

What's new?

The recurring question for any daily comment - what's new? The answer is more a question of degree than of absolutes.



1 Unsubstantiated comments

There are two comments I dragged off newswires this morning, which I have been unable to find a secondary confirmation for, so for clarity, let me point out that these are not necessarily accurate, but are worth thinking about anyway, just in case they are:

1. First, is that the US President has suggested the Fed actually cut rates. This is a bit stronger than earlier criticism of Powell for having raised rates, and does get support from some regional Fed quarters - Neel Kashkari for one - this isn't new. Kashkari has been a perennial dove, and also a non-voter, but also Patrick Harker is apparently not wedded to a December hike either. Neither of them becomes voting FOMC members until 2020 though. Markets are less convinced than they were about a December hike, but whether you look at OIS markets or Fed funds futures, December looks pretty clear to see another hike - just a bit less than 2 weeks ago.
2. The other is connected with comments about Saudi Arabia, where we haven't heard too much about the CIA investigation into Jamal Khashoggi's death, but do have some remarks from the US President about Saudi Arabia's ally status, and some further remarks

suggesting that oil ought to fall further. Oil has been a big factor calming investor sentiment in the Asia region, with only Malaysia a real victim of lower prices due to its net producer status. Still, we have seen **too low** prices in Asia before, and in my opinion, \$65/bbl is the bottom of the "indifference range" for oil, where producers and consumers are equally happy / unhappy. Much below this, and I think there is a net welfare loss globally, and would prefer to see the decline in oil halt about where it is now.

\$62.44

Jan 19 Brent Crude future

Price per barrel

2 ...and another thing...

What's more, and we wrote a bit about this yesterday, my misgivings about equities based on a bit of very limited (and probably wrong) technical analysis and quite a lot of gut-feeling, seems to be bearing fruit, with further falls on key equity measures overnight,

Here's a question without an answer. How far, or how fast does the S&P 500 (or whatever the Fed's key benchmark is, Wilshire 5000?) have to fall before it causes them to pause? ANd how far to do what President Trump apparently wants and reverse tack?

I suspect the answer is, "A lot". But judging what constitutes a lot is a function of both the extent of any decline and its rate. So far, thanks to a very positive start to the year, the S&P 500 is down only about 1.2%ytd. In dollar terms, the Shanghai composite is down 25%, the Shenzhen composite 32%. If I had to make a wild stab in the dark, I would say that for a pause, another 10% fall in US markets from here ought to be enough to encourage a pause. That would take the S&P500 back to its August 2017 dip, and would represent a little under a 20% decline from its 2018 peak of 2940. For a reversal, I reckon you would have to see other markets join in the rout, including high yield credit. A quick look at some screens this morning (see above for our picture of CDX 5Y Spreads) shows spreads here beginning to rise sharply, but are still way off the early 2016 lows. Worth watching though - financial conditions are definitely tightening, with or without the Fed.

3 Day ahead

There isn't much on the calendar anywhere today. Thailand trade figures could show a flip back into deficit, though they are hovering around balance, so this isn't too market moving, though it is taking place despite the benefits of lower oil prices, so it isn't that impressive.

In the US, the October durable goods orders data is the G-7 highlight. For what it is worth, my preference is to look at a combined outcome of the 3-month moving average for core (ex-aircraft, military) orders and shipments as the best guide to what corporate America is doing in terms of business investment. It looked last month as if it may be slowing, though from a pretty high level.

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