

## Insights in 140 words

### Macro

US Inflation - Janet Yellen dismissed the recent rise in inflation as "noisy" data. But if randomness is at play we can calculate some odds. It is ten years since American consumers have seen core prices rising faster than the current 0.3 per cent monthly rate, double the average over this period. Based on the volatility of the data there was only a 5 per cent chance of inflation being this high. For context an equivalent 1.7 sigma event would be 6 per cent annualized growth in quarterly output, or payrolls adding 500,000 jobs in one month - both occurring just once in the last decade. Ms Yellen may be interested that another similarly rare event happened in April: the unemployment rate dropping 0.4 per cent in one month. Two unlikely occurrences in two successive months - now the odds on that really are long.

### Strategy

Oil prices - Is the horror in Iraq significant for longer term oil prices or not? Much, as Tolstoy's War and Peace teaches us again and again, depends on the actions of individuals on the ground. If Iraqi government soldiers melt away the 0.1 per cent of global production currently at risk in the north of the country could expand to all 3m barrels a day (3 per cent of worldwide supply) as the supergiant fields further south are overrun. That equates to a bit under a half the rise in oil demand by 2018 based on Tuesday's medium term forecasts from the International Energy Agency. But what if the insurgents are repelled? The reality is exports from Iraq's Gulf terminals have accelerated to three decade highs thanks to infrastructure investment and no one knows how vast the country's reserves really are.

### Stocks

Amazon - As analysts scrambled to comprehend Amazon's new smartphone on Wednesday no one stopped ask: why is Jeff Bezos even bothering? Here is a company that has grown gross profits by more than 30 per cent annually for 18 straight quarters. Sales that were a whopping \$48bn at the start of 2012 may have doubled again by the end of this year. Sure returns are depressed - hence Amazon's hilarious 300 times forward p/e ratio. But investors understand that when capex finally moderates cash flows will leap. Also why chase the 150m smartphone users in the US when more Americans visit your website every month? Amazon already has 250m active customers around the world spending on average \$1,000 a year each. And everyone knows making money from music streaming is almost impossible - like persuading people to ditch their Samsungs and iPhones.

### Finance

Argentina bonds - This week's US supreme court decision has no doubt sent treasury officials the world over scurrying to read the prospectuses of their outstanding sovereign bonds. Can they relax if they find collective action clauses (CACs) in the fine print? In the case of Argentina two-thirds of its international bond issuance over the decade prior to 2001 came under non-CAC law. But the IMF argues that CACs are no panacea anyway. In their current form they bind debt holders only on an issue by issue basis, thereby making it relatively easy for creditors to exclude individual issues from an overall restructuring. And the latest ruling now allows holdouts to interrupt payments to those creditors willing to compromise. One simple contractual improvement would be for CACs to apply across all issues being restructured hence increasing the investment required to be a holdout.

### Digestif

Wherehousing - Much smirking accompanied the story this week that hundreds of thousands of tonnes of metal thought to be backing some Chinese loans do not seem to exist. But illusions abound in finance when you think about it. Total US bank reserves in May of about \$2tn supports five times that amount of deposits - so most Americans' savings do not exist either. At least some ingots of alumina in Qingdao are accounted for. There is absolutely no collateral backing the fiat currency in your back pocket. Likewise the value of assets from derivatives to private equity holdings owes more to belief and modelling than reality. How many investors in the \$32bn SPDR gold ETF know that they do not actually own any yellow metal, nor have rights of redemption into the physical commodity? And have they seen the bars? Have they?