

Insights in 140 words

Macro

Eurozone inflation - Was it all bad news that the ECB couldn't weaken the euro yesterday? Sure a depreciating currency guards against deflation. Mr Draghi quantified the impact in March: a 10 per cent euro decline raises inflation by 0.5 per cent. But that masks cross-country variations. For instance Spain - with energy accounting for a quarter of imports - may see a bigger impact than Germany where energy is 15 per cent of imports. Over the past decade a weaker euro has coincided with inflation in the periphery outpacing core countries. By this past relationship a 10 per cent fall in the currency would erase the current inflation differential that is helping rebalance competitiveness within the eurozone. Higher inflation is needed but with prices rising faster in the core than the periphery. A weaker euro helps one objective but may hinder the other.

Strategy

Iron ore prices - Nobody cares that the average temperature in America yesterday was 70 degrees Fahrenheit. Likewise why the fuss over iron ore spot prices at \$94 per tonne? After all this benchmark rate only references dry, fine dirt with a 62 per cent iron ore content landing in China. Therefore the actual prices producers receive vary by moisture content, grades, freight rates and export taxes. In addition buyers and sellers negotiate privately over quality and form (lumps and pellets are more expensive) as well as the usual factors that influence bargaining power (you need us more than we need you!). Real world prices can end up varying by as much as \$75 per tonne. For similar reasons producer marginal costs are also not homogenous. So investors beware when applying iron ore spot prices to the non-adjusted cost curves of your favourite miners.

Stocks

Apple - While you were pondering whether Steve Jobs was ever a NWA fan Apple became a half trillion dollar company again. Its shares have surged two thirds since last April and now sit a few percent below the 2012 highs. Does Apple deserve to be back at those levels? What is remarkable about the company is not the hype or the \$90bn buyback or the staring down of Samsung. It is its operational consistency. Gross margins are the same 40 per cent they were two years ago. So are ebitda margins, returns on capital and asset turn. What has changed is revenue growth. Apple's compound annual growth rate over five years was 32 per cent this quarter. The last time shares traded above \$600 the growth rate was over 40 per cent. Hence we know why Tim Cook likes Dr Dre.

Finance

EM corporate bonds - High up the most annoyed list that the ECB is not purchasing assets are corporate treasurers in the developing world. The central bank itself calculates that quantitative

easing in the US was responsible for a doubling of debt issuance by emerging market companies since 2009, to 0.6 per cent of output. Indeed net new issuance was over \$500bn in the last two years. But with the Federal Reserve steadfast on tapering that tailwind is disappearing - and at an inconvenient time. Across emerging markets the number of corporate bonds due to refinance in the next two years is high relative to history. In fact for China the roll-over requirements in 2014 and 2015 equate to 1.2 per cent of output, four times the average in the last decade. At least Mr Draghi's quip that "We're not finished yet" offers some hope.

Digestif

Mystic macro - Please email us for a special prize if you correctly predicted any one of the following at the start of the year: (1) A narrower trading range in dollar/euro than renminbi spot (2) Irish 10-year bond yields below both UK Gilts and US Treasuries (3) Japan as the country with the highest inflation rate among advanced economies (4) Stronger first quarter output growth in the eurozone periphery than in America (5) BIITS equity markets up double digits in dollar terms on average (6) A Greek government primary surplus (7) Iron ore prices down a third and nickel up a third despite both used primarily to make steel (8) A drop of 200,000 unemployed in the periphery but a rise in unemployment across the rest of the eurozone (9) America's trade deficit (goods and services combined as a percentage of output) being smaller than Japan's (10) Best performing stock market: Argentina.