THEPAINREPORT

The Weekly Pain Report: The Best Show On Earth

Oh my goodness gracious me does it get any better?
Can it possibly get any better?

Forget your Reality TV, your cooking shows and Keeping up with the Kardashians.
What about keeping up with the 24/7 gripping drama of the world's financial markets?

I feel very sorry for anyone who missed this week's show.
It was exhausting but, boy, was it exciting!

It started with another dramatic departure from The White House Survivor series, with Gary Cohn being voted off the show by the populists and economic nationalists.

https://www.cnbc.com/video/2018/03/04/trump-has-just-thrown-a-very-large-spanner-into-the-global-economic-engine.html

Both Peter-Death by China-Navarro and Robert Lighthizer are now favourites to stay the course, with Jared- I'm not in the Seychelles- Kushner having gone missing and H.R McMaster looking for another series.
To spice it up a bit the producers of The White House Survivor series are looking to throw Bombshell John Bolton into the mix.

In Italy we saw the Five Star Movement deliver a striking blow to the mainstream parties in another win for the populists against the establishment and the political drama in Rome has much further to run.
In China the NPC (National People's Congress) looks likely to abolish the two term presidential limit.

In the meantime financial markets, mesmerised and exhausted by the political drama in Washington, Rome and Beijing had to also keep an eye on economic and monetary policy developments.
At the ECB press conference, Mario-I'll do whatever it takes to say 'that' sentence is not important-Draghi removed a reference to a previous easing bias from the ECB's monetary policy statement.
This further proves that the 'hawks' on the ECB are growing in confidence.
Pencil in the fourth quarter of 2018 as a 'must watch' finale to the 'hawks' versus 'doves' ECB show.
Then we had the Beige Book.

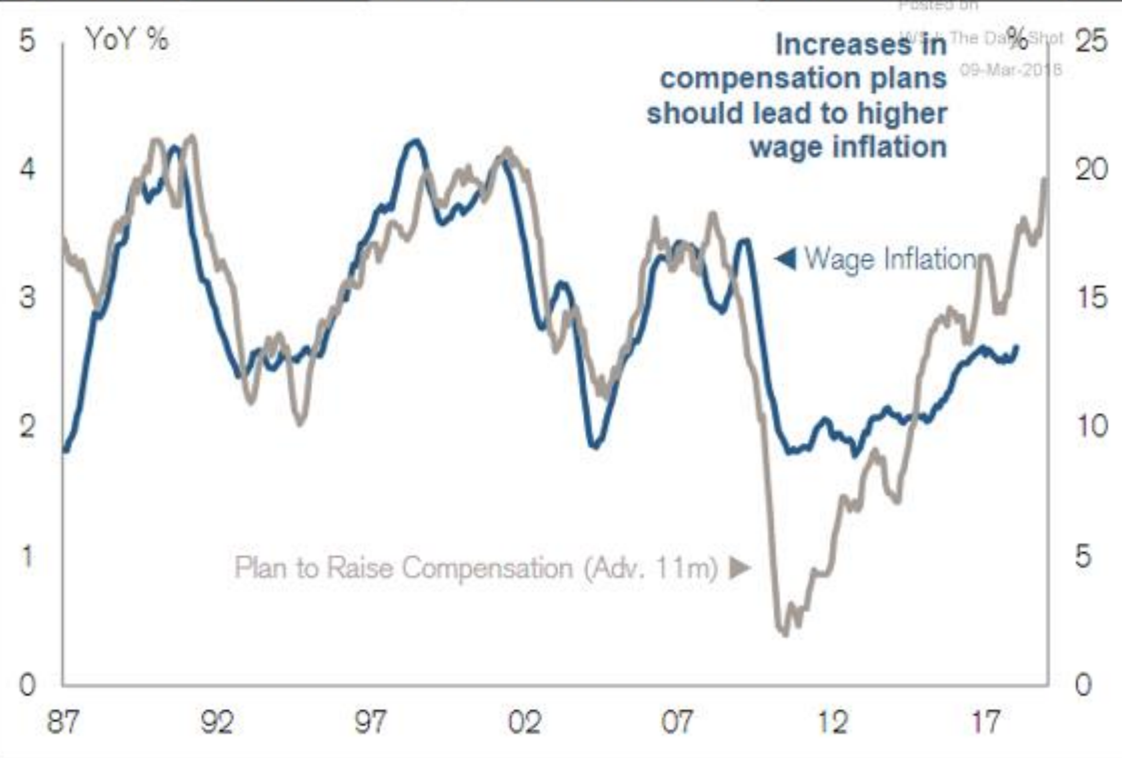
https://www.federalreserve.gov/monetarypolicy/files/BeigeBook_20180307.pdf

Stay with me now.
Please do a rapid speed scroll through the report and focus on the two sections for each district...'Employment and Wages' and 'Prices'.
What will become immediately apparent is that the words 'modest' and 'moderate' are regularly used to introduce each section.
And yet when you read the actual feedback from the industries and companies that have been surveyed, you get commentary like this.

"On balance, employment grew at a moderate pace since the previous report. Across the country, contacts observed persistent labor market tightness and brisk demand for qualified workers."

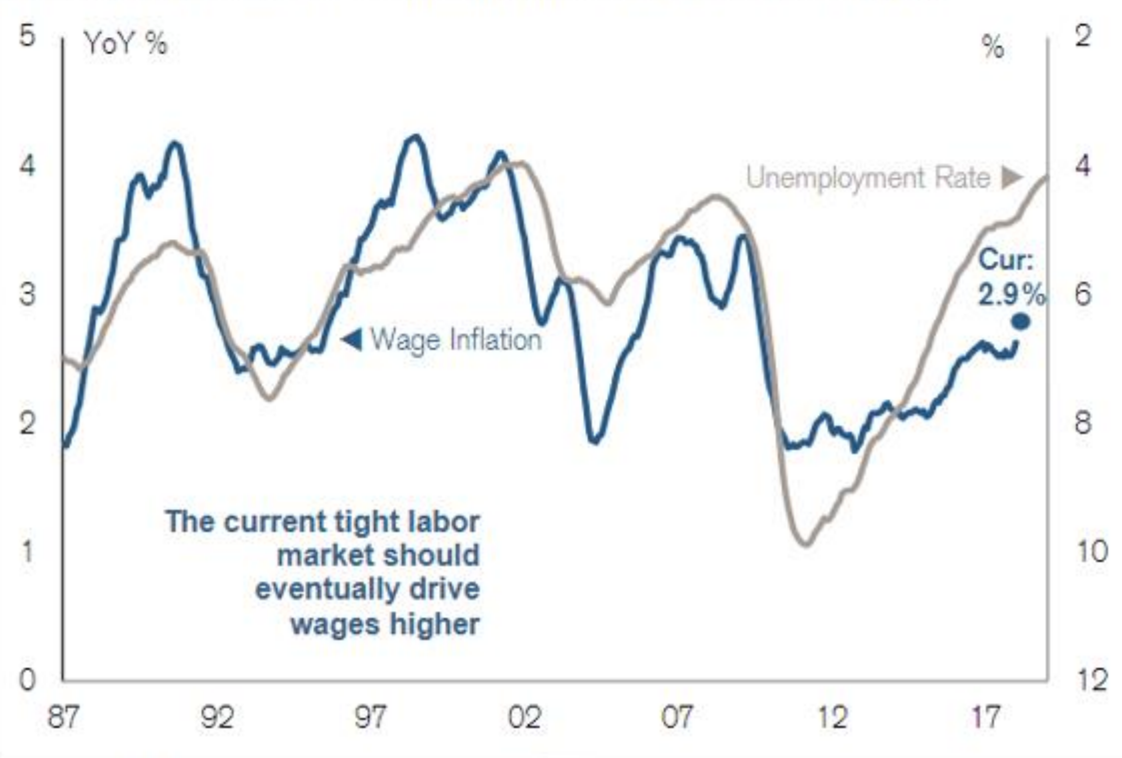
I could go on, but the disconnect between the terms modest and moderate and the actual feedback from companies is glaring.
And, yes, I would say this as I am an inflationist and believe there is a lot of price pressure in the pipeline that will, in time, be seen in the inflation data.
These charts, courtesy of the WSJ The Daily Shot, make this point well.

Figure 6: Wage Inflation vs. Compensation Intentions (Advanced 11 Months)



Note: Blended Non-Supervisory pre-2007 and All Employees post-2007; 6-Month Moving Average
Source: BLS, NFIB, Haver Analytics®, Credit Suisse

Figure 7: Wage Inflation vs. Unemployment Rate (Advanced 1 Year)

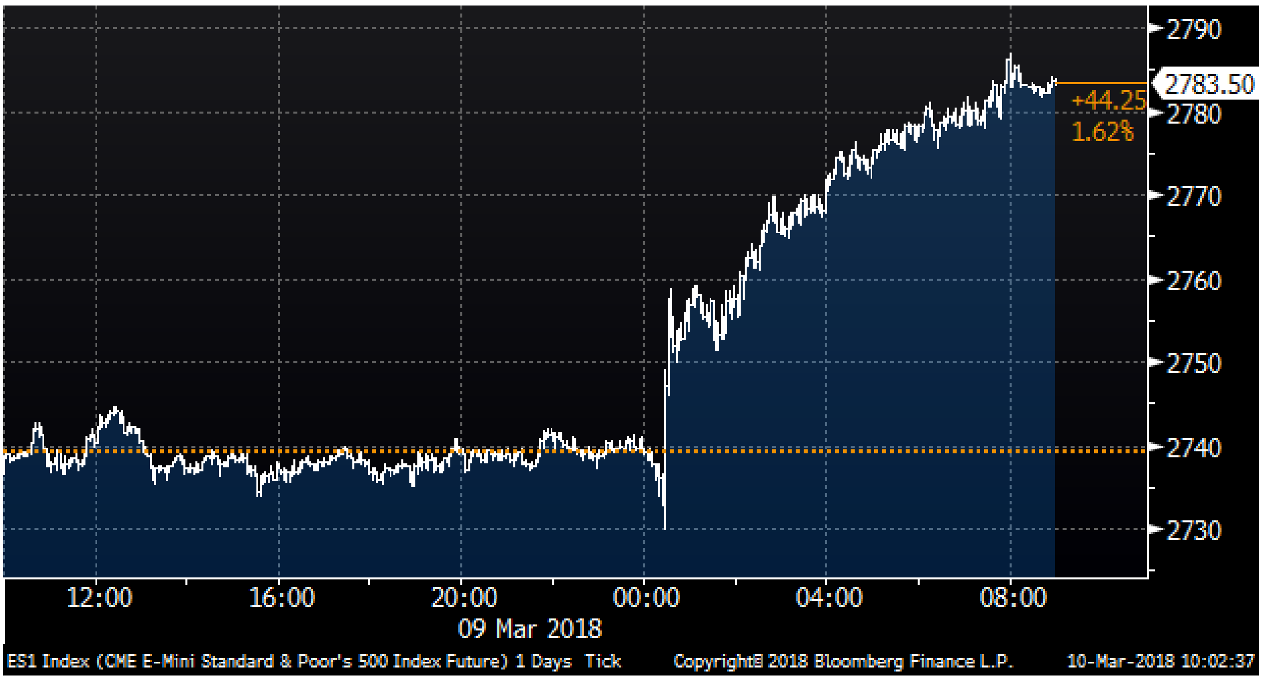


Note: Blended Non-Supervisory pre-2007 and All Employees post-2007; 6-Month Moving Average
Source: BLS, Haver Analytics®, Credit Suisse

Which brings us to the all-important U.S employment report (NFP) and the even more important wage data.

Event	Period	Surv(M)	Actual	Prior	Revised
Change in Nonfarm Payrolls	Feb	205k	313k	200k	239k
Two-Month Payroll Net Revi...	Feb	--	54k	--	--
Change in Private Payrolls	Feb	205k	287k	196k	238k
Change in Manufact. Payrolls	Feb	15k	31k	15k	25k
Unemployment Rate	Feb	4.0%	4.1%	4.1%	--
Underemployment Rate	Feb	--	8.2%	8.2%	--
Average Hourly Earnings MoM	Feb	0.2%	0.1%	0.3%	--
Average Hourly Earnings YoY	Feb	2.8%	2.6%	2.9%	2.8%
Average Weekly Hours All E...	Feb	34.4	34.5	34.3	34.4
Labor Force Participation Rate	Feb	62.7%	63.0%	62.7%	--

Lest we forget, it was the news of a 2.9% increase in wages that, a month ago, wreaked fire and fury on the markets.
As you can see, above, the 2.9% was revised down to 2.8% and the February report came in at 2.6%.
This gave the deflationists much to celebrate and the Wall Street Goldilocks brigade got into full-on party mode.
A blockbuster 287,000 jobs and a 2.6% wage report and you get this:



No need to tell you when the NFP report came out.

And, the day, and the week, end up like this.

Americas	RMI	2Day	Value	Net Chg	%Chg	Time	%5Day
DOW JONES			25335.74	+440.53	+1.77%	03/09 c	+3.25%
S&P 500			2786.57 d	+47.60	+1.74%	03/09 c	+3.54%
NASDAQ			7560.81	+132.86	+1.79%	09:16 c	+4.17%

With the NASDAQ making new all-time highs.

Remember now this was a week that began with the 'shock' resignation of Gary-globalist-Cohn and Wall Street's best friend.
This was the week that began with the ominous threat of a global trade war.
Cohn's resignation was confirmation that Trump's true protectionist instincts had been unleashed.
As I said in my CNBC interview above, we had known that Navarro and Lighthizer had been working feverishly in the background on launching a trade attack on China.
And let us be very clear about one thing, and that is Navarro has China in his sights.
Do as much reading as you can on Navarro and, as you may recall, I have been highlighting, for some time, his determination to launch a trade war on China.
So, how do we make sense of all of this?
Are we on the brink of a global trade war and, if so, surely this is not good for financial markets?
Or, have the markets decided that Trump's bark is worse than his bite?
And, in his press conference, when he signed his 'proclamation', he did point out that he would make exceptions, particularly for Canada and Mexico, if there is a satisfactory agreement on NAFTA.

Another way of looking at all of this is to acknowledge that if this kind of news can't kill the bull market, what possibly could?
Significantly higher inflation and higher bond yields?
And if so, how high?

A much more aggressive FED?
A decline in earnings, to state the obvious, would do it, but that seems far away given the strength in the economy.
As you know I'm in that camp of four rate hikes, 4% wage inflation and 4% U.S Treasury yields.

Only time will tell but that is where I think we are heading.
Will that kill the bull market?
And if so, when?
Is this more of a concern for September/October 2018?
Perhaps, and by then we will have a much better feel for my very non-consensus calls on wage inflation et al.

Before we get to the most extraordinary news event of the week.
I know it's cruel.
I have a confession, which I really don't need to share with you, but I will.
As soon as I saw the news of Gary Cohn's resignation I instinctively, and impulsively, wanted to send out a 'Sell Everything' alert.
It was only because I spent the next several hours on the phone, replying to emails and listening to CNBC that I did not.

So, thank you to all of you who bombarded me on that fateful day.

That night I fully expected that the DOW would be down at least 1,000 points and I was positioned accordingly.
My challenge was did I stay up all night or set the alarm for about 2.30 am.
I couldn't have been more wrong.

The humiliation did not end there.
It was this news that absolutely stunned me, shocked me and amazed me and I'm running out of superlatives!

> You Retweeted
> **TicToc by Bloomberg** @tictoc · 24h
> "Kim pledged that North Korea will refrain from any further or missile tests...he expressed his eagerness to meet President Trump as soon as possible...Trump said he would meet Kim Jong-un by May," says South Korean national security adviser Chung Eui-yong

For a long time I have feared that there was a real chance of an actual military conflict on the Korean Peninsula.
A year ago I dedicated a lot of my reports to the increasing probability of such an event.
I said that 'All roads lead to Beijing' and that China was the only nation with the capacity to contain North Korea and that China would ultimately do so.
As time went by the rumours that the Americans were contemplating a so-called 'bloody nose' strike option gained significant traction and credibility.
Every analyst and Korean expert I listened to became increasingly alarmed.

Eventually I put it into the same basket as a possible Iran-Saudi conflict.
Plausible, if not probable, but an event that I just had to put out of my mind as I could not predict the timing.

I am not going to go down the path of whom we should congratulate for the apparent stunning breakthrough and the prospect of a Trump-Kim face to face meeting.
To keep it brief I think all parties are worthy of praise.
Yes, that includes Trump.
Love him or hate him, Trump's unpredictability and his rhetoric of 'fire and fury' has helped bring Kim to the negotiating table.
I also think South Korean President Moon Jae-in deserves a lot of credit.
We also know that there is no love lost between Kim and Xi and I think the North Koreans realised that Xi no longer had their back.

Leaving all that aside it is unambiguously good news all round and led me yesterday to tweet 'Buy Nikkei 225'.

I am sure I have left something out from what has been a truly amazing week.
It is at times like these that I feel so fortunate that I am out of the corporate world of never ending meetings and I can spend 16 hours a day dedicated exclusively to analysis and reading.
It is exhausting, but rewarding as we are living in interesting times.

Before I let you go you may want to take a quick look at my Portfolio Construction Forum Summit speech.
To watch, unless you're already a member, you need to register and it is free to do so.

https://portfolioconstructionforum.edu.au/perspectives/brace-yourself-for-a-global-inflation-shock/

Have a good week.

JP

Website: www.thepainreport.com.au