



The Weekly Pain Report: The Sounds Of An Australian Summer

The Australian Summer is upon us and the cicadas are in full song, as indeed are the Balmy Army.

For six glorious weeks we will be spoilt by the sound of leather on willow as the old enemy take on Australia in the 70th Ashes Series.

In an age of bumper sticker slogans, breaking news headlines and Twitter we can sit back, relax, and enjoy a game that can take five days and end in a draw.

In fact there are five Test Matches, that each can take five days, all of which could end in a draw, and we love it.

Indeed, as I write this the Cicadas are deafening and the third day of the first Test is about to start.

Cicadas are the loudest insects in the world, and only the male of the species sings.

They have a very short lifespan, above ground, of only a few weeks.

Most of their life is spent underground as a nymph and in fact some varieties can spend up to 17 years beneath the surface.

No wonder they sing so loud once they break free.

There are many similarities between our Cicadas and our politicians.

They don't last very long, they make a lot of noise and we largely ignore them.

They are there in the background, but we largely tune out the discordant cacophony that they produce.

In fact, as you will have noticed, I very rarely discuss Australian politics in these pages.

Alas, the sounds of our summer now include the noise of sharpening knives in Canberra.

Unbelievably, if not incredulously, there is now much chatter of a challenge to the Prime Minister from within his own party.

How many will that be?

Rudd, Gillard, Rudd, Abbot then Turnbull.

In fact from 2010 to 2015 Australia had five Prime Ministers.

Sounds very Italian.

Does any of this really matter?

To cut a long and boring story short, probably not.

But, it does now appear that The Liberal Party regards Malcolm Turnbull as an electoral liability.

And the other point I would make today is that populism has most definitely arrived in Australia.

The Australian electorate is sick and tired of the lot of them and has a profound contempt for both the major political parties...sound familiar?

Fortunately, or unfortunately-depending upon your political persuasion- the leader of the most populist and anti-establishment party, sounds a bit like a cicada, which tends to put off much of the population.

If, however, the leader of the One Nation Party sounded a bit more like an English cricket commentator they would probably win in a landslide!!

Now I'm just getting silly, or am I?

The tectonic plates of the Australian political landscape are inexorably shifting as we listen to the sounds of cicadas and leather on willow.

Similarly, the noiseless, but powerful, forces of the turning in the tide of credit are producing a seismic shift in the real estate market.

All of this at a time when the clowns in Canberra look furtively, and nervously, for the birth certificates of their grandparents.

You couldn't make this up if you tried.

My opinion, for what it is worth, is that if the Liberal Party abandons Turnbull they will render themselves unelectable for as long a time as a Cicada nymph lives underground.

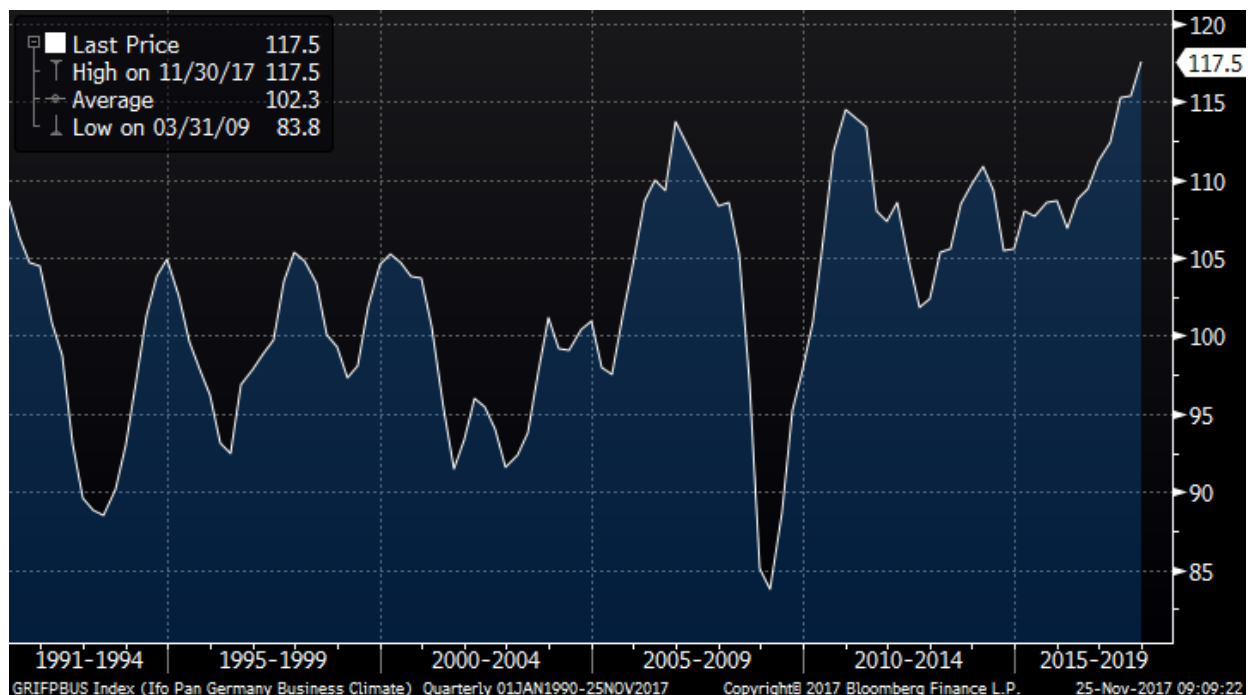
Julie Bishop and Scott Morrison you cannot be serious!

After all of that it is a challenge to turn your attention toward things that really do matter. What happens in China matters, and in that regard please take a quick look at my CNBC interview from yesterday.

<https://www.cnbc.com/video/2017/11/23/chinese-government-bond-yields-above-4-percent-is-significant-and-symbolic.html>

The times they are a changing in China and I don't think my comments in the above interview require too much further elaboration.

What happens in Europe matters too, and the news continues to be positive, as can be seen in the chart below of the German IFO Business Confidence Survey.



Similarly, European commercial vehicle sales continue to be strong. As most of you hopefully know this is my single most favourite European economic indicator.

http://www.acea.be/uploads/press_releases_files/20171123_PRCV-1710-FINAL.PDF

Total new commercial vehicles

In October 2017, commercial vehicle registrations across the EU gained momentum, showing positive growth (+10.7%) compared to one year ago. Demand was sustained across all segments, except for buses and coaches. Among the five big markets, Spain (+20.9%), France (+18.6%) and Germany (+14.5%) recorded the highest gains, while the United Kingdom (-9.8%) performed significantly less well than in October last year.

From January to October 2017, demand for new commercial vehicles remained positive in the EU, with almost 2 million new vehicles registered – up 4.0% compared to last year. Spain continued to drive growth (+15.1%), and so did France (+7.7%), Germany (+3.3%) and Italy (+1.8%). UK demand, however, contracted (-3.9%) over this period.

Please note the slowdown in the UK.

And the times are changing in the Middle East as Saudi Arabia flexes its muscles, having been emboldened by yours truly in the Oval Office.

In the meantime things are looking up for the unwilling guests at the Ritz-Carlton in Riyadh, as can be seen from my tweet below.



All of this leading, in a roundabout way, to the 'backwardation' in the crude oil market, as can be seen in the chart below.



Backwardation, which is a very odd word, happens when the price of the 'front' month crude oil contract is higher than the second month, and it is a bullish sign for oil prices. Needless to say WTI oil prices are approaching a critical price point at \$60 and all eyes will be on the forthcoming OPEC meeting in Vienna on 30 November.

One has to imagine OPEC and Russia will continue with their policy of limiting production. As I have said previously any further escalation in tensions between Saudi Arabia and Iran will serve to strengthen oil prices.

For the time being, and thanks largely to Emmanuel Macron, Saudi Arabia appears to have been persuaded to not further destabilise the region, and in particular Lebanon.

And we must mention that Lebanon finally got their Prime Minister back.

If only Australians could have a similar affection for their one.

All of this talk of higher oil prices feeds into my biggest risk for 2018 and that is my belief that inflation will surprise on the upside.

The markets are simply not priced for a rise in inflation.

All of my analysis tells me that the market is significantly mispricing the prospect of higher inflation next year, in pretty much every region of the world.

Now back to the sounds of an Australian Summer and Australia is 6/202.

Have a good week.

JP

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