SHAKIN' ALL OVER: MARKETPLACE FEARS
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In the love song "Shakin' All Over", The Guess Who sing:
"That's when I get the chills all over me
Quivers down my backbone
I got the shakes in my thigh bone
I got the shivers in my knee bone
Shakin' all over".

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Love, regardless of the variety of ways experts define and explain it, is not the only phenomenon that can make us shake and tremble. Think of war and other conflicts. Marketplace situations, fluctuations, and jolts—whether in equities, interest rates, currencies, commodities, real estate, or elsewhere in commerce—also can excite joy and fear in players.

CONCLUSION

China's recent shocking currency devaluation underscores not only that country's ongoing growth slowdown, but also its leaders' fears that real GDP expansion rates will ebb further. China of course is not the only emerging/developing nation nervous about insufficient output or even recessions. Trends in the broad real trade-weighted US dollar, emerging stock marketplaces, and commodities "in general" signal (confirm) slowing growth in both emerging and OECD economies. Moreover, recent pronouncements by the International Monetary Fund regarding the central bank policies of key advanced countries manifest widespread worries about growth in these well-developed territories. Despite about seven years of highly accommodative monetary policies such as yield repression and money printing (and frequently bolstered by hefty deficit spending), the foundations of worldwide growth increasingly look shaky.

CHINA (AND THE DOLLAR)

"I'm pickin' up good vibrations". "Good Vibrations", by The Beach Boys

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What's "good", "bad", and "neutral" in financial marketplaces is a matter of opinion, even though some viewpoints are more widely or strongly held than others.

Anyway, what do the fine print comments by the People's Bank of China regarding its devaluation reveal? The real effective exchange rate RMB is "relatively strong", so the central bank seeks to "improve quotation of the central parity of RMB against US dollar". This "reform of RMB exchange rate formation will continued to be pushed forward with a market orientation" (PBC spokesman, 8/11/15; grammar as in the PBC website's English version).

By moving to a supposedly more market-determined exchange rate, China indeed also probably wants to encourage greater international use of the renminbi, as well as to include it within the IMF's Special Drawing Rights currency basket. The IMF believes China's new currency pricing method represents "a welcome step as it should allow market forces to have a greater role in determining the exchange rate" (cited in the Financial Times, 8/13/15, p3).

The PCB rushed to stop the recent currency depreciation as the renminbi slumped to 6.45 per United States dollar (Financial Times, 8/13/15, p1); note that this intervention occurred near 7/25/12's important renminbi low around 6.40. However, apparently the central bank (at least eventually) will tolerate further renminbi weakness, especially on an effective exchange rate (trade-weighted) basis. China's central bank stresses: "it will take some time for the market makers to adjust quotation and trading practices, as well as explore and find the equilibrium price of the foreign exchange market. This may lead to potentially significant fluctuation of RMB central parity in the short run." Although "currently there is no basis for persistently depreciation of RMB [into the future]", the word "persistently" indicates openness in principle to weakness relative to current levels. The PBC wants to "keep the exchange rate basically stable at an adaptive and equilibrium level". Doesn't "adaptive" proclaim flexibility? (Quotations are from the PBC spokesman, 8/12/15).

The high for the Chinese renminbi against the US dollar was over eighteen months ago, at 1/14/14 around 6/04. The slide to 6.45 is about a 6.8pc move.

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Jerry Lee Lewis croons in "High School Confidential":
"Why don't you listen to me, sugar? All the cats are at the high school rockin'
Honey, get your boppin' shoes
Before the juke box blow the fuse".

Why don't we recall the heavenly ascent and dramatic blow-up of China's Shanghai Composite stock index? Was the Shanghai Composite "severely overvalued" or in "bubble territory"? From lows around 1974 on 3/12/14, 1991 on 5/21/14, and 10/23/14 at 2297, it blasted up to its 5178 apex, attained merely two months ago on 6/12/15. A precipitous descent followed this meteoric rally. The index crashed nearly thirty-five percent to its 7/9/15 low around 3374.

To remedy this fearsome equity collapse, China's alarmed rulers unveiled assorted share support schemes, including share buying, halting IPOs, and targeting short sellers (NYTimes, 7/5/15, p8; Financial Times, 7/3-4/15). Thus China's share support toolkit involved money printing. Desperate times require desperate measures! Compare the Federal Reserve Board, European Central Bank, Bank of England, and Bank of Japan's ardent embrace of quantitative easing. In any case, China's band of state financial institutions has spent $144 billion to support its stock marketplace since June out of an available sum of $322bb (Financial Times, 8/7/15, p13, citing Goldman Sachs).

The effort to reverse the frightening tumble in Chinese shares reflects an effort to maintain economic confidence (and adequate growth) as well as faith in the ability of political (economic) leaders to successfully manage outcomes. China's battle to sustain sufficient economic growth (including adequate export levels) via currency depreciation has similar aims. Real GDP growth, consumer and business confidence, and trust in leadership intertwine.

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Keep in mind that the head of the International Monetary Fund supports China's stock marketplace intervention (Financial Times, 7/30/15, p1). This highly accommodative attitude parallels the IMF's views toward the easy money programs of advanced nations.

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China's deliberate renminbi depreciation represents a shot fired in ongoing currency wars (competitive devaluations) and trade battles.

The Financial Times yells: “China’s neighbours hit multiyear forex lows [versus the US dollar]” (8/13/15, p20).

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China’s devaluation assists the long-running bull charge in the broad real trade-weighted US dollar (“TWD”). China represents about 21.3 percent of the TWD (Federal Reserve, H.10). According to the Bank for International Settlements, the US is 19.0pc of China’s broad effective exchange rate index.

With the 2007-09 worldwide economic bloodbath in mind, including in relation to the S+P 500, monitor in the current context the broad real trade-weighted US dollar level and trend. The broad real TWD (monthly average) climbed from a low around 84.2 in April 2008 (just before the S+P 500’s final high at 1440 on 5/19/08) to 88.8 in September 2008, jumping up to 93.9 in October 2008. The S+P 500 shattered, plummeting from around 8/11/08’s 1313 and 9/19/08’s 1265. The TWD’s March 2009 high at 96.9 arrived around the time as the S+P 500’s 3/6/09 major low at 667.

The broad real TWD established a major (and record) bottom at 80.5 in July 2011. Over the past several months, its ascent has carried to levels beyond the important October 2008 level and very near to the March 2009 pinnacle. The July 2015 TWD (calculated prior to China’s depreciation) stood at 95.5. The broad real TWD’s 18.6 percent bull leap from its July 2011 trough at 80.5 to July 2015’s 95.5 height surpassed its 15.1pc ascent from April 2008 to March 2009 during the global financial disaster.

Although the broad real TWD is not reported daily, the nominal TWD is. The nominal TWD’s recent low, 5/15/15 at 112.8, occurred shortly before the S+P 500’s 5/20/15 high at 2135.

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The Bloomberg JP Morgan Asia Dollar Index (“ADXY”) includes the Chinese renminbi. Amidst 2008’s economic earthquakes, the ADXY toppled (reflecting the US dollar rally) from around 116.0 (116.4 on 2/29/08, 116.0 on 4/10/08, 115.3 on 7/28/08) to 3/2/09’s 101.1. After peaking at 120.2 on 7/27/11, the ADXY danced back and forth. However, from 8/28/14’s 116.9 plateau (117.2 on 10/27/13), it crumbled, falling beneath the 2008 drop-off points, reaching 107.2 on 8/12/15.

SHOCK AND AWE: FALLS IN EMERGING STOCK MARKETPLACES AND COMMODITIES

Chuck Berry happily sings: “We was reelin’ and rockin’ Rollin’ till the break of dawn” (“Reelin’ and Rockin’”). However, everyone knows that in marketplaces, some types of reelin’ and rockin’ situations are more enjoyable than others.

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Emerging marketplace stocks and commodities “in general” have been in bear trends for quite some time. Declining emerging marketplace stocks and tumbling commodities warn of slowing worldwide growth.

“Past episodes of sustained dollar appreciation have been associated with crises in emerging markets.” (IMF, “2015 Spillover Report”, Paragraph 7; released 7/23/15). “The corporate debt

stock in emerging markets has risen significantly over the past decade and the highly leveraged corporate sectors also tend to have higher FX exposure." (Paragraph 11).

The World Bank shudders that a "structural slowdown" in emerging market growth may last years. ("Global Economic Prospects", "The Global Economy in Transition": June 2015). Thus China's slumping growth rate is not unique.

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The MSCI Emerging Stock Marketplace Index (from Morgan Stanley; "MXEF") is a key benchmark for emerging marketplace stocks. Despite the worldwide economic recovery, the MXEF has never exceeded its 4/27/11 peak at 1212 (which in turn hovers below its 11/1/07 Goldilocks Era pinnacle at 1345). With apparent confidence, it attained an interim high 9/4/14 at 1104. However, the MXEF nevertheless nosedived to a notable low several months ago, on 12/17/14 at 906. This December 2014 depth rested near important support around 875 (877 low 6/4/12, 878 trough 6/25/13). The MXEF then traveled to a minor high at 1069 on 4/27/15, rather close in time to the nominal TWD's important interim low of 5/15/15. However, the MXEF's 875 floor is now under attack; a fall from 9/4/14's interim top to 875 is about 20.7 percent (27.8pc since 4/27/11). A decisive breach of this support probably will inspire cries that an economic crisis is emerging or spreading.

Feebleness in the MXEF thus may intertwine with (confirm) strength in the broad real TWD. Such MXEF weakness warns of (can lead or confirm) a S+P 500 decline.

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Base metal trends are an important part of the "China economic growth story". Like the MXEF, the London Metal Exchange base metal index ("LMEX") has not beaten its 2011 peak (2/4/11 at 4478, and note also 4/8/11 at 4469; compare 5/4/07 plateau at 4557) in the succeeding years.

The LMEX made a minor low on 1/29/15 at 2667. Though it bounced up to 3003 on 5/5/15, it thereafter has stumbled beneath its January 2015 floor (note the TWD strength), moving under 2400 this week. This decisive breach of January 2015's trough warns of global economic weakness. It underlines slowing Chinese GDP growth.

After its celestial high at 1921 on 9/6/11, gold (nearest futures continuation) crashed dreadfully to 1130 on 11/7/14. The commencement of the broad real TWD's bull move from its record low at 80.5 began in July 2011 and thus preceded gold's peak by about two months. After gold danced up to 1308 on 1/22/15, its price eroded, reaching 1072 on 7/24/15 (down 44.2 percent from September 2011).

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The broad Goldman Sachs Commodity Index is heavily petroleum-weighted. It has not exceeded its spring 2011 highs around 762 (4/11 and 5/2/11). The GSCI renewed its bear trend following 6/23/14's interim top at 673; compare the date of the $110.48 high in OPEC's crude oil basket, 6/20/14. In their 11/27/14 meeting, OPEC oil ministers decided to maintain their production quotas. The bloody GSCI collapse accelerated after that gathering, stopping on 1/29/15 at 372 (down 51.1pc from the 2011 summit). Though it marched up to 459 on 5/6/15 (compare the low in the nominal TWD on 5/15/15), it thereafter resumed its mournful retreat. In August 2015, the broad GSCI smashed through the January 2015 low, reaching into the 360s.

The steadfast willingness of low-cost crude oil producers such as Saudi Arabia and its allies to maintain output even as prices massively slide reflects their determined fight to capture market

share. Compare this oil marketplace policy with currency wars (competitive devaluations) battling to support GDP (boost exports).

NERVE-WRACKING TIMES

Elvis Presley sings in "All Shook Up":
"My hands are shaky and my knees are weak
I can't seem to stand on my own two feet…
I'm all shook up…
Please don't ask me what's on my mind
I'm a little mixed up, but I'm feelin' fine…"

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Are central banks and politicians always devoted to so-called "free markets"? To what extent do they restrict themselves from entering into and manipulating marketplaces?

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Although most central bankers currently support today's widespread highly accommodative monetary policies, not all do. Arguably the Bank for International Settlements is such an exception (see its Annual Report, 6/28/15).

In any case, the Federal Reserve, European Central Bank, Bank of Japan, and Bank of England have long been married (roughly seven years) to highly accommodative monetary policies. They do not seem to be in a rush to change them substantially anytime soon. The Fed's apparent willingness to make a minor (gradual) boost in the Federal Funds rate in the near term is not a dramatic shift in its highly accommodative policy.

Inflation (and interest rate) and unemployment targets are not divorced from opinions regarding what constitutes sufficient (appropriate; desirable) real GDP growth levels and trends. An economic boom currently does not exist in the OECD in general. So if substantial "normalization" of monetary policy is not imminent among key advanced nations, then arguably central bankers believe that prospective growth GDP probably will remain rather feeble for at least the near term.

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The International Monetary Fund's persistent and recent support of highly accommodative central bank policies for the United States and other developed nations underlines the dangers to economic growth in those domains. The IMF's July 2015 "World Economic Outlook" cut world GDP growth .2pc from its April 2015 forecast, reducing calendar 2015 GDP to 3.3 percent (it left 2016 unchanged at 3.8pc). The July WEO slashed its 2015 output estimate for advanced nations by .3pc, making it 2.1pc (2016's prediction remained at 2.4pc).

The International Monetary Fund's 2015 Article IV Consultation with the United States (5/28/15; released 6/4/15) recommended that America should "defer its first increase in policy rates until there are greater signs of wage or price inflation than are currently evident." Based on the IMF's forecast, and assuming no upside surprises to growth or inflation, "this would put lift-off [of policy rate increases] into the first half of 2016."

The IMF, in its 2015 Article IV Consultation regarding Euro Area policies (Press Release and Staff Report; 7/27/15), says the ECB should ease more aggressively (extend the QE program) if

the Greek crisis flares up again or if inflation fails to reach the ECB's target of below but close to two percent. See also the "Transcript of a Conference Call on the 2015 Article IV Consultation with the Euro Area" (7/27/15) and the Financial Times (7/28/15, p2).

The Financial Times reports (8/12/15, p1) that the Greek debt saga has an outline of another bailout deal ("agreement in principle"; a €86 billion rescue package). Yet as it now stands, this Greek draft bailout arrangement, if it enacted and implemented, does not itself solve Greece's monumental debt challenge.

Despite Japan's gigantic fiscal problems, and despite its mammoth money printing festival, the IMF retains a monetary easing bias for Japan. It quivers that the Bank of Japan "needs to stand ready for further easing" (2015 Article IV Mission, Concluding Statement, paragraph 14; 5/22/15). Similar language appears in the Article IV Press Release and Staff Report (7/23/15 release), which further notes that "A credible medium-term fiscal consolidation plan is needed to remove uncertainty about the direction of policies that may be holding back domestic demand." The IMF does not want Japan to be over-reliant on Yen depreciation in pursuit of domestic policy objectives.

Does China's recent devaluation signal its unhappiness with Japan's substantial Yen depreciation?

REELIN' AND ROCKIN': IRRATIONAL EXUBERANCE REVISITED

"Nothing seems to happen that ain't happened before", the song "Crawling from the Wreckage", by Dave Edmunds

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Former Federal Reserve Chairman Alan Greenspan coined the phrase, "irrational exuberance" (Speech, "The Challenge of Central Banking in a Democratic Society, 12/5/96). About two decades later, this financial guardian proclaimed (Bloomberg Television interview, 8/10/15): "I think we have a pending bond market bubble." Of course, as in 1996, defining and identifying a bubble and predicting when (and why and how) it will pop and the consequences of such an event remains challenging.

Flights to quality can play a role in creating low interest rate yields, particularly in the safe haven government debt securities of countries such as the United States and Germany. However, sustained yield suppression by the Federal Reserve, the European Central Bank, and others, which motivates avid searches for yield (return) in assorted financial playgrounds (including stocks), surely encourages low interest rates in both government and many other debt arenas. Think of corporate bonds. In any case, suppose there is a bond price bubble ("too high" or "overvalued" bond prices; too depressed yields) in the United States. So presumably as various marketplaces interconnect in today's global economy, if American bond prices are at bubble levels, then arguably prices in other realms, as in the S+P 500, some real estate sectors, or the art world (painting), consequently could be inflated.

Were the S+P 500, US real estate, and art at the end of the Goldilocks Era in 2007 rather lofty?

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