

Yet More Gloom and Doom Economic Data - Though Markets Expect QE3 from the FED

Japanese factory output increased by just +0.6% in July, far less than forecasts of +1.4%. Japanese manufacturing PMI dropped to 51.9, from 52.1. The Japanese Trade Ministry stated that production had recovered to 95% of its pre tsunami level, which makes the interpretation of the disappointing numbers even worse. The stronger Yen is seriously impacting the Japanese;

South Korean industrial output increased by just +3.8% YoY (forecast

+6.2%) and, indeed, was down -0.4% in June MoM. Its business

conditions fell to a seasonally adjusted 2 year low of 80, with the single largest monthly decline since November 2008. Analysts have lowered 2011 GDP growth significantly - to below 4.0%, as compared with the current Government's forecast of +4.5% and last years +6.2%.

However a leading indicator rose for the 3rd consecutive month;

South Africa's budget deficit is exploding - it rose to US\$6.2bn in July as a result of a 14% increase in spending and a -4.7% decline in revenues. Continuing talk about nationalising the mining sector, combined with strikes is limiting capex. GDP rose by just +1.3% (on an annualised basis) in the 2nd Q, the slowest since the 3rd Q 2009.

South Africa is a prime case of how to screw up a very, very rich country;

German retail sales were unchanged for July MoM, though -1.6% YoY, better than forecasts of -1.6% MoM and -1.9% YoY respectively;

German unemployment declined (by 8k) for the 26th consecutive month in August to 2.95mn people. The unemployment rate held steady at 7.0%;

The German cabinet has approved the framework for the draft law on the EFSF - the draft law now requires Parliamentary approval, which is set for 29th Sept. Subsequently, Mrs Merkel is trying to avoid having to seek Parliamentary approval for any subsequent changes to the EFSF and the follow up permanent mechanism, the ESM. The German Deputy Finance Minister repeated that the size of the EFSF (€440bn) was enough and, in addition, dismissed the idea of Euro Bonds - they "are not part of the solution". He also rejected the idea that the Finns could get collateral, whilst the other Euro Zone members would not.

Finally, he said that there would be no provision for the expulsion of an Euro Zone member - oh yeah !!!!!;

UK consumer confidence fell for the 3rd consecutive in August. It was down 1 point to -31, from July. The expectations component (consumer expectations over the next year) fell 4 points to -31. Interestingly, the measure of consumers views on their own financial position over the next year rose to -11, from -12.

Euro Zone executive and consumer confidence fell to 98.3 in August from a revised 103 in July and below the 100.2 forecast. Manufacturing sentiment declined to -2.9, from +0.9 in July, whilst the services index declined to 3.7, from 7.9 in July. An assessment of industry's expectations of order books and production expectations collapsed to -9.1, from -4.7 and 5.6 from 9.8 respectively. Consumer confidence declined to -16.5, from -11.2 in July. No great surprise, but dreadful numbers;

Final Euro Zone July unemployment remained unchanged at 10.0%, slightly worse than forecasts of 9.9%, though unchanged from June.

Euro Zone August inflation was estimated at +2.5% YoY, in line with expectations - should fall;

A read of the FED minutes is just about the gloomiest report I have read recently - could not find any bright spot, other than an increase in auto purchases following an increase in supplies - temporary though. In spite of the 3 dissenters in respect of the FED's policy to keep interest rates on hold till mid 2013, the minutes were particularly dovish. They also downgraded the US economy. The next (2 day, ending Sept 21st) meeting is going to be interesting. There was quite a lot of discussion as to whether monetary policy can help in the current circumstances. However, there was a strong bias for more monetary easing.

In any event, the market is convinced that QE3 is a near certainty (certainly a number of FED members proposed it) - if it is not delivered, watch out. However, expectations of QE3 should support markets until then, particularly if US NFP numbers this Friday are weak, as I expect. It's a tough call, but on balance, I expect the FED to announce a further QE programme at the September meeting - if only to avoid a disappointment, which will be material otherwise;

Summary

Asian markets closed higher, in spite of weaker economic data.

European markets are approx 1.0% - 1.3% higher at present. US futures suggest a higher open. The Euro is flat against the US\$. Gold is also flat (US\$1833), as is Brent (US\$114.58 - spot).

ADP numbers later today - does anyone take them seriously any more.

Friday's NFP data remains the key market moving event, though tomorrow's jobless claims and ISM manufacturing will be watched closely.

Poor old BP - they cant get anything right. Rosneft and Exxon are to enter into a deal to explore for Oil in the Russian Arctic - a deal that BP wanted. Somebody put them out of their misery and make a bid.