- Labour Market: Mixed Signals in the USA
- USA: Soon No Longer AAA?
- Silver: Trigger for Crash in Raw Materials Market

partners' view

January	February	March	April	May	June	July	August	September	October	November	December
1/11	2/11	3/11	4/11	5/11	6/11	7/11	8/11	9/11	10/11	11/11	12/11

Politics and business

Trade imbalances between the USA and China expand further. The euro debate and the debt crisis influence elections in Member States.

The trade balances of China and the US further fuel a possible trade war between the two world powers. While the monthly deficit of the United States expanded to 48.2 billion US dollars, China – after the recent declining trend – registers a surplus of 11.4 billion US dollars.

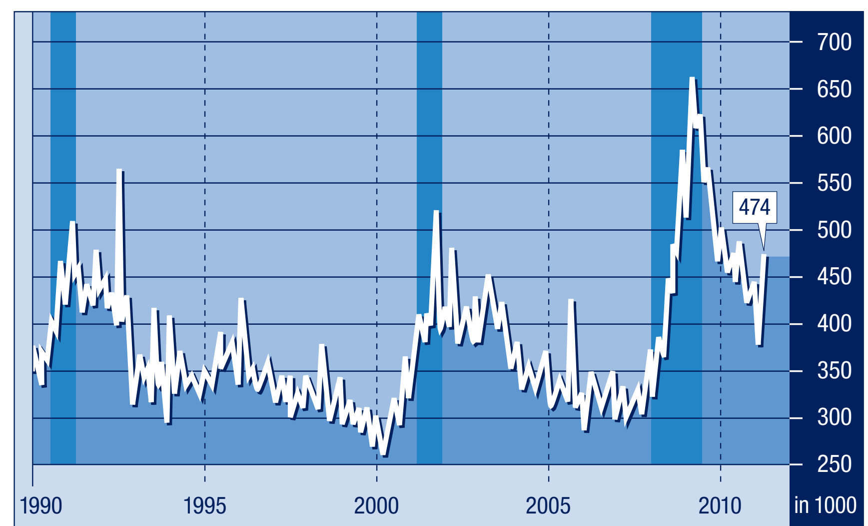
Greece

The debt situation in Greece dominates the media landscape and has effects on European interest policy, on the refinancing options of other potentially unsteady countries, on the euro exchange rate, and even on the election results of politicians and parties in the European Member States (such as Finland). The respective politicians are decisively influenced by opportunism (re-election chances by taking a hard line vis-à-vis deficit countries), shock (German and French banks with the biggest stake in Portugal and Greece), as well as foresight (withdrawal from the euro is not an option).

US Labour Market Is Not Stable

The nonfarm payrolls (newly created jobs) sent very encouraging signals for the American labour market. 268,000 (private sector) or 244,000 (besides agriculture) new jobs meant strong job growth. Yet the Initial Jobless Claims figures were very disappointing. A long period of recovery was followed by what is now a massive rise of a full ten percent to 474,000 new claims (see graph).
The US Department of Labor is trying to calm the markets with talk of a temporary phenomenon, but the danger of an economic slowdown would be poisonous to precarious public finances, which desperately depend on tax revenue. In this milieu, rising interest rates are also extremely unwelcome, since they increase the heavily indebted government's interest burden and reduce consumer buying power. Nonetheless, the Fed reiterated at its last hearing that it would finish the second repurchasing program for US government bonds (Quantitative Easing 2; QE2) on schedule by end of June. A QE3 has not been planned for the time being. The purchase of treasuries in the context of QE1 and QE2 boosted the Fed to being the biggest creditor in US treasury bonds and bloated its balance of approximately 900 billion to over 2.6 trillion US dollars!
The maturity of QE2 is aggravated by the negative outlook for the US government bonds rating (see "Currencies and interest rates").
It comes as no surprise in this scenario that interest rates would rise, all the more so since we face a major interest turnaround anyway – the ECB has already raised interest rates. The question remains: Who will finance America's debts in the future?

Initial Jobless Claims in the USA



Source: Labor Department, Employment and Training Administration

Currencies and interest rates

The United States' massive new indebtedness threatens AAA rating. The largest bond fund sells all US government bonds. Greece's creditors will probably have to pay.

Not only Japan, Ireland, or Greece, are having financial trouble. In the USA, indebtedness will rise this year by a further 1.65 trillion US dollars – more than ten percent of the annual economic output (GNP). The land of infinite possibilities is incurring new debt of more than 14 trillion US dollars (that is 14,000,000,000,000) to its creditors worldwide. The debt clock unremittingly ticks onward and can be followed online at any moment: www.usdebtclock.org.
Rating agency Standard & Poor's threatens to revoke the USA's AAA rating. If Washington cannot present a credible debt reduction plan, the US will lose the highest credit rating. Even though inclusion on the so-called watch list is definitely a red flag, the real possibility exists of a downgrading resulting in higher interest rates. The American Stock Exchange corrected by more than two percent on the day of the warning shot. In response, the world's largest private bond investor, PIMCO, removed all US government bonds from its 237 billion US dollar Total Return Fund. The specialist in debt instruments expects the debts to disappear by inflation and consequently a massive fall in the price of nominal securities.

The Promise May Soon Be Broken

If the financial markets are anything to go by, creditors of Greek government bonds will soon indeed have to depreciate (haircut) even more.

6 % Greece 2019

For example, the 6 % Greek Eurobonds maturing in 2019 are still listed at 56 percent (see graph), but repayment within eight years at 100 percent is seeming unlikely by today's outlook. The bond market therefore assumes that the promises made by the European Union in January (see partners' view 1/2011) will not be honoured. Chancellor Merkel promised to honour the standardised Collective Action Clauses (CAC), which will mean that private investors will only be required to bear these costs themselves from June 2013 onwards and only then in relation to bonds issued subsequent to that date. If the financial market is right in its rating, then Merkel will break her word.

Haircut

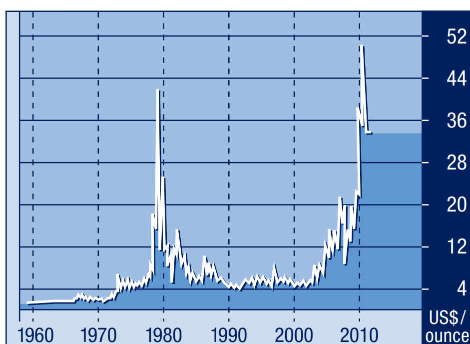
A restructuring of Greek government debt could occur in various ways. A haircut would be the classic and most likely form of debt waiver. All of the outstanding bonds and debt in the amount of approximately 300 billion euros would be massively downgraded and would continue at a nominal lowered by the impact. The interest burden would be reduced relative to the impact. With current indebtedness of almost 140 percent of gross national product (GNP) and an estimated impact of 50 percent, the indebtedness would then once again be at 70 percent of GNP, thus roughly at the level of Germany.

Financial markets

Chinese and Indians continue with nuclear electricity despite Fukushima. Silver crash triggers price dive for all raw materials.

After the Japanese stock market largely recovered from the Fukushima shock, the big losers from the nuclear accident continue to be nuclear energy companies RWE and EON (both German), BKW (Swiss), and EDF (French). Even though their rating is low and returns on dividends are high, the political risks are what is currently having sway. With the slide leftward in the German Bundestag and the current political climate in Switzerland, no expansion of nuclear electricity infrastructure is to be expected, on the contrary. Yet what is much more important for the suppliers of the nuclear industry (uranium ore miners, turbine manufacturers) are the expansion plans of the Chinese, Russians, and Indians. Approximately 120 new power plants will be built there in the coming years. With currently 443 nuclear power plants worldwide, this would entail growth of almost 30 percent.

Silver



Raw Materials Crash

The raw materials markets experienced a full-fledged crash in May. For instance, the price of a barrel of oil fell by 15 percent within two days. With a loss of nine percent within a single day, petroleum actually registered the biggest price dive since January 2009. Silver was hit even harder, with a 30 percent price correction. This brought back memories of the silver-speculating brothers Hunt, who were responsible for a tenfold price jump in the late seventies. End of April 2011, a new record was achieved at 50 dollars per ounce, which had not been registered since January 1980, when the brothers Hunt drove up the price (see graph). The premature end of the current silver peak will stem – as in early 1980 – from a massive increase in the margin requirements for speculators (collateral for futures purchases).
While the volatility of silver may be comprehensible, it is much harder to explain the dip in gas (–10 percent), gold (100 dollars in three days), or the soft commodities (coffee, sugar, wool, etc.). The high volatility of raw materials has several causes: The relatively high prices, the massive increase of money in circulation, Asia's raw materials appetite, and the debt problem (US dollars are parked in raw materials).

Last but not least

"Money lies on the street – one need only know on which one."
Unknown

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Robin F. Amacher
Marthe Ballet
Yves Baumann
Johan Buckert
Christ Johann Collenberg
Chantal Cvorovic-Lauper
Ute Dürtscher
Mario Economou
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