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USA, unemployment rising, debt horrendous / China, not so good either / Grexit pending / The Global trend to further deflation / Too soon to predict timing of a crash

If we discount the impacts of a USD57 trillion debt build-up since 2008, the global economy really never recovered from the GFC.

Today there is not a lot of good news in the world markets...

USA, unemployment rising

We have watched the employment scene stagnate. And that is even using official figures. But even worse the position is deteriorating...using approximates....

This year 2.2 million young people will come into the work force of which about 600,000 will have good college degrees. The problem is that there is less than 1 million jobs to go around – of which 200,000 will be for college graduates. So 400,000 college graduates will be either unemployed or under-employed...an issue for those with student loans.

Student loan debt in USA has reached more than USD1 trillion of which more than 50% is in default on repayments. A university education is no longer a good bet for the average student.

Retail sales tend to reflect the employment stats and the numbers now out of work in the oil industry is growing rapidly.

The Dow Jones Industrial Average hangs around just over 18,000 but all gains have been due to the QE/ZIRP of recent years and the realistic expectation of more to come. But if interest rates rise, then all bets are off.

The perma bears like Marc Faber and Doug Casey have been saying all along that if you start to try to solve a problem of too much debt by printing money and increasing debt and reducing interest rates to zero, then you could be stuck on that same treadmill forever...that is until no one will give you credit....

http://seekingalpha.com/article/3065146-fomc-june-rate-hike-completely-off-the-table?source=email_macro_view_mar_out_3_4&ifp=0

Well the US Fed keep talking up the possibility of increased interest rates but with more debt, fewer will have the income to pay the extra. Certainly, the US Government with USD18 trillion of debt (and rising) will not find it easy to fund higher interest rates.

The Chinese, in buying gold and setting up their AIIB with surplus US dollars are saying, “enough is enough!” They have publicly acknowledged that they will start to issue the

Renminbi as an international reserve currency progressively...if they can gain acceptance. The smart BRICS have been steadily buying gold to back their domestic currencies.

Having the AIIB as an Asian infrastructure development bank is designed to demonstrate the substance of their resources and currency, now that China is the world's largest economy. Now if China sneezes, we all catch a cold.

China, not so good either

http://seekingalpha.com/article/3064886-how-exports-are-affecting-the-chinese-economy?source=email_macro_view_mar_out_6_7&ifp=0

Yet Chinese debt levels are also huge. Activity levels are down and this flows on the supplier countries...please note these new trade figures for March reflect significant changes to the downside – despite Chinese New Year! ... from Seeking Alpha...

"**China's exports surprisingly tumbled** in March while import shipments fell at their sharpest rate since the global financial crisis, setting a poor precursor to the country's closely-watched Q1 GDP figure due on Wednesday. According to official data, Chinese exports plunged 15% and imports fell 12.7% last month in dollar terms as weak demand and the impact of the lunar new year weighed heavily on Chinese factories. The soft trade figures sent Chinese shares higher, with the Shanghai Composite closing up 2.2%, as investors bet on more stimulus from Beijing.

Coal and Iron ore import purchases are getting a hiding. But given property issues, building construction is starting to look really shaky. More stimulus from Beijing? Yes more QE and ZIRP. This is part of a global sickness that modern economists /bankers will later blame on Lord Keynes. But Keynes never said this was the way to go. Anyone who thinks this QE/ZIRP combo will end well is either ignorant or stupid.

Poor Taipei...the USA is not only too gutless to tell the public the truth about the Turkish Armenian genocide (as Pope Francis has), but they will also not defend Taiwan and China will quietly proceed towards annexation...giving Taiwan a death by a thousand cuts – of which this is just one...from Seeking Alpha...

"**China has rejected Taiwan's bid** to become a founding member of the Asia Infrastructure Investment Bank under the name "Chinese Taipei," but said the island would be welcome to apply again as an ordinary member in the future. The two have been tied up over an "appropriate name" under which Taiwan can join the bank. Although China views Taiwan as a renegade province, it allows it to participate in the Asian Development Bank under the name "Taipei, China."

The new Chinese AIIB bank which is to be funded by surplus US dollars (printed out of thin air) that float around in foreign countries reserves, is payback for the USA institutions IMF, ADB and World Bank using financing as an economic tool to advance their interests. This China Watch newsletter listed in the heading of this email, is interesting on the subject.

Every so often we see stuff out of Europe saying how much better one or other of the PIIGS is doing but every news item ignores the horrible disparity between the fiscally prudent and imprudent nations. German economic data ignores the fact that German goods are going to insolvent countries with or without insolvent banks...

http://www.telegraph.co.uk/finance/comment/11531029/The-eurozones-economic-crisis-is-far-from-over.html

Grexit pending

Sadly, things are going badly for the Greek Government in their bid to elicit more support from ECB and other EZ members. In part, this is because Greece still wants to continue to run big deficits and avoid taking hard fiscal decisions. In part this is because Greece has done everything from annoying the Germans with WW2 reparation claims and flirt with Vladimir Putin. In part it is because the EZ countries realise they must take a firm stance with profligate debtor nations....from Seeking Alpha...

"**Despite a denial by Greece's finance ministry**, tensions between Greece and its creditors took another turn for the worse over the weekend, following a report that eurozone officials were "shocked" at Greece's failure to outline detailed structural reforms at last week's talks in Brussels. On Friday, Greece was given six working days by eurozone creditors to come up with reform plans in order to prepare for the April 24th Eurogroup meeting that will decide if €7.2B in financial aid will be disbursed. The bickering is adding to the pressure on the euro - down 0.8% at $1.0523."

With more banks and corporations running for cover, deflationary trends continue unabated in Europe...and QE from the ECB does not help because it increases the heap of cash which is looking for a home....from seeking Alpha...

"**Raising new concerns over the damaging side effects** of the ECB's landmark QE program, many analysts now think it is only a matter of time before Germany's benchmark 10-year government borrowing costs drop below zero for the first time. Yields on the Bunds fell to just 0.15% today, compared with 0.54% at the start of the year, as the ECB entered the second month of its €1T bond-buying program. Although not part of the eurozone, Switzerland became the first government in history last week to sell benchmark 10-year debt at negative interest rates, raising even more worries about distortions in the global financial markets."

Grexit – if it happens - could make the European banking system consume most of the trillion Euros from ECB's new QE, if only to rectify their existential reliance on the Greek debts.

The Global trend to further deflation

As China cools, the trend is to further global deflation. Deflation has already been driven in part by the export of jobs to the low wage economies and now affected by the reduction of global commodity prices based in reduced demand. 2015 is now going to be the year of the downturn.

When a boom ends, it is typically marked by the impact of the extra supplies built up in the system that customers will no longer require within the same time-frame. This "glut" means price drops for everything until the surplus has been digested.

For an individual business, this is often referred to as "the pipeline effect". The forward orders always reflect not just customer demand but also the supplier's delivery lead times. So when markets slow down, the effect on forward orders is for customers to simply cancel some of them and push the required delivery out into the future ... for the others.

Surviving the "pipeline effect" requires suppliers to be agile. To be able to defer their own purchases and reduce their inventories to match the new and significantly lower level of demand.

If the reduction in market size is say, 10%, then the "pipeline effect" could require a supplier to cut their own orders down by up to 50% by the combined effect of reduced order size and spreading the orders out over a longer delivery period. Unless a supplier can do this, the extra burden on their cash flow could render them insolvent.

This is a time to be on top of debt collection because in times of downturn it takes longer to collect from debtors, yet we have all become accustomed to living with near zero consumer interest rates and banks that readily provide extra accommodation.

At the country level, Finance ministers must review their budget projections (I hear Joe Hockey in Australia is factoring in a reduction of the iron ore price for 2015 down to USD35/MT and consequently a reduction in tax receipts of up to AUD10 billion).

At the level of each business enterprise, forward orders should be reviewed and debt collection chased.

The "pipeline effect" causes an over-reaction and for essentials (oil and food) we can expect some degree of bounce-back in prices. For oil, this could lead to an increase from USD56/bbl to somewhere around USD70-80/bbl by year end. Yet many oil producer companies will fall by the wayside in the meantime. The price of oil has become very complex and even the relationship between oil price standards in different sub markets has varied widely. The WTI-Brent spread is a case in point...

http://seekingalpha.com/article/3064436-what-the-brent-wti-spread-is-telling-us-about-oil-prices?source=email_macro_view_com_5_19&ifp=0

Too soon to predict timing of a crash

Conditions in New Zealand will be different with the current Christchurch earthquake and Auckland immigration, placing us squarely in a building boom for the next couple of years. Unfortunately, we are a trading nation and starting with our rural sector, the same adversity as affects others is almost certain to head our way. Adversity will start at the farm gate and spread through rural suppliers and country towns and eventually reach the three main cities.

IMHO, the macro global trends will be too strong for any single country to resist.

So while I sit here with my finger poised over the "delete" key, I hope I will be proven wrong as further figures emerge to rebut the recent data. This data indicates the beginning of a disturbing trend. But it will be interesting to see how the PBOC reacts in an attempt to stimulate the domestic economy.

This is a case of work in progress. It is still too soon to predict timing of a crash (in 2015 or later). But the stupidity of trying to solve a massive debt problem by increasing indebtedness will end badly at some point.