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Still heading in the direction of GD1 / Global trade - an indicator of a global recession / Ukraine, a pawn / Deflation and precious metals / UK's finances are suffering

Still heading in the direction of GD1

Here's more unfortunate support for my prediction of the Shale crash of 2015 is now coming to the global bond markets...from "Money Morning"...with thanks to author, Kris Sayce...

> "Take this story from Bloomberg:
>
> '*The worst commodities slump in 13 years is wreaking havoc for investors seeking to profit from companies in distress.*
>
> '*Distressed bonds have lost 8.2 percent this month as oil and coal prices slid, bringing this year's loss to 12.2 percent, according to a Bank of America Merrill Lynch index that tracks the debt. The securities are on pace to lose more than 20 percent for the second straight year, the worst performance since 2008. SandRidge Energy Inc. bonds have lost almost 30 percent since June, while notes of miner Cliffs Natural Resources Inc. are down more than 27 percent.*'
>
> It gets worse. The article goes on:
>
> '*More than $7 billion of the distressed-debt market has been wiped out this month amid a renewal of a slide in commodities. The performance is a disappointment to investors who purchased about $40 billion of junk-rated bonds from energy companies this year, thinking that the worst of the slump was over.*'
>
> And if that's bad enough, there's more…
>
> *Just to put things into perspective, Greece's total government debt stands at US$388 billion. It's a big number.*
>
> *However, it's worth noting that the total 'junk' bond market is US$2 trillion. That's more than five times the size of Greece's national debt.*
>
> *A company's bonds get a 'junk' rating if the market and ratings agencies believe the company has a high chance of defaulting on payments.*

What makes things worse is that, according to Forbes *magazine, US$1.6 trillion (80% of the total amount) of these junk bonds could default between 2016 and 2020.*

And if you consider that the average default rate on junk bonds since 2002 has only been 1.5%, it will be a big deal. That's especially so for leveraged investors who thought junk bonds were 'safe'.

To put this in further context, in 2007, the total size of the subprime mortgage market was US$1.3 trillion.

Right now, that makes the junk bond market 54% bigger.

And unlike when a sovereign state gets into trouble, junk bond issuers won't get a bailout from a central bank or the IMF.

The purpose of derivatives was to hedge legitimate risks. So it is reasonable to presume that this downturn in all commodities will trigger huge real losses for those counterparties taking on this risk. The failure of numerous shale oil/gas producers and repudiation to their debts, is likely to sharpen the impact.

Global trade - an indicator of a global recession

World Trade is usually an indicator of a global recession...and as China has been the main player, it may be reasonable to suppose that China has a shrinking, rather than expanding GDP because it still lacks a sizeable domestic demand base (relative to size)...

http://seekingalpha.com/article/3348725-world-trade-drops-most-since-financial-crisis?source=email_macro_view_eco_7_47&ifp=0

This statistic explains why commodities are all in negative territory. If Shipping companies are now losing USD57/tonne on containers between Shanghai and Rotterdam...what does that tell us?

http://seekingalpha.com/article/3348565-transportation-sector-in-trouble-what-are-the-implications?source=email_macro_view_eco_11_51&ifp=0

Ukraine, a pawn

Ukraine has always been a pawn in the big game between USA and Russia. Also the Undersecretary of State, Victoria Nuland has had her finger in the pie even before the Maidan uprising. More recently, Victoria visited Greece – where she had meetings with the Generals. Now she is popping up in bi-lateral discussions over Ukraine. The civil war in Ukraine (what else can you call it?) needs to be dealt with, because neither the EU nor Russia can afford the conflict to continue.

We know that Russian pressure was instrumental in bringing about agreement with Iran. Is there a payback due for that? We know the financial impact of the Ukraine issue on the EU is spread around – but for Russia, it is out there for all to see...

http://www.telegraph.co.uk/finance/economics/11759391/Oil-and-gas-crunch-pushes-Russia-closer-to-fiscal-crisis.html

So Stratfor picks up the story and has their views to air....

https://www.stratfor.com/geopolitical-diary/us-russia-case-bilateral-talks?utm_source=freelist-f&utm_medium=email&utm_term=article&utm_campaign=20150723&mc_cid=51966fe2a1&mc_eid=f6520e17b6

At last Turkey nails its colours to the mast and takes on ISIS head-on...

http://www.bbc.com/news/world-europe-33646314

Deflation and precious metals

I always read and take note of Harry Dent. He has been bearish on silver...almost unbelievingly so ...of late. This article describes where silver is at on the COMEX...

http://www.silver-coin-investor.com/Silver-and-the-Deflation-Thesis.html

With all commodities hammered now – including precious metals – can you buy and catch the falling knife with any degree of safety?...

http://www.mauldineconomics.com/the-10th-man/distressed-investing

This guy says, no, not yet.

If you are heavily into the likes of Google and facebook, there would be every reason to move out of those shares and into gold and silver. Tech stocks are looking to host a repeat of the dot-com fiasco of 2000/1. But in NZ and Australia, many of the largershares in our market are still well priced. What does Peter Schiff think?

http://seekingalpha.com/article/3348875-its-not-gold-vs-stocks-its-gold-vs-fiat-money-video?source=email_macro_view_gol_pre_met_1_19&ifp=0

I agree that the US Fed has lost control.

UK's finances are suffering

With the strongest military in the EU, the UK's finances are suffering as health and welfare costs blow out and the revenues from the North Sea wane and turn into debts from imported oil and gas. You may recall that 18 months ago the UK did their own version of QE which was for GBP375 billion. This was a huge amount (relative to GDP) but that wealth effect has now ended and the next winter could see the impact of more belt tightening. The Bank of England knows that it must soon start to increase interest rates – as must the US Fed. But will that be controllable?

http://www.telegraph.co.uk/finance/11759027/Interest-rates-could-run-away-from-Mark-Carney.html

It looks like Britain – with the illusion of growth from prior QE - - has about as much chance as the USA of increasing interest rates without causing serious damage.

One thing that oil companies don't like to talk about is that the Brent oil market index is being used around the world as a marker and yet the Brent oil field is dead and has played out. At least Norway has another new small North Sea oilfield that will be operating by 2019 (Johan Sverderup). The UK fields are all declining so the UK joins countries like Yemen and Syria as a "post peak oil" nation...down from 2.99 million bbls per day to 500,000 bbls per day...a massive hit to the UK economy and the likely death of Scottish nationalist hopes of independence.

On the subject of Brexit, Mr Obama gives a thumbs down to Mr Cameron...why? Because the US needs Britain's influence within the EU...

http://www.telegraph.co.uk/news/worldnews/barackobama/11759796/Barack-Obama-says-Britain-must-stay-in-EU.html

But in this article the one fringe thing no-one else talks about is that traffic deaths in USA are less than gun violence...He is right, the USA is nuts regarding possession of personal guns. But Mr Obama confirms an inability to change US gun laws will likely be the biggest disappointment of his presidency. Well, it will be for him, but for the rest of us there are many more disappointments...

And another thing……The switching off of all Japanese nukes effectively trashed the global price for yellowcake. What is happening now?

http://seekingalpha.com/article/3349135-uranium-what-happened-and-what-to-expect?source=email_macro_view_com_0_28&ifp=0