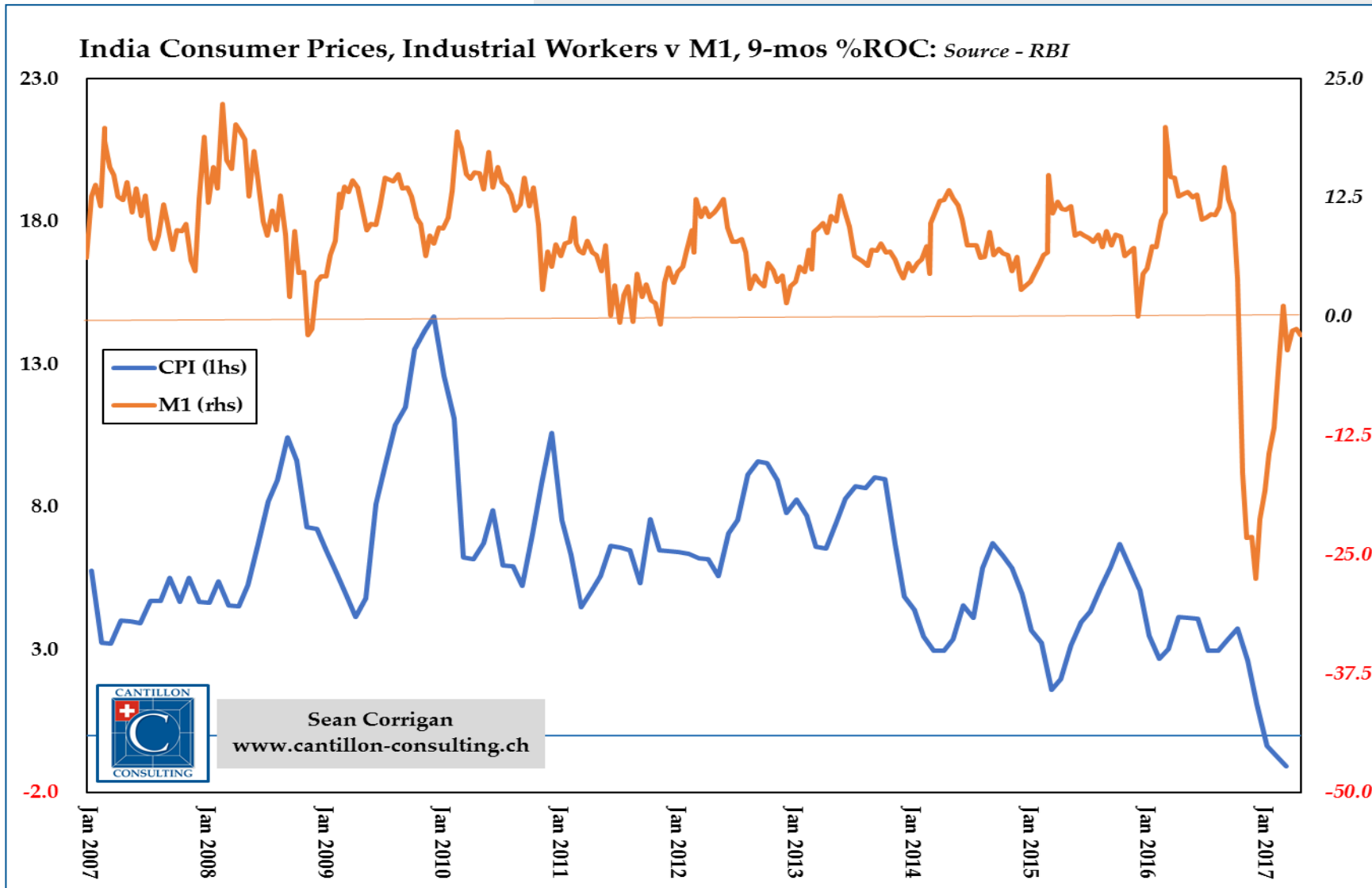


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BONUS CHART OF THE WEEK.

So, Prime Minister Modi. How *is* that demonetization working out for you, then?

With money supply at best back to unchanged versus long years of double-digit increase and prices dipping into negative territory, I think it is fair to call this a 'deflation' proper. Agrarian disturbances are filling the news columns and the central bank is issuing ultimata about the banks' parlous levels of bad debt. A strange backdrop indeed to the Sensex's record-breaking, 28% USD-reckoned, post-Christmas run. On borrowed time?





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