Creative Global Investments

Morning market commentary & charts

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Objectivity

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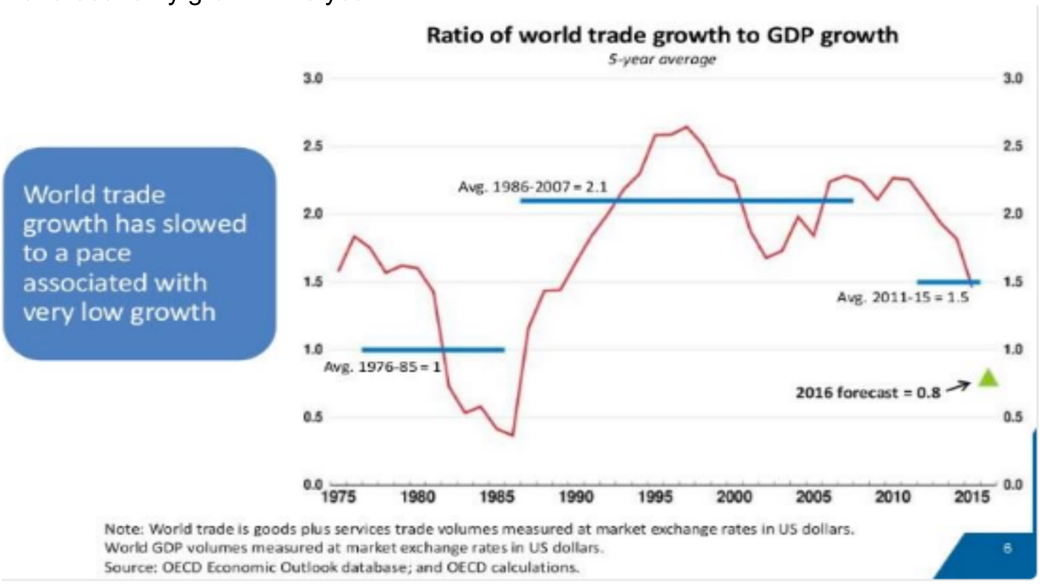
Global Macro Observations & Commentary

The OECD announced today it cut its forecasts for global and US growth. OECD now expects global economy to grow 2.9% this year, down from forecast of 3.0% in June.

However, it cut its US economy forecast down substantially to grow 1.4%, down from forecast of 1.8% in June, and forecasts now that the US trade growth set to lag broader world economy growth this year.



As noted over the past 10 years, the OECD like the IMF are still tremendous laggards when it comes to forecasting. They downgraded their GDP estimates now (after 9 months and 21 days into 2016) to the same level were we had US GDP forecasted for 2016 since our 2016 Global Strategy Outlook was published in December last year.

Just a tad slower than the big sell-side firms, which were forecasting 4 FED rate hikes in 2016, and US GDP to grow at 2,4% in 2016.

And the same organizations and sell side firms are now are forecasting Global growth to pick up to 3.2% in 2017; and the US to grow 2.1%, down from 2.2% estimate in June.

“Hype and hope economics forecasting” by the big sell side firms and economic think tanks out there are still far distant from reality, and that is why financial asset valuations are far from reality.

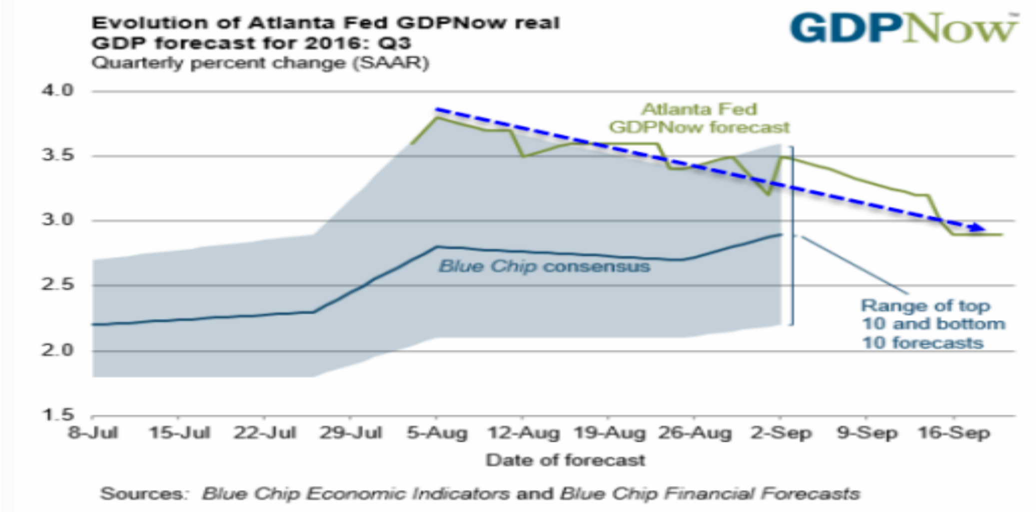
Independent research surely continues to have a more objective and correct assessment of global conditions, as our forecasting has proven over the past 11 years.

Weaker economic reports + More aggressive Fed + Presidential election uncertainties rising = Greater uncertainty = More downside risk in the near term.

In Asia, the BoJ meeting went pretty much as anticipated, with the BoJ paving the way for the Japanese government to boost its spending, turning monetary stimulus into fiscal muscle. The BOJ is effectively pledging to hold 10-Y borrowing costs at around zero, and to do this for quite some time. To us, this means that the BoJ sent strong signal that the government should follow through with fiscal stimulus that effectively comes with no borrowing costs. It's not quite a monetary financing but it's a step closer. However the way we wee it is that a pledge to overshoot a target you've consistently failed to hit isn't especially credible. We do not think that the intended macro impact of that pledge through expectations will be significant. But a pledge to finance government spending at zero per cent for the coming years could be a much bigger deal, even if it is only making explciit what has been a know fact in Japan for quite some time.

In Europe, Germany's HDE retail association and the HDB construction association on Wednesday raised their sales forecasts for 2016 in a further sign that private consumption and building activity will propel growth in Europe's biggest economy this year. HDE said it now expects nominal retail sales to increase by 2.5% in 2016, up from its previous forecast of 2.0%. Sales in 1H of 2016 were up 2.6%, it added. HDB lifted its forecast for nominal construction sales to 5% growth in 2016, up from 3.5% previously. Orders in construction reached a level last seen during the boom times following unification and the economic upswing in East Germany in the mid-1990s, it added. The German government expects soaring private consumption, higher construction activity and increased state spending on migrants to help the economy to grow by 1.7% this year. Some economic institutes predict an expansion of 1.9%.

In the US, the Atlanta Fed GDP NowModel lowered its Q3 estimated to 2.9% today. It's the first sub-3% estimate for Q3. And we believe it will keep dropping, as we have repeatedly been writing in the past 18 months. (Latest consensus forecast: 2.9% September 20, 2016) The GDPNow model forecast for real GDP growth (seasonally adjusted annual rate) in Q3 of 2016 is 2.9% on September 20, down from 3.0% on September 15. The forecast of Q3 real consumer spending growth ticked down from 3.1% to 3.0% after last Friday's CPI release from the US Bureau of Labor Statistics. The forecast of Q3 real residential investment growth remained at -6.3% after this morning's housing starts release from the US Census Bureau.



Other US data showed housing starts for August likely caught the eye of FOMC members as they started their two-day meeting. The headline print indicated that starts fell -5.8% last month to a seasonally adjusted annual rate of 1.142 MN, missing analyst estimates calling for a rate of 1.190 MN. Permits were also lower by 0.4% to 1.139 MN, another miss versus forecasts. Stripping out seasonal adjustments, housing starts were lower by -11.8%, six times more than the average decline for August of -1.9%. Following a trend through July that appeared to be converging on the seasonal norm, August's print is a significant drag on the year-to-date gains. While all regions reported a decline in the month, the South bore the brunt of the fall, the result of flooding in Texas and Louisiana. The South is a critical element to the aggregate trend as it accounts for the largest region by volume. Despite starts languishing in the month, housing units completed continues to show growth above the average trend, higher on the year by 2.8%. Housing data pertaining to the demand side will be released on Thursday with a report on existing home sales for the month of August.

The “denial party” on US current macro growth continues: (look at the headlines on past data releases)

09-15-2016: Retail Sales unexpectedly dip -0.3% - Weakness not contained to Autos

09-15-2016: PPI reviewed Final Demand for Goods -0.4%, Food Prices Down, Obamacare up

09-15-2016: Motor Vehicle Production +0.5%, Motor Vehicle Sales -4.4% y-o-y

09-15-2016: Real Hourly Earnings Decrease -0.1%, Real Weekly Earnings Drop -0.4%

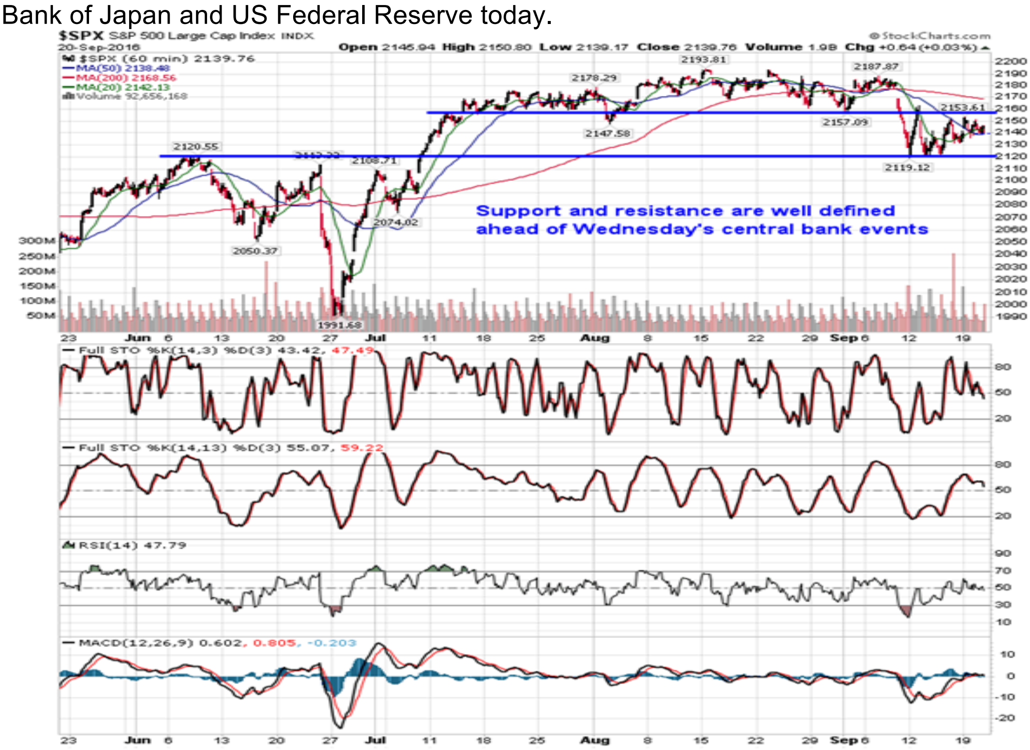
09-20-2016: Housing Starts -5.4%, (“not as weak as it looks”?!@#!#)

And US macro economists and strategists still have the audacity to pointing the finger to Europe and its “alleged” weak growth as a main reason for global slowdown?

One more time:

We do not see any economic rational for the FED to raise rates at this point in time. If Ms. Yellen still were to undertake such a foolish move, our advice to investors is to “run for the hills” for the next 3 months, as in such case expect for US equities and US bonds to be selling off to the tune of -12% to -20% over a 3-months time frame.

Stocks continued to consolidate ahead of the critical central bank announcements ahead. The S&P 500 Index continues to hold below recent short-term support, now resistance, at 2150, having recouped around half of the loss from the early month slide. With short-term resistance at 2150 and intermediate support at 2120, the levels are well defined for investors to shoot-off of as they react to the headlines from the Bank of Japan and US Federal Reserve today.



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