Insights in 140 words

Macro

German exports - Germany is tired of everyone complaining about its trade surplus. The irony is that when data on Thursday showed the surplus having almost halved in August thanks to a 6 per cent fall in exports investors started wailing like school children. Some perspective is needed. These are volatile numbers at the best of times and holidays in several states were moved forward into August. But even taken as read the decline only takes exports back to where they were in mid-March and the medium-term positive trend remains intact. Indeed the nominal value of German exports is now a full tenth above pre-crisis peaks. By contrast exports from the UK have been trending down for three years and are barely above January 2011 levels. With another 5 per cent fall in the euro since August it is too soon to panic.

European growth - One reason investors were pushing wildly on their sell buttons this week is a fear Europe is stuck on its back. Consider the following: of the 3.5 per cent increase in output achieved since the trough five years ago, the only positive contributor to growth has been net exports. Cumulatively the other components of output remain at 2009 levels. Private consumption is flat and a tiny increase in government spending is negated by a similar drop in investment. So can Europe's strong trade story continue? Above all export performance relies on the health of the export markets. Two-thirds of the €200bn improvement in the region's annual goods trade balance between 2008 and 2013 came from emerging markets. Asia ex-Japan alone accounted for 40 per cent of the rise. Everyone is watching Mario Draghi. They should be observing further afield.

Strategy

Market pain - Predictable things happen when up years turn into down years. Most global equity markets have long been in the red for 2014, but after the mayhem this week bourses in US, Spain, Hong Kong and Australia are also hovering around negative territory having been up for most of the year. First there is the shock that so many business models and investment strategies are revealed to be simply beta plays. High cost-income ratio asset and wealth managers become unprofitable. So-called absolute return funds lose money despite the clever bells and whistles because they are mostly invested in equities. Genius traders who moaned about gently rising markets are smacked by volatile falling ones. Thank goodness therefore that bond investors have watched prices soar again in 2014. But imagine their incomprehension when two decades of fixed income up years eventually turn down.

Oil - A riveting side story to the slump in oil prices this year is that Brent is down 50 per cent more than WTI. The spread between them is now just below five dollars versus $20 two years ago. In a way that makes sense given America's economic prospects are superior to Europe's and countries such as Libya have doubled production in the past two months. The expectation the US lifts its ban on crude exports also helps. But hang on - shouldn't America's shale revolution be weighing on WTI? It certainly did two years ago but with new pipes and railways transporting oil to coastal refineries home-grown supply is simply replacing imports. For example African oil exports to America are down 90 per cent since 2011. Conversely, for refiners in Europe the narrowing spread is a nothing short of a life-line.

Stocks

Spin-offs - Citigroup and OneMain, Ebay and PayPal, BHP and Billiton, H and P. Suddenly spin-offs have replaced inversions as the corporate action de jour. But for efficient market nerds spin-offs are puzzling. Theoretically spun-off companies should not significantly outperform their peers on average - but they do. Surely everything good or bad about spin-offs is understood while they reside within the parent. Or if new information becomes available during the spin-off process this should be reflected in the IPO price. But somehow hidden value is magically unleashed when these companies are set free. Indeed within three years the operating margin of a spin-off has improved by a third on average, according to one study. Conversely, most academic research shows no statistically significant boost to shareholder returns or profitability on average for the parent company. Being the one left behind is always sadder.

Netflix - Last month a large number of contrarian readers chose basket-case Sony over glamour-boy Netflix in our inaugural stock picking competition. They, together with the French television industry are some of the few cheering yesterday's profit warning that sent Netflix's shares down by a fifth. Game over? Few remember that only five years ago the Netflix business model was considered kaput. Now everyone from Amazon to HBO believes in subscription streaming. Yes, a recent price hike has dented Netflix's subscriber growth. But do not forget that back in late 2011 the company said its decision to raise prices had caused US subscriber numbers to fall - for the first time ever. Within three months its shares fell 80 per cent. Then (when Netflix had the same 90 times forward price/earnings ratio as it does today) they rallied 700 per cent.

Finance

Funky capital - More grumblings this week from the ECB over legal moves across peripheral Europe to ensure deferred tax assets remain included towards tier one equity - a practice the European Union had supposedly regulated out of existence by 2018. There is no question this capital is illusory should another crisis occur, and that taxpayers would be left on the hook. The problem is that for peripheral countries the numbers are frightening minus deferred tax assets. For Spanish banks, for example, €30bn of deferred tax assets account for a fifth of the aggregate 10 per cent Basel 3 core tier one ratio. If they were excluded from capital, Spanish banks would either have to raise a similar amount elsewhere or cut €300bn of risk weighted assets from their balance sheets. That is not something even the ECB could imagine, however justified its frustration.

Banks sell-off - What happened? Investors were supposedly in love with American banks. Shares had doubled in two years and there was optimism that a firmer US economy would lead to rate rises and higher net interest margins. A few days of turmoil has dashed these hopes for a NIM recovery - shares in JPMorgan for example are down a tenth in ten days. An over-reaction? The reality is that despite all the funky things the likes of JPMorgan, Citigroup, Wells Fargo and Bank of America do these days, old fashioned net interest income still accounts for half of aggregate pre-provision revenues. Their average NIM remains a quarter down on five years ago but actual interest incomes had started to trend higher. With three quarters of large bank balance sheets dependent on 5-year rates or less it is no wonder investors are cooling fast.

Digestif

Pound and property - For the first time since January 2011 this week more surveyors said London house prices had fallen than risen over the past three months. Given foreigners account for half the property transactions in prime London expect gloomy dinner parties from Singapore and Moscow to Sao Paulo and Mumbai. But how does this affect Britain? Data from Savills - an estate agent - show that in 2012 overseas buyers poured in £7bn of equity into prime London housing. That alone helped finance 12 per cent of the UK's current account deficit and partly explains the strength in sterling despite a yawning trade deficit. So if London property is a big UK export, falling house prices could be a terms of trade shock with implications for the pound. At least overseas dinner parties could then drown their sorrows in cheaper imports of Single Malt.

French Nobel - Prime Minister Valls described Jean Tirole's memorial prize in economics - the first Frenchman in a quarter century - as a "thumb in the eye to French-bashing". Of course national pride in accidents of birth is delusional. However in this case Professor Tirole's life in France surely inspired his work on market power. EDF only gave up its monopoly of electricity generation under a European directive in 1999. Ditto for France Telecom. Should students of regulated industries want a live case study, on Tuesday 97 per cent of France's pharmacies (average annual salary of a chemist: €100,000) stayed shut protesting government plans to introduce competition. Indeed 37 trades and professions from locksmiths to taxi drivers (good luck Uber) remain protected. How ironic if Professor Tirole had won last month and couldn't fly strike affected Air France to Sweden to collect his prize.