

ECB comments on Italian back sliding from their commitments

Spain's unemployment rose by 51.2k in August to 4.14mn., a +1.25% increase MoM. This is really bad news, as it was expected that the stronger tourism industry (benefiting for holiday makers traveling to Spain, rather than the crisis riven N Africa), would have increased temporary jobs, at least. If this is the August number, watch out for the autumn/winter;

French newspapers report that the Troika (IMF,EU and ECB) will revise Greek GDP economic data - no guesses necessary as to the direction. GDP will be revised down to "at least -5.0%" (in my view, will be closer to -6.0%), from the Governments recent (less than 1 month ago) forecast of -4.5% and the budget deficit to 9.0%, well above the 7.6% forecast. The Troika will visit Greece again in some 10 days time;

A shadow ECB committee has called for Euro Zone interest rates to be cut by 50bps (basically completely reversing the recent hikes by the ECB), back down to 1.0% or indeed, even lower. The ECB hates to admit it is wrong (particularly as we have that moron Trichet around) and may be reluctant to reduce rates next week. However, Draghi comes in at the end of October - I suppose a rate cut in December is certainly a strong possibility, though really should be as early as next week. The Euro has peaked (subject to Chinese/Asian buying). Personally, I will short, against NOK, Sing\$ maybe even the US\$;

Euro Zone July PPI was up +0.5% MoM or +6.1% YoY. Should decline rapidly in coming months;

The ECB started buying Italian bonds on the basis of a commitment by the Italian Government that they would deliver on austerity measures - as we all know, the Italian authorities are back sliding from this commitment. How does the ECB respond?. An ECB board member Mr Nowotny referred to the ECB letter, which the Italians accepted and which was a precondition for the ECB bond purchases.

I suppose the argument goes that if the Greeks pay no attention to their commitments, why should others. The EU should stop all financial assistance to Greece immediately, allow them to default, kick them out of the Euro and, having extracted firm commitments/collateral from the Italians (and Spanish), which if they break, will have severe consequences, provide financial assistance/support to them. It's high time to install serious discipline in the Euro Zone, or this situation gets really crazy;

UK construction PMI came in at 52.6 for August, down from 53.5 in July - the lowest since December 2010;

Reuters reports that the US has the most unbalanced debt maturity profile of all the major economies. 70% of outstanding bonds mature within 5 years, compared with an average of 49% for 34 OECD countries. The US treasury has extended the average maturity to 62 months from less than 50 in 2009, but needs to do a lot more. The record yield curve between the 10 and 30 year does not help though;

Summary

Fear trades everywhere. Gold is rising, as is the Swissy (in particular) and the Yen. Expect a violent reaction (either way) if US NFP's are very different to forecasts. Personally, far too dangerous for me to pay before the announcement - yes I'm a coward.

European markets are down around 2.0% - 2.5% - the FTSE is the best performer - it's down 1.8% at present.

US futures indicate a lower (though less than 1.0%) open - I'm surprised, I thought they would be lower.