

US ISM better than expected (basically inventories); the more important components were all weaker

Copper prices are declining on fears of a slowdown in China - export orders declined for the 1st time in 2 years. Aluminium, lead, nickel and tin also declined. Some of the decline was probably also due to the stronger US\$;

The former French Finance Minister and the new head of the IMF continues to be in trouble with the EU/ECB. The IMF reports that if European banks marked to market their holdings of peripheral Euro Zone bonds, they would have to raise over E200bn. In reality, the situation is always worse - just ask the Irish. Mrs Lagarde understands that European banks are grossly under capitalised and that the situation in Europe cannot begin to be resolved until this issue is addressed. However, Governments have run out of firepower. It is inevitable that shareholders/bondholders will have to take the hit this time around. To add to their problems, a number of European banks (particularly French) rely on the wholesale markets for financing;

The ECB had been trying to keep Italian and Spanish 10 year yields at or below 5.0%. Well, they are both well above and rising. No surprise given the poor reception to their bond auctions. The Bundesbank continues to criticise the ECB for buying bonds - well actually the Central Banks of the Euro Zone countries are , in effect, buying the bonds - for example, Germany is allocated approx 30% of the purchases. How much longer can the ECB continue, particularly as most owners will be dumping their holdings (ex the banks as they do not want to crystallise their losses);

German Parliamentarians have rejected the idea that the executive be responsible for decisions relating to possible further changes to the EFSF. They are demanding that their prior approval is sought - indeed, they have demanded an even greater oversight role . Well, that neuters the EFSF - the ECB is the only player that can act fast enough and they don't want to do it. Oops. The final decision as to the checks and balances will be agreed at the vote to be held on 29th September. Finally, the German Constitutional Court opines on 7th September and there are regional elections on the 4th and 18th of this month;

German, Dutch and Finnish Finance Ministers are to meet in Berlin next Tuesday;

Jefferies reports that an analysis of 2nd Q German GDP reveals that if were not for inventories, GDP would be significantly lower (inventories added +0.7%). As GDP was just +0.1%, well.....;

The US ISM factory index declined to 50.6 in August, as compared with 50.9 in July. However the decline was far less than the forecast (48.5 and much lower whisper numbers). However, important components of the index were weak - orders declined for the 2nd month and production (dropped to 48.6) contracted for the 1st time since May 2009 - exports grew at the slowest pace since July 2009. The gain in the index was basically due to higher inventories, which rose to 52.3 from 49.3 previously. The employment index declined to 51.8, the lowest since November 2009, from 53.5 in July. Better news on prices paid - it fell to 55.5 from 59. To summarise a better than expected headline number, but the components, particularly the forward looking indicators were weak. Just falls in line with weaker Asian and European numbers;

Weekly jobless claims declined by 12k to 409k for the w/e 27th August.

Goldman's have cut their forecast of August NFP's to just +25k, from a previous +50k. As I'm such a miserable so and so, Im afraid I agree with the downgrade. The consensus is for an increase of around 80k;

Summary

All currency stuff at the moment - much stronger Swissy, though also the Yen, and even the US\$, though a weaker Euro - US\$ strength is generally bearish for markets.

US markets having strengthened following the better headline ISM number are now retreating - cant see it recovering today, given that NFP's are tomorrow and the US\$ strength. Surprisingly, God is holding its own - would have expected it to be off, given the US\$ strength - flight to safety/hedging. Brent is marginally lower (US\$114.80).