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Email of the day on Europe and the UK

Your free daily email from Fuller Treacy Money

Comments of the Day

28 November 2018

Video commentary for November 27th 2018

Eoin Treacy's view
A link to today's video commentary is posted in the Subscriber's Area.

Some of the topics discussed include: Stock market short-term oversold conditions looking increasingly likely to be unwound, Dollar steady, oil steady but still in a consistent downtrend, gold steady, Bonds ease,

Continues in the Subscriber's Area

The Weekly View November 27th 2018

This note from Rod Smyth at Riverfront may be of interest to subscribers. Here is a section:

Global stocks are reflecting slowing economic date in Europe, Japan and China, and are anticipating the same for the US as the stimulus wears off and higher interest rates start to slow demand for housing and autos. The chart pattern also suggests to us that investors are building in an increased probability of a global recession. We are more positive and believe that there is a good chance that global stocks will bottom around these levels as value investors are likely able to find what the see as bargains at current levels. We too are looking for opportunities where we believe investors have become too pessimistic.

Eoin Treacy's view
I don't tend to look at the MSCI World very often because it is heavily skewed towards the performance of the largest companies with a clear overweight in the USA, followed by China. However, it is a global benchmark for many asset managers and therefore its performance represents a significant input into their thinking.

Continues in the Subscriber's Area

Iron ore price craters 8%

This article by Frik Els for Mining.com may be of interest to subscribers. Here is a section:

According to data released by the World Steel Association on Friday, Chinese output, which exceeds that of the rest of the world combined, in October rose 9% from the year before to a record 82.5m tonnes for the month. For the first 10 months Chinese furnaces pumped out 7.6% more steel. Numbers from China's National Bureau of Statistics have production jumping 14% compared to last year.

The ramp up comes ahead of winter production cuts mandated by Chinese authorities and healthy margins for the country's steelmakers, which have now evaporated.

In a note released before the recent pullback Capital Economics chief commodity strategist Caroline Bain, predicted more pain for iron ore prices ahead thanks to rising supply, sluggish demand from the property sector and a shift to electric arc furnaces as scrap availability inside China continues to expand.

Capital Economics believes the price of iron ore had risen to levels not supported by supply and demand and is forecasting end-2019 level of $55 per tonne. One bright spot is the substantial premium paid for higher grade ore from top producers Brazil and Australia as Chinese steelmakers continue to reduce pollution.

Eoin Treacy's view

Iron-ore demand has turned into a very seasonal business because of China's desire to moderate emissions during the winter season when the country has been habitually blanketed in thick smog. That forces steel producers to stuff as much production into the 9 months outside the winter season as possible and contributes to less demand for iron-ore during that time. The economic slowdown and uncertainty about the property sector have been additional headwinds for the sector.

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Email of the day on Europe and the UK

Glad you had a good meeting in London the week before last. Would have been there, but still recovering from breaking a femur in June.

Two things that might interest you.

First, from a John Mauldin letter:

Quick anecdote from my time in Frankfurt. I spoke for fund manager Lupus Alpha to approximately 250 pension fund managers, representing most of Germany's retirement monies. I asked for a show of hands on whether they liked being part of the European Union. Almost everyone raised their hands. I then asked if they thought participating in the euro was a good thing. Probably 80% raised their hands. When asked who doesn't like the euro, maybe 10% of the hands went up.

Then the money question. I asked if they would be willing to take Italy's debt and all the debt of every eurozone member and put it on the European Central Bank balance sheet, with caveats about controlling national budgets. Fewer than 20% of the hands went up.

I then engaged the audience further, saying, the last two questions were essentially the same. If you want to keep the euro, you'll have to do something about the imbalances between the countries and debts. No monetary union in history has ever survived without becoming a fiscal union as well. Even reminding them that failure to do this might cause the euro to break up and bring back the Deutschmark didn't seem to change many opinions. I reminded them that a Deutschmark would mean a serious recession/depression in Germany as it would raise the price of all German exports by at least 50%. Mercedes and BMWs are expensive enough for Germany's customers, let alone at a 50% price hike.

This audience should have easily accepted the argument for putting all European debt on the ECB balance sheet. Imagine if I asked the typical German voter, especially those in rural areas. That tells me Europe could have a bumpier future than I thought.

Second, a piece from the FT (as an attachment) about whether property is still a long-term bet for retirement. Conclusion: it's not.

Thanks for all great recent pieces. I really liked the Ray Dalio discussion.

Have a great Christmas.

Eoin Treacy's view
Thank you for this informative email and I am delighted you are enjoying the Service. The simplest way to summarise the contradiction at the heart of the Eurozone question is "you can't be half pregnant" The EU is heading towards federalism or it will break up. The status quo is already being challenged and it will continue to be challenged as a long as millions of people endure lower standards of living.

Continues in the Subscriber's Area

Long-term themes review October 29th 2018

Eoin Treacy's view
FullerTreacyMoney has a very varied group of people as subscribers. Some of you like to receive our views in written form, while others prefer the first-person experience of listening to the audio or watching daily videos.

The Big Picture Long-Term video, posted every Friday, is aimed squarely at anyone who does not have the time to read the daily commentary but wishes to gain some perspective on what we think the long-term outlook holds. However, I think it is also important to have a clear written record for where we lie in terms of the long-term themes we have identified, particularly as short-term market machinations influence perceptions.

Let me first set up the background; I believe we are in a secular bull market that will not peak for at least another decade and potentially twice that. However, it also worth considering that secular bull markets are occasionally punctuated by recessions and medium-term corrections which generally represent buying opportunities.

2018 has represented a loss of uptrend consistency for the S&P500 following a particularly impressive and persistent advance in 2016 and 2017. Many people are therefore asking whether this is a medium-term correction or a top. There is perhaps no more important question so let's just focus on that for the moment.

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