

Dreadful US Consumer Confidence Report

South Korean business manufacturing confidence index fell to 80 in August, from 91 in July, the largest monthly decline since December 2008;

The Troika is in Athens to review the Greek numbers. Well we all know what will happen next - the numbers will miss their targets. The Government cannot even promise further cuts - they wont be able to get it through the Parliament. At present, the weather is far too hot for rioting, but come September/October, riots on the streets of Athens are a certainty. There must be a strong possibility of a change of Government.

The Finns have not backed off their demands for collateral if they are to provide their share of the bail out funds for Greece. The Slovaks are suggesting that Greece should be allowed to default. The Dutch and Austrians state that if the Finns get collateral, they would also require similar treatment. I believe that the Euro Zone will have to face the inevitable and allow Greece to default - indeed it is likely this year. No one will be surprised, though Euro Zone banks will be hit as they have not provided enough. That still leaves us with the problems of Italy and Spain and France.....

The ECB has been buying Italian bonds today, which have kept yields lower (10 year is currently 5.22%) - they would have risen significantly higher given the poor Italian debt auction. S&P has reduced Italy's 2011 GDP forecast to +0.8% - the Bank of Italy is at 1.0%. Interestingly Italian business confidence rose to 99.9 in August from an upwardly revised 98.5 in July - above forecasts of 97.0;

Spanish preliminary HICP inflation declined to +2.7% YoY, from +3.0% in July, weaker than the +2.8% expected. Generally inflation in the Euro Zone is declining, unsurprisingly;

The German Financial regulator BAFIN, is opposed to the EFSF recapitalising Euro Zone banks - well great, but they better come up with a plan bloody soon;

The Case Schiller report disclosed that property prices in 20 cities declined by -4.5% YoY in June, slightly better than the -4.6% in May and forecasts of a decline of -4.6%. Until residential home prices stabilise, the US economy will not recover;

Dear old BoA cant get a break. The FDIC filed an objection to its US\$8.5bn mortgage bond settlement with investors, as are States and investors. Other US banks, Wells, JPM, Citi for example will also be impacted;

US consumer confidence absolutely collapsed in August - to the lowest since November 2008. The Conference Board consumer confidence index declined to 44.5, from a revised 59.2 the previous month and forecasts of 52. All components of the index were awful. The current conditions component declined to 33.3, the lowest this year, from 35.7 in July.

The expectations component declined to 51.9, the weakest since April 2009, from 74.9 in July. The jobs index declined to 11.4, from 16.9, the lowest since March 2009, whilst incomes declined to 14.3 from 15.9 in July;

Summary

In spite of the dreadful US consumer confidence report, US markets have clawed back all their losses and, indeed, look as if they will close higher. It is clear that the worse the economic data, the more certain the markets are that the FED will implement QE3 - which seems to be the trading game at present. Indeed, better US economic data will spoil the party !!!!! The FED minutes will be particularly interesting.

The US\$ having been near 1.0% higher against the Euro earlier today, has lost half of its gain - currently US\$1.4434, which is helping US equities. Investors are ignoring clear signals that the ECB will be on hold and, if they had any common sense, reduce interest rates. The only good news is that Euro Zone interest rates are, at worse, flat (though most likely lower) for quite some time.

Gold is rising on the weaker US\$, prospects of QE3 and increased uncertainty.