Insights in 140 words

Macro

Wage growth - Many central bankers now reckon your pay cheque is a key variable in determining future monetary policy. But why? At Jackson Hole Janet Yellen said compensation trends could help identify the extent of slack in the US labour market. That is a tricky call - current hourly wage growth of 2.3 per cent (with 6 per cent unemployment) is the same as it was when unemployment hovered above 9 per cent. A recent Federal Reserve study highlights another potential pitfall: historically wage growth displays the best correlation with unemployment gaps only with a lag of 5-6 quarters. Nor does obsessing about wage growth offer much help with the other half of the Fed's mandate as labour costs move contemporaneously with overall inflation. Dovish central bankers may not have the luxury to wait for the numbers on your pay cheque to swell.

Strategy

Shanghai-Hong Kong Stock Connect - Hang Seng means 'ever growing' in Cantonese but the index remains a fifth below its peak. The 2007 high was reached after China announced (and later cancelled) plans to allow mainland investors to buy Hong Kong shares. Now a second attempt is going live in six weeks. Whilst a repeat of the 2006-07 rally is unlikely, investors should pay attention. New rules allow a roughly $2bn daily trading quota each into Hong Kong and Shanghai. That is nothing for the Ashare market but represents a quarter of Hong Kong volumes. Small and mid cap stocks could be particular beneficiaries given Chinese investor preferences. The move also opens the opportunity to arbitrage away the 8 per cent discount of A-shares to Hshares. But Beijing will also have to learn to live with higher volatility and the possibility of imbalanced currency flows.

Stocks

EDF - As Mario Draghi's speech sends European bond markets soaring lower yields are not being applauded in some boardrooms. Take mega utility EDF for instance. It has €70bn of long term future liabilities related to decommissioning nuclear power plants and managing radioactive waste in France. The company values these at €33bn on its balance sheet using a nominal discount rate of 4.8 per cent. That is twice the current yield on 50 year French sovereign bonds whereas in 2007 the two rates were similar. Another anomaly is that EDF discounts its pension liabilities at a lower 3.5 per cent. Deutsche's analysts calculate that using a 3 percent discount rate increases the current value of liabilities to €53bn. The extra €20bn is over 40 per cent of EDF's current market capitalisation. Investors tempted by the 5 per cent dividend yield take note.

Finance

QE and bank lending - How to gauge the potential impact of asset purchases by the ECB on eurozone bank lending? A Bank of England paper last week found that the £200bn of gilt purchases during round one of QE in 2009 contributed a measly 0.4 percentage point increase in annualised lending growth in the UK. Should the eurozone expect a similarly disappointing outcome? Thankfully not. The research blames poorly capitalised banks at the time for the inability of QE to spur lending. In fact banks with an above average capital ratio saw lending growth rise by nearly two percentage points. Bank capital ratios are already a lot higher than in 2009 and if the ECB targets asset backed securities that will free up more bank capital. The ECB is late to the QE party but any action could have a bigger impact on lending.

Digestif

Golf - President Obama tees off every ten days on average but the rest of America is falling out of love with golf. Since 2001 the number of players has fallen 5m to 25m. Core golfers - those who play more than eight times a year - saw a bigger decline than occasional players. Rounds played also fell to a 20 year low last year. And that means fewer courses - there are 700 fewer in America compared with the peak eight years ago. Why is golf out of favour? Optimists blame the economy. Others reckon the game lacks a superstar - 19 players have won the 24 majors since Tiger Woods's last victory in 2008. More worrying is an inability to attract youngsters - 200,000 players aged between 18 and 34 left the game last year leaving over 50s making up 60 per cent of golfers.