►On Target

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What's Going to Happen to Shares?

Investors are still confused about the stunning collapse in stock markets. It's being blamed on the collapse in oil and other commodities, China, the "threat" of rising interest rates, the strong dollar, the risk of recession in America.

Does that make sense – are those negatives as bad as they're made out to be? Are we being given the whole truth? And where can we expect share markets to go from here?

Let's examine the facts…

► The immediate impact of the collapse in commodity prices is harsh. Oil companies are imposing savage cuts on staffs and on businesses supplying them, idling two-thirds of drilling rigs in the US, for example. They have scrapped $400 billion worth of expansion plans. Two-thirds of the loans to US oil and gas firms are trading at distressed levels (threatened by default).

Every nation dependent on oil exports is swimming in a sea of red ink. Azerbaijan, a small Central Asian producer, has begged for $4 billion in aid from the International Monetary Fund. Even Nigeria, one of the world's big producers, has asked for billions of international emergency aid. Sovereign wealth funds are selling off their shareholdings of blue chips and their other prized assets such as London properties in a cash-raising panic.

Global producers of commodities, including some of the world's major emerging economies and biggest companies, are in crisis. And the pain is going to get worse as they run through their financial reserves.

However, stock markets are forgetting about the slow-to-come-through but enormous favourable impacts of dirt-cheap commodities, especially oil.

China is running its biggest foreign trade surplus ever, not because of buoyant exports, but because it's paying so little for its huge imports of natural resources. Japan, which has to import most of its energy supplies, is also now operating with a substantial foreign trade surplus for the same reason.

A fall in the price of oil has the same effect for consumers as tax cuts. Roughly speaking, crude $10 a barrel cheaper deprives producers of about a billion dollars a day… but puts a billion a day of extra spending power into the pockets of consumers.

So why aren't we seeing economies getting a lift from those lower prices?

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Mainly because the favourable effects aren't very visible, they are offset by negative factors such as workers in the oil industry earning less or losing their jobs, suppliers to the industry going out of business, creditors having less to lend to other sectors. But visible favourable effects, such as falling airfares, are starting to come through (airlines are reaping record profits).

There is also a tendency for consumers, who benefit from the extra spending-power from paying less for petrol or heating the home, are not spending it all, but saving some.

If oil and gas prices stay down, the favourable impacts on major consuming economies will slowly become more apparent. Much more apparent.

► China, the world's second biggest economy and its largest source of economic growth, is blamed for being a major cause of investors' worries.

The weakness in its shares is said to be signalling impending economic collapse. The slowdown in its annual expansion from 7 to 6 per cent is frightening (gasp, gasp). Its fading hunger for industrial materials is devastating all the producing countries that have come to depend on its purchases. The mistakes it's making in managing its finances is a threat to the world economy.

This highly pessimistic scenario is largely based on the usual misjudgments, lack of understanding of how differently things work in China, and fear-based antipathy of China as an emerging superpower, that periodically flood the media.

What are the facts?

The crazy behaviour of the Chinese stock markets stems from the small role they play in managing the nation's enormous savings, lack of institutional involvement, the Chinese love of gambling, and hamhanded governance. There is very little correlation between what happens in Shanghai and in New York. Last year in August Wall Street was still close to its all-time high when Shanghai's big plunge of 43 per cent over two months had almost completed.

It simply isn't true that China should bear all the blame for the collapse in commodity prices. In the case of what is by far the most important traded natural resource, oil, China actually increased the volume of its imports by 6 per cent last year. The crash in commodities is largely a function of global over-production, over-supply… not falls in Chinese demand.

Why big banks can count on public money to underpin them

The speculation about Chinese banks facing collapse because of bad debt is a regurgitation of old nonsense. Even if you believe (probably correctly), that their non-performing loan ratios of around 1 to 2 per cent are misleading because of "extend-and-pretend" policies (allowing dodgy debtors to extend repayment dates on their loans, so they don't have to be recognized as defaulters), that doesn't amount to significant risk.

If there should be a crisis, there is no way the Chinese state, with its immense resources and around 80 per cent ownership of the biggest banks, would let them go under. It would save them, just as the US administration used federal resources to save banks (largely owned, not by the state, but by their friends), in the subprime crisis.

China continues to maintain its impressive contribution to world economic growth. Every year its consumers increase their spending at double-digit rates. It's now running the largest foreign trade surplus in the world's history. And even with its slowdown, the economy continues to grow strongly. The International Monetary Fund forecasts 6.3 per cent real growth this year.

► Investors fear that, after seven years of easy-money – abundant credit at rock-bottom rates if you're the kind of wealthy, high-earning or well-connected borrower that banks fight for – the glory days for moneymaking are over. Better to pull in your horns.

But the threat of central bank tightening is nothing new. The Federal Reserve took an age to move from suspending quantitative easing to making its first, timid, interest-rate increase. The other major central banks – Europe, Japan, China, Britain – are not tightening. Some are continuing to flood their economies with cheap credit.

Easy-money gives no advantage to Europe

There is this obvious disparity between policymaking in the US (tightening) and elsewhere (keeping credit cheap and easy). But if this fear is driving investors, why are they much less negative about American shares than those of Europe and Asia?

In any case, it's looking increasingly likely that the Fed won't make another interest-rate increase this year. It could even reverse policy direction, and revert to easy-money measures, if there's a sharp setback to economic growth. Or another crisis in credit markets. Or even a sustained plunge in share markets.

► About a fifth of economists polled by the *FT* fear that the US is heading into a recession over the next two years.

Many investors believe that the down-trend in shares is signalling such a coming recession, that the stock market traditionally does that. But that's not true. Often major bear markets in the US in the past were not followed by economic recessions. They were false signals.

In the final quarter of last year the economy did perform poorly, with seasonally-adjusted annual growth falling to 0.7 per cent compared to 2 per cent in the previous quarter. But one quarter isn't a reliable future indicator of anything.

And even if it turns out to be, it won't tell us anything about what's going to happen to shares. They often react positively to the prospect of recession, knowing that the latter always motivates governments to embark on stimulus measures that favour stock markets.

Admittedly, there are some fundamental negatives that are headwinds that weigh down equities.

Corporate earnings growth has disappeared in the US, and is fading everywhere. But that isn't something new. So why didn't investors react much earlier?

Share valuations, measured in both historic and projected earnings per share, are extremely high. But that's nothing new either; are partly a consequence of

extraordinary easy-money policies; and in any case are a measure of risk rather than a mechanism for signalling market direction.

► Currently a more important factor for equity markets would seem to be currencies.

When the dollar's tradeweighted value began to soar in late 2014, Wall Street began to lose upwards momentum. After the dollar took off from its Easter pause last year, Wall Street rolled over and went into a dive in what we can now see was clearly the start of a bear market.

However, it's also true that most other stock markets have been trending down more strongly than America's. Their weak currencies haven't helped them at all, at least in relative terms.

► Is there perhaps some undiagnosed nasty that's shaping investors' pessimism? Some shifts in the environment that we don't consciously take into account when making buy/sell decisions, but nevertheless biases our mood towards the negative?

Could that perhaps be -- growing insecurity about the global geopolitical environment?

Many things are changing, and not in encouraging ways. Radical personalities such as Donald Trump, Jeremy Corbyn, Marine Le Pen, have become important players. They may never take power in government, but they are certainly reshaping the political debate.

In Europe, unity is dissolving under the hammer-blows of migrants flooding in (1.8 million last year), with nations divided over what to do by self-interest, policy differences and culture. Old problems have gone quiet, but not gone away, such as Greece and Ukraine. Others rumble on, such as "Brexit," a potential UK exit from the European Union.

In the Mideast there is increasing conflict. China is starting to flex its muscles as a rising great power (ridiculous arguments over valueless islets). Latin America's greatest power, Brazil, has plunged into political, economic and financial crisis.

And everywhere there is slow but incipient social breakdown under the hammer-blows of policies that favour elites over the masses, of new freedoms brought by the explosion of social media.

Now for what I think is likely to happen…

I can't predict how those things are all going to work out, but sense that they are factors we don't take into account consciously, yet lurk in the shadows of our decisionmaking.

► Enough of the theorizing. What can we expect the stock markets to do?

This bear market didn't start in a normal way – central banks raising interest rates to combat inflation, or a banking crisis. And it's hard to see how it can be stopped in a normal way – cutting interest rates.

Sentiment is poor. Investors, including the big-money institutional investors, are wary. Markets aren't reacting well to good news – always a bad sign. The charts look distinctly menacing.

However, the proportion of American investors whose sentiment towards the stock market for the next six months is bearish is only 35 per cent, compared to a long-term average of 30 per cent. Historically, such a rating has signalled that this isn't going to be a vicious bear market.

Background factors aren't unduly negative. Global economic growth may slow somewhat, but there aren't enough negatives to suggest we're facing collapse. Central banks are likely to remain biased towards stimulation, while fiscal policies are edging away from austerity.

My view is that, because of the weight of negative thinking, stock markets are likely to fall further over the next few months, but will be searching for bottoms as early as the third or fourth quarters.

When "good" news comes through such as cuts in oil production, a major switch in policy by the Fed, or a reversal in the dollar, that should trigger a resumption of the secular bull market in global equities.

The Outlook for Oil

The recent bounce in oil prices looks like a rebound from absurd lows brought about by speculation. But is it really the start of a sustained recovery?

The Mideast's big producers – Saudi Arabia, Iraq, Iran and Kuwait – continue to pump at maximum capacity. Elsewhere, several major projects decided on in the sunny times of hundred-dollar oil are coming on stream.

America's shale producers have (so far) been much more resistant than expected to cutting production. In fact US output from all sources has actually risen by almost a million barrels a day over the past half-year. And high-cost conventional producers such as Nigeria, Canada and Russia have also largely failed to buckle under pressure and cut back production.

Nobody wants to write off huge investments made in developing supply, nor to mothball capacity, because restarting production when oil prices recover would be a very expensive business.

So, despite the savage fall in prices, the global industry continues to produce much more oil than the 94½ million barrels a day the world currently consumes. There's a surplus of about 1.8 million barrels every day going into storage. Latest figures suggest that advanced economies are now holding stocks of 3 billion barrels -- equivalent to about nine months' normal imports.

Even at $30 barrel, only 6 per cent of global production fails to cover operating costs, according to consultants Wood Mackenzie.

In a year-and-a-half the price of oil has plunged from about $110 a barrel to as low as $27, bouncing back to about $35. How much further can it fall? The pessimists say it could go to $20, or even less. Perhaps. But the longer prices remain at 12-year lows, the more intense the financial pressure on all producers.

BBVA Research predicts that crude prices are most likely to average $29 for the whole of this year, thereafter rising slowly to $55 in 2020. Its more optimistic "upside" forecast is that prices could average $44 this year, rising to $82 in 2020.

Its pessimistic “downside” forecast is for oil to average $19 this year and make no recovery by 2020.

A possible trigger for the start soon of a significant uptrend in oil prices is that the tidal wave of Iranian oil released by the lifting of sanctions turns out to be less disruptive than the markets currently expect. If fears begin to erode and prices start to recover, they are likely to be kicked upwards by speculators buying in to close their short positions and take profits.

Later this year there could be positive news reducing the supply/demand imbalance, such as delayed cutbacks coming into effect as US shale and other relatively high-cost producers run out of money.

And perhaps an end to Saudi Arabia’s “war” against American shale, with agreement between the biggest oil-producing countries to reduce their supplies. The key players in OPEC and outside it -- Saudi Arabia and Russia -- are already talking to each other about a global supply cutback deal.

When oil fell below $12 a barrel in November 1998, it stayed that way for only three months. It then doubled in price. But thereafter it drifted sideways for four years within a $20 to $35 range before breaking out in 2004 to initiate a new bull market.

I suspect we’re going to see that pattern repeated – a final dip to prices around $20, a sharp rebound in the second quarter, then ranging sideways, perhaps around $50 or $60, for several years.

Redback Versus Greenback

For almost a decade the yuan, China’s currency, rose steadily in value in terms of the US dollar. But for two years it has been losing value.

Is that telling us something ominous about the outlook for the Chinese economy? Or is it no more than one important consequence of the volatility in exchange rates produced by the collapse in commodity prices, and a global currency war initiated by Japan?

You can ignore the latest bout of apocalyptic forecasting about China. It’s simply ridiculous to be so negative about an economy that, even with some slowdown, continues to grow about 6 per cent a year in real terms.

The weakness in the yuan isn’t about that currency. It’s about strength in the dollar. “Around the world, we are in the middle of a massive US dollar buying panic,” says Gavekal’s Louis Gave.

The yuan is only weak in dollar terms. Proof of that is that in terms of the euro, the other major currency, the yuan is trading now at about the same value as it was six or 12 months ago. Its trade-weighted value measured against a basket of 13 currencies has been broadly stable since the beginning of last year.

The yuan’s weakness in dollar terms is all about massive capital flows.

Foreigners have stopped investing in China because of the chaos in its badly-managed stock markets, poor business prospects in some sectors, and spreading belief that the yuan is in a likely-to-be-sustained downtrend.

The Chinese themselves are shifting capital out of the country, primarily into acquiring dollar assets and reducing dollar liabilities, on a mind-boggling scale. It's estimated that outflows reached $160 billion in the single month of December alone, and perhaps as much as $1 trillion for last year as a whole.

The causes are:

► Investment opportunities abroad look better, particularly in the US, where policymakers have made a start on financial tightening, signalling their confidence in growth, compared to China, where property surpluses and the crash in equity markets make for discouraging prospects.

► The newly-rich elite are keen to diversify internationally. By any standards, that is sound investment strategy. But it also makes sense for them to park some of their wealth beyond the reach of their government, and to develop business interests and personal contacts in other countries. Sadly, some are motivated to do so to escape the clampdown on corruption.

► Chinese companies are paying off their loans to foreign lenders as fast as they can because of the foreign-exchange risk in having to make interest and capital payments on dollar-denominated debt. CLSA reckons that in the latest 12-month period it is able to calculate, repayment of dollar borrowings accounted for about three-quarters of China's capital outflow.

► The strengthening in the dollar, the downtrend in the yuan, and the fear that the Chinese government may opt for a devaluation, perhaps one much harsher than the 2 per cent move last August, motivates the wealthy to move capital abroad earlier than originally planned. And perhaps to hope for some speculative profits in yuan terms.

Spending big to save face

The sustained pressure in the markets to drive down the yuan, at least in dollar terms, has placed Beijing policymakers in a difficult situation.

A strong yuan – or at least one no weaker than the dollar – is a key objective of national prestige to establish the redback as a major competitor to the greenback in international finance. In recent months huge amounts of foreign reserves have been spent to defend that position.

Most top officials who manage the nation's finances also believe that it is important to move towards greater liberalization of capital markets. Tightening up controls as a way to limit capital outflows is seen as a move in the wrong direction, although perhaps necessary as a temporary measure.

Another devaluation, one sharp enough to take the markets by surprise, while probably placing a credible floor for a while under the yuan's dollar value, would be a body-blow to policymakers' reputation for wise financial management – a reputation already damaged by their mishandling of the stock market's boom and bust, as well as of the currency turbulence.

There is also the basic conflict between the immediate benefits to economic growth from yuan weakness – promoting exports and discouraging imports – but undermining the long-term objective of reshaping the economy away from exports and heavy investment in infrastructure towards living standards and services.

How are policymakers likely to handle this complex problem?

Judging by the way technocrats tend to behave, preferring short-term fixes to long-term solutions; and the power of both contending groups within the Chinese government – the modernizers who want continued cautious loosening of economic regulation, and the traditionalists opposed to any weakening of the party's power – I think radical steps are unlikely.

The probability is that the yuan will continue in a downtrend in US dollar terms, while broadly ranging sideways against other major currencies as a whole, until the dollar's bull market comes to an end. That may happen much sooner than expected.

What Elites Must Do to Keep Control

Perhaps the most fundamental cause of the alienation of large minorities in the West from trust in established institutions is "a growing sense that elites are corrupt, complacent and incompetent," says *FT* commentator Martin Wolf.

To stop the haemorrhage of political support to radical outsiders such as Donald Trump and Marine Le Pen, elites must implement policies such as these…

► As mass immigration is the most disruptive aspect of globalization, movement across borders must be brought under control.

"The presence of 11 million undocumented immigrants in the US should never have been permitted. In the case of Europe, regaining control of the borders is an overwhelming priority if the union is even to survive."

► In the eurozone, austerity-oriented economic policies must be questioned, as they have clearly failed to restore adequate growth -- real aggregate demand is, even now, substantially lower than it was in 2008.

► The financial sector needs to be curbed. The vast expansion of financial activity has not brought commensurate improvements in economic performance – "but it has facilitated an immense transfer of wealth." In the US, according to the OECD: "Between 1975 and 2012 around 47 per cent of total growth in pre-tax incomes went to the top 1 per cent."

► Capitalism must be kept competitive. In the current age, business exerts great political power. Determined action needs to be taken to curb that power by promoting ruthless competition.

► Taxation must be made fairer. "Owners of capital, the most successful managers of capital, and some dominant companies, enjoy remarkably lightly taxed gains."

► The doctrine of shareholder primacy needs to be challenged. Shareholders enjoy the great privilege of limited liability. With their risks capped in this way, "their control rights should be practically curbed in favour of those more exposed to the risks in the company, such as long-serving employees."

► The role of money in politics needs to be contained.

Wolf concludes that politics in the West are subject to increasing stresses, with large numbers of people feeling disrespected and dispossessed. That can no longer be ignored, if centrist views are to hold on to power.

Another commentator, David Frum of the Policy Exchange, gives two examples of why failures by political elites are fertilizing the ground for extremists…

► In the US, under the Obama administration, the wealth gap between black and white families has widened to an extreme not seen since the beginning of the civil rights era.

The typical American family is earning $4,000 a year less than in 2007. The official unemployment figure has been falling partly because of a statistical illusion – the percentage of working-age men who are even looking for work has dropped to the lowest level ever recorded.

► In Europe, the first response of the authorities to mass co-ordinated assaults by migrants and refugees on women in German cities was to suppress information about what happened, just as it they did in the UK in response to mass sexual crimes by Asian males in Rotherham.

Such suppression doesn't work, as eventually the truth gets out. Such evasions only help "the Trumps and the Front National and all the other extremist groups that have flourished because more responsible leaders have ignored or denied urgent voter concerns."

Years of Stagnation Ahead?

The main drivers of global economic growth are currently suspended, says Russell Taylor in *Money Management.*

Consumer demand, because of the great overhang of private debt. Government demand, because most governments face equally unpalatable levels of debt. Business investment, because no sane chief executive invests unless he can see a growing market for the goods and services his company provides.

Felix Zulauf, the Swiss adviser, says the current situation of secular stagnation could last for another 15 or 20 years for these reasons:

► Demographic waves that have been propelling economic growth – baby boomers joining the work force, Eastern Europe and China joining the world economy – are now over.

► There is no more capacity for using debt to leverage growth, as potential borrowers have hit their borrowing limits.

► Regulation has increased dramatically in the past 15 years, and continues to expand, damaging growth.

► Economic policies have been wrongly focused for decades on stimulating demand rather than production.

"We can't change demographics. We should restructure debt, reduce regulation, and pursue sounder policies. But none of these issues is being discussed or addressed. That's why secular stagnation will linger."

As Shares Weaken, Gold Strengthens

The gold price has broken out of the base it formed in December, and is climbing strongly towards the $1,200 level. Zulauf expects it to continue rising, perhaps to $1,400 this year. "But I don't think this will be the start of a new, long-term bull market."

Those who say gold's price is primarily driven by fear, generally do not like the yellow metal, says FullerTreacyMoney's David Fuller. Fear is a fickle friend of gold, as financial fears are usually unsustainable beyond the short- to medium-term.

However: "Gold is actually a long-term store of value.. the longest and most enduring store of value in human history. Gold is THE hard money, due to its colour, scarcity and because it cannot be reproduced. These factors have ensured that the value of gold has outperformed all other assets over the very long term.

"As for the all-mighty dollar, or any other fiat currencies, these are convenient units of exchange, printed sufficiently to ensure that they have diminishing value. You can see this from the US dollar's declining purchasing power over the last 50 years.

"Today, I think gold's price is low enough to be worth buying lightly on setbacks, although from an investment standpoint, I would not have more than 5 per cent of my portfolio in gold." [My view: I would prefer about 15 per cent].

The No.1 Asset Class

The remarkable boom in the safest government bonds continues, despite the consistently wrong chorus of impending gloom from nearly all investment advisers.

The securities are so highly valued by institutional investors who fear the increasing threat of deflation that a quarter of the constituents of JPMorgan's government bond index are now trading at negative yields – holders are willing to forego all interest income for the security of their capital. In Europe about half of all government bonds now carry sub-zero yields.

If you want to see what a consistently good asset class over 20 years – and still rising – looks like, view a chart of the German Bunds. Earlier this month the yield on the five-year Bund hit a new record low of minus 0.32 per cent.

George Soros, the rather successful mega-speculator who has turned negative on American shares, Asian currencies and commodity-linked economies, has bought heavily into US Treasury bonds.

If you expect the steady progress of disinflation to continue, the safest bonds are the safest asset class to be in. If you believe that's going to change, stay away from them. It's as simple as that.

If You Depend on Dividends, Things Get Tougher

They're crucial for equity investors, yet in some markets dividend income is concentrated in a small number of stocks, reports *The Economist*. In Australia, Britain, France, Germany and Switzerland, more than 70 per cent of the dividends come from just 20 companies.

They have been growing more slowly, mainly because falling commodity prices have forced energy companies to cut their payouts. Investors who need income are now relying on the healthcare sector: the largest holdings of global income funds are Pfizer, Roche and Johnson & Johnson.

Although share buybacks are an alternative source of income for investors, and for some a more tax-efficient way of receiving income. But they are more likely to be reduced than dividends. “Companies can quietly trim their buyback programmes; a dividend cut is a public sign of trouble.”

Not only because of their importance as a source of income -- dividends are a measure of potential capital gain. London Business School researchers found that over more than a century, across 19 countries, annual returns from the markets with the highest dividend yields were eight percentage points higher than those from the lowest-yielding.

Tailpieces

Where to invest now: “For those investors who have to be in equities, North Asia is the only game in town,” argues Russell Napier. “They, in the form of China, Japan, and probably also South Korea, will win the currency wars.”

Napier also believes that central banks’ huge money-printing policies will ultimately generate the inflation that will bring a bull market for gold “that should last for decades, rather than years.”

Felix Zulauf expects stock markets to continue falling, but “to form a bottom in the second half of the year – at which point there will be buying opportunities in sectors that offer growth opportunities such as healthcare or digitization.

“If you have to be invested, you should stick to defensive segments such as food companies, healthcare and the like.”

Property bubble: The hope of home ownership is slipping out of view for the huge number of young Britons who cannot hope to have the kind of life their parents enjoyed, and that threatens to bring resentment between the generations, says *The Spectator.*

The cause is years of interest rates kept near zero by the central bank, which have delivered an explosion in property values. The cost of mortgage loans has fallen to a third of what it was before the credit crisis, so buyers can afford to borrow three times what they once could, on the same monthly repayment.

The era of ultra-cheap credit has forced up house prices “by an extraordinary amount – to the delight of those who already owned expensive property, and to the dismay of those who do not.”

Investing for income: Financial repression has reduced income yields to levels never seen before, Russell Taylor comments in *Money Management.* But inflation will destroy investors’ capital more quickly and effectively than deflation.

“This is why the prudent investor must concentrate on income-producing assets, and those are mostly equity shares in quoted businesses.”

At current levels, buying equities may seem unwise. But both cash and fixed-interest securities are worse havens in an inflationary storm.

Animal harm: Each year cows emit into the atmosphere (mainly from burping) 1,000 times as much methane gas as humans, according to the Goddard Institute for Space Science. Methane is a 23 times more powerful greenhouse gas than carbon dioxide.

A quite unrelated animal fact is that in Norway, Europe's leading exporter of both oil and farmed fish, one standard-sized (4½ kg) salmon is now worth more than a barrel of crude.

Immigration: There is still a depressing failure of governments to implement measures to contain what has become Europe's biggest problem. One example is Germany's curb on asylum-seekers from North Africa. This focuses attention on a trivial issue and distracts attention from the real problem, which is the Mideast. About 3,000 migrants have been arriving in Germany from Morocco each month; that's the numbers that have been pouring in from Syria every day.

Hillary will help: Commodities such as oil and industrial metals, which are highly cyclical, "appear to be on the brink of at least medium-term recoveries," forecasts David Fuller. He also argues: "The next US president, presumably Hillary Rodham Clinton, could certainly help the US economy and millions of blue-collar workers by launching a way-overdue infrastructure overhaul."

Bad news is good news: This was once again the immediate response of stock markets to the Japanese central bank's unexpected decision to introduce negative interest rates, and to poor US economic data. But "the strength of that reaction, and the efficacy of easy-money in raising asset prices, is weakening over time," comments the *FT*'s John Authers.

Red Chips: Shares of China-based companies listed in Hong Kong currently offer among the cheapest valuations in the world at an average of just six times their expected earnings – half the level of blue chips listed in China itself, and just over one-third US levels.

Japan: It's becoming clearer that, as I feared it would, Abenomics is delivering disappointing results. The economy is flirting with deflation. Heading into annual wage negotiations, labour unions are asking for a monthly rise of the equivalent of $25, half what they asked for last year.

Deutsche Bank: Congratulations to its supervisory board for cancelling all bonuses for top management as they must "own" last year's €6.8 billion loss.

Wise words: *The most important rule in trading is: play great defence, not great offence.* Paul Tudor Jones, a renowned American stock-market trader.

Martin

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