Insights in 140 words

Macro

Brazilian workers - Has the distraction of hosting a world cup distorted Brazil's labour market? Annual productivity growth over the past three years has averaged just 0.3 per cent compared with a 2 per cent clip before 2007. And perhaps chatting about the team at work was too restrictive for some. The country's participation rate has also dropped by 1.5 percentage points in the past three years. At least on the positive side a shrinking labour force and lower productivity has helped reduce Brazil's unemployment rate by 3.5 per cent versus its pre-financial crisis peak even as output has expanded by only 2 per cent per annum on average since 2011. But hang on a minute: each of these statistics is exactly the same for the US economy, yet its workers probably started thinking about soccer about a month ago - if at all.

Strategy

Corporate bonds - Four millennia ago a Babylonian king capped interest rates at 20 per cent. With even high-yield US corporate bonds paying 5.5 per cent investors can only dream. Companies, however, are taking advantage. Gross proceeds from bonds issued by American non-financial firms hit a record $700bn last year - up three-quarters since 2007. Corporate debt to GDP at 80 per cent is a record too. More leverage (also thanks to buy-backs) means greater default risk. But are investors properly compensated? The 375 basis points spread of single-B bonds over Treasuries covers investors for a quarter of issuers defaulting within five years - double the rate over the past half decade and higher than the long-term average. Hence perhaps why Janet Yellen's warning last week about low corporate spreads and volatility was shrugged off. Yesterday's Portugal-led wobble should remind credit investors that risks remain.

Stocks

Capex - "If I can't win, I won't run!" moaned sprinter Harold Abrahams in the film Chariots of Fire upon losing a big race. "If you don't run, you can't win," his fiancée replied. Similarly capex in America has been weak because companies are reluctant to invest any more than what is appropriate given their expectations for revenues. Indeed capex-to-sales ratios at about 8 per cent have been remarkably steady since the crisis - soggy economic growth has kept absolute investment levels depressed. But if companies don't run, they can't win; demand will only accelerate if investment and hiring rebound. What could break this catch- 22? One potential catalyst often overlooked is the 60 basis point fall over the past two years - according to Deutsche Bank CROCI data - in the market-implied cost of capital for global companies. All runners appreciate a lower hurdle.

Finance

Indian banks - Indians love Switzerland - over half a million visit each year. But Swiss delights are an expensive taste. Take Basel 3 capital norms. Meeting them requires a $40bn recapitalization of India's 26 public sector banks by 2018. But given fiscal constraints where to get the money? Yesterday's budget proposes issuing equity to dilute the government's stakes from a range of 55 to 80 per cent down to 51 per cent. Selling at today's prices however only raises a third of the capital required. Hence to maintain its majority shareholdings New Delhi would have to fork out another $15bn - the same amount spent in the past five years. Worse, India's banks are losing about 40 basis points off their core tier one capital ratios annually according to Deutsche Bank analysis. Recapitalising India's banks feels like running to stay in the same place.

Digestif

Publishing minutes - Why don't antismoking campaigns stop teenagers smoking? Or how come moral crusaders often fall from grace? Psychologists reckon it has to do with a motivational arousal called reactance, where a person under social pressure to accept a particular view or attitude adopts the opposite position. Reactance occurs subconsciously when someone senses their freedom of choice is being curtailed. Hence it is a mistake to think that members of the ECB's governing council would automatically vote along national interest lines should minutes of their interest rate decisions be made public next year. Indeed, knowing that everyone back home expects a Bundesbank president to be hawkish could drive Jens Weidmann to vote the other way. Likewise, Portugal's Carlos Costa may suddenly start acting all German. So much for the idea that central banks publishing minutes provides clearer insights into monetary decision making.

(the following is last weeks)

Macro

Macroprudential policies - Ms Yellen said yesterday that if some markets needed bloodletting she prefers scalpels to axes.Governor Carney also made a first incision last week. So-called macroprudential policies are seemingly in vogue - but are they effective? Critics worry they are susceptible to circumvention whereas at least the impact of interest rates is pervasive.Meanwhile the verdict upon examining over a thousand such policies in 60 countries over 30 years is mixed. Separate BIS and IMF studies find that measures targeted at housing markets - for example loan-to-value or income limits - can help slow mortgage growth (by up to 7 percentage points after one year) but leave rising house prices unchecked. So at best macroprudential policies make financial institutions more resilient while for everyone else the risk of bubbles and crashes remains. Is that the best outcome central bankers can hope for?

Strategy

Glisten up - Gold bugs have a twinkle in their compound eyes these days. But can they logically explain gold's 10 per cent rise this year? A looser Fed is often the first reason given yet the current rally has accompanied a halving in the central bank's monthly asset purchases. A weaker dollar is usually cited next - trouble is the greenback is unchanged year to date in trade weighted terms. Inflation hedging is another refrain of those awed by the yellow metal. But runaway prices are hardly a widespread concern given subdued current inflation and falling bond yields. Ditto market volatility, which has been too low rather than too high. That leaves Ukraine and Iraq as obvious catalysts. But are they? Russian stocks and Brent crude are flat this year. Ben Bernanke's words that nobody including him (and bugs, presumably) understands gold prices still ring true.

Stocks

US earnings - As the quarterly results circus rolls into town next week expect to see some shiny new trailers. The aggregate net margin for S&P 500 companies could reach double digits for only the second time in at least two decades. A near two-fold jump in year on year earnings growth to 9 per cent versus the first quarter explains this boost in profitability. Less mentioned, however, are the kisses being blown by chief executives to Janet Yellen. Near-zero policy rates have reduced interest expenses relative to revenues for the S&P 500 to just 1.6 per cent, two thirds the average level since 1995. That could help pull the ratio of net debt to ebitda in the second quarter to decade lows. But circus lovers beware: normalizing interest costs to their 20 year average lops a whole percentage point off net margins.

Finance

Bank lending - Temper thy exuberance and despair at the prolonged divergence in US and eurozone bank lending. May was yet another month of negative net lending to European companies but the numbers are becoming progressively less bad. Cumulatively over the past 12 months loans shrank by €110bn or 2.5 percent of the €4.5tn outstanding. That is the slowest rate of decline in a year and a sign that the worst is probably over. Meanwhile across in America commercial and industrial lending by banks grew at a snappy 10 per cent clip over past year and just overtook the pre-crisis peak of $1.7tn. Sure this is an incremental positive for future investment spending. But bear in mind that these loans account for only 8 per cent of the total liabilities of US companies. The business yoke is not the banks' to carry alone.

Digestif

Seasonal adjustments - Should all survey data be seasonally adjusted? For example some respondents may already compensate for a slow summer, say, before answering that they feel less upbeat. That said when the software X-12-ARIMA adjusted this week's ISM manufacturing report for June it rightly tries to capture seasonal variations due to religious holidays, weather or number of trading days. But investors should remember this is art not science (are some extraordinary events extraordinary or not?) and adjustments can be large. For example the universally cheered 58.9

reading for new orders last month would have been 54.0 if May's seasonal factor was applied - quite a difference. More intriguingly if you use last June's adjustment factor another lower number (55) pops out. Why such a big boost this year relative to last year? Perhaps statisticians (wrongly) compensated for America's chances at the World Cup?