What the Heck Is This All About?

- Global Market Swoon – Why?
  - China is not growing as fast as many assumed they would
  - Oil prices are plummeting in part because of the above
  - The dollar is strong and likely to get stronger due to number one above
  - The markets have been jittery for months as they know much has been overvalued
  - The markets are jittery because the political situation in the US is not great and is awful in much of the rest of the world
  - The markets are just jittery because it seems to be a good time to be jittery
  - Oh – did we mention China?
Three Reasons to Set Your Hair on Fire

• China may not make the right moves – they are still far too worried about inflation for the current situation
  – May be too slow to dump cash in the economy and may be too slow to adjust currency
  – Chinese devaluation may go too far and too fast
• Panic may set in – there is far too much talk of a correction being a certainty and long overdue. Is it really or is this over reaction.
• Market crash may feed on itself – thus far the banks are ok and there are bargain hunters starting to show up – what happens if that stops short?

Three Good Reasons not to Panic

• China has been slowing for a while now but is still trudging along at 7% growth.
  – China has billions and billions to throw at its own economy and has just started to talk real stimulus
• The US economy has been perking up of late and that will ultimately be good for the Chinese as well.
  – PMI is solid, CMI is improving, better news in housing as well as retail and the latest issues will help improve that sector further
• The Europeans have started to slow their descent and may make a little progress this year
  – Greece is about ready to be non-issue, Germany is healthier with low oil prices and weak euro. Improvements in Spain and Italy albeit minor ones

The Chinese Surprise

• China has kept the renminbi/yuan at artificial lows for many years – designed to promote exports
• In the last several years the currency had been allowed to float a little and gained in value
• China’s economy has been stuttering as there has been a deliberate attempt to shift emphasis away from exports to imports
• IMF has been putting China to allow a more normal float if they want to be considered a reserve currency
• The move last week changed the way the Peoples Bank of China handled the daily currency fix
• Big losers are any nation that competes against Chinese exports
What to Expect with Oil

- Crude oil prices will remain well under $60 a barrel this year and much of next.
  - Price per gallon will be much more volatile than price per barrel
  - OPEC will remain weak as far as pricing
  - Oil demand will remain lower than a decade ago
  - Oil production in the US will continue – it will not be growing as fast as it was
  - The shift in oil will continue towards the western hemisphere and away from Middle East
  - Biggest threats to low crude oil prices will come from geopolitical threats and weather but demand factors will likely dominate
Where Does it Go From Here?

Exhibit 2: Forecasters expect more of a rebound in oil than the market does as of December 16, 2014

<table>
<thead>
<tr>
<th>Brent crude ($/bbl)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$115</td>
</tr>
<tr>
<td>$86</td>
</tr>
<tr>
<td>$59</td>
</tr>
</tbody>
</table>

Source: Bloomberg, FactSet, and Goldman Sachs Global Investment Research

Imports Falling Like a Rock

Share of U.S. Net Petroleum Imports, 2000-2015 (Percent)

Where is Employment Growth Expected

Projected Percentage Change in Working Age Employment 2011-2022

DL: 1-1.9%
DL: 2-3.9%
DL: 4-7.9%
DL: 8-12.9%

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What to Expect with Interest Rates

- Interest rates will not rise until uh... December or Next Year or Never Again - and they will rise very slowly – no more than a quarter point at a time – Unless!!
  - China has become a real fly in the ointment
  - Inflation becomes a concern – rates at close to 2% at the core level (excluding food and fuel) – they are currently at 1.8% and have been for 39 straight months
  - Economic recovery starts to truly accelerate – GDP numbers consistently above 3.5% - first quarter was likely negative and Q2 is likely to be at no more than 2%
  - Global economic recovery starts to catch up with the USD – especially in Europe but Asia as well.

Whither the Fed Funds Rate

Projected Fed Funds Target Rate Increases through 2016

How Far Does the Dollar Go?

- The US dollar will gain against all major currencies – especially the euro and the yen. Unless!!
  - The Fed elects not to raise the interest rates as predicted.
  - The Europeans and Japanese start to see some real growth that attracts the investment community
  - The US takes steps to keep the dollar lower than the markets would suggest – direct intervention. This is highly controversial and is not something the US has done in the past
Still a Huge Contributor

Productivity

What does Growth Look Like Now?

- The US economy will grow by around 2.5% this year and by around 3.0% next year. Unless!!!
  - Consumer demand fades early next year due to the slow growth in wages and the continued issue of debt
  - Exports continue to sag because the European and Asian markets fail to rebound
  - The threat of deflation continues to build and spending stalls
  - Some major global cataclysm throws the investment world off and that major correction finally arrives
GDP Improvements

U.S. GDP, adjusted for inflation
Quarterly change at a seasonally adjusted, annualized rate

Source: Commerce Department
The Wall Street Journal

Who is Growing and Who Isn't

Just How Big is the US?
**Labor Crisis**

- Labor shortages will worsen and there will be more emphasis politically on wage issues and employment. Unless!
  - The minimum wage push runs out of steam as there is no political race underway just at the moment.
  - The US reforms the immigration system so that skilled workers from other nations have an easier time of it.
  - The expansion of technology allows companies to avoid needing as many new workers, the rise of giganomics.

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**What is Going on With Jobs Anyway?**

![chart](chart.png)

- Total unemployment, plus all marginally attached workers plus total employed part time for economic reasons (U-6 rate)
- Civilian unemployment rate (U-3 rate)

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**The Millennial Future**

![image](image.png)

- Knowledge: I believe that children are our future. And that terrifies me.
What do the Indicators Say?

- Measures of manufacturing growth will improve through the bulk of 2015 – Purchasing Managers Index, Credit Managers Index, Capacity Utilization, Industrial Production etc. Unless!!!
  - They don’t
  - The economy as a whole slows in the US and the world in general
  - Government engagement makes the environment of business tougher – regulation, climate change reaction, health care, bank reform and so on

The PMI Story

Combined CMI
Manufacturing CMI

Service CMI

Just Could Not Resist

3. Find x.

Simplicity

The simplest solutions are often the cleverest
They are also usually wrong.
You KNOW you Want More!!

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Executive Intelligence Brief
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more!!!

DON'T
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