Business Briefs

Stocks

How 'Invisible Hand' Manipulates the Markets

An Italian online newspaper, *Wall Street Italia,* on June 23 published an interview with a trader at the Chicago Mercantile Exchange, exposing how the Standard and Poor's 500 Futures Index is entirely manipulated by a single operator, whose identity is unknown. "Everybody here hates those people," says the trader. "Their clearing number (they do it through Gerber Trading) is 990N. That account is entirely responsible for the current S&P level. They keep up the futures even during the night (Globex). They stay on the offer price for the whole session.

"All those traders I spoke to, believe that the market is being manipulated. They wait for the prices to go down, but this never occurs. Traders are astonished about the absence of volatility. They are furious. Each time, every time, the gentlemen of account 990N are there, waiting, they never leave. They absorb the entire operativity of the market and push the future price to the level they want. Incredible. I would really like to know who they are, these gentlemen of account 990N. All traders are terrified, nobody wants to take short positions, because each time somebody does it, he ends on the wrong side of the market."

The newspaper comments that if what the trader reports is true, than the aim of the manipulation can only be to keep things under control through the Nov. 2 U.S. Presidential elections.

Germany

Capital Investment Is Falling Dramatically

In its June monthly report, the Bundesbank has presented its "flow of funds" figures for the German economy during 2003. The report revealed a continuing slump in capital investments in all sectors: private households, corporations, and the government. Net investments—that is, investments minus depreciation—are actually shrinking at an unprecedented rate. Net capital investments by private households, in particular reflecting housing construction, plunged from 72.5 billion euro in 1999 to just 41.1 billion in 2003. Net capital investments by non-financial corporations, from 80.4 billion euro in 1991, fell to 56.0 billion euro in 1999, and since then have crashed to 20.8 billion euro in 2003. Once inventory changes are subtracted, net investments in buildings and equipment by German non-financial corporations are down to 18.3 billion euro in 2003, that is, to only one-quarter of the level in 1991 (73.8 billion euro).

While public net investments (basically into infrastructure) amounted to 13.9 billion euro in 1991, they fell to 4.8 billion euro in 1999. Now, for the first time at least in the post-reunification period, they have plunged into negative territory, to *minus* 3.2 billion euro in 2003! This means that public infrastructure investments in Germany are lower than needed just to maintain the present level, even according to the conservative depreciation rates used for the calculations (about 60-year life-spans for roads, railways, and bridges).

Total net capital investments by all German sectors have crashed to 61.0 billion euro last year, compared to 137.0 billion euro in 1999 and 154.6 billion in 1991. According to various estimates, as for example by the association of German municipalities, the back-log in German infrastructure investments already comes close to the level of a trillion euro.

South Africa

Paper Says Mbeki Has Abandoned 'Free Market'

President Thabo Mbeki has dropped free-market economics in favor of the "Malaysia model," said coverage in *Business Day—South Africa* and other press June 24-25. It reports that Mbeki, in his speech in the National Assembly June 23, "set the seal on a decisive broad policy shift to the left for this final term in office, lashing out at what he called the 'new conservatism' sweeping the world, which enshrined the individual and denigrated the state.

"The President's comments, which might prove to be a watershed in South African politics, came as he introduced his budget vote in the National Assembly. They signal not so much a return to the old socialism of the exiled African National Congress [ANC], but a retreat from the ruling party's wholesale conversion to free-market economics just before it came to power. Mbeki devoted the last half of his speech in the National Assembly to an attack on those who supported the liberal and so-called neoliberal values that characterized American conservatives."

The news articles make the connection with the recent Group of Eight meeting. "Mbeki's remarks follow a visit earlier this month to the home of the 'new conservatism,' the U.S., as a senior member of an African delegation to the Group of Eight conference. The delegation came home empty-handed."

The *Business Day* column by Peter Bruce continues by pointing to the importance of the Malaysian experience for Mbeki: "Will it work? Mbeki has looked enviously upon the successes of countries such as Malaysia, which seem to have defied free market conventions to record mouth-watering economic success."

Britain

BoE Governor Repeats His Housing Warning

On June 25, Bank of England Governor Mervyn King repeated his warning about house prices being set to fall. King told the House of Commons Treasury Select Committee: "I reflected very carefully. What I said is what I wanted to say. It would be unfortunate if people were encouraged to make decisions on a very risky assumption that house prices could only go ever upwards."

While King played down the danger of house owners falling into negative equity (when the amount of the mortgage is greater than the resale value of the house), he was clear about the problems of rising house prices. "One of the main sources of [economic] uncertainties is the behavior of asset prices: the exchange rate, equity prices and, of course, house prices. We think it is likely that they are above a sustainable level."

HBOS, Britain's fourth-largest bank and owner of Halifax, the biggest mortgage lender, has tightened its lending. HBOS said its share of mortgage lending would go from 25% in 2003, to 20% of the market. Economics head Shane O'Riordain stated that "We are still comfortable with the housing market, but we see signs of slowing activity. As rates go up, we will naturally tighten our lending criteria." HBOS will also not hit its "target" of 20% return on equity this year. It has tightened lending due to concern that customers, facing higher interest rates, might default on debts.

Inflation

Steel Pushing Auto Suppliers To the Edge

Auto industry experts warned in late June that steel price hyperinflation could force "multiple" bankruptcies of U.S. auto parts suppliers "within the next 90 days." Surging steel prices are taking a mammoth financial toll on auto parts makers, and could soon disrupt production at some auto assembly plants, according to a study released in June by accounting and management consulting firm Plante Moran. The price of rolled steel, for example, jumped 57% to $617 per ton in June, from $350 per ton in January. Suppliers, already losing profits and forced to cut jobs, are now under pressure from automakers to provide parts at lower prices, thereby putting them on the verge of extinction.

Industry executives also painted a bleak picture. "How do we cooperate, or somebody is going to die in this thing?" lamented John Knappenberger, a vice president at Dura Automotive Systems. Auto parts makers are slashing capital spending, raising parts prices, and cutting other operating costs to offset the rising steel costs. "It's been hell," declared Jim Zawacki, owner of an automotive stamping business in Grand Rapids, Michigan, who has had to cut jobs. The spot price of hot-rolled steel, one of the most common types of steel used in auto production, shot up 120% in June from a year ago, according to the trade publication *Purchasing,* while cold-rolled steel is up 74%, and steel scrap is up 90%.

"The worst is going to be here in the third quarter," agreed David Andrea, head of business development for the Original Equipment Suppliers Association, which represents 60% of North American auto suppliers. "A supplier with [annual revenues] in the $25 million to $75 million range is very much at risk," said Jim Gillette, an analyst with automotive consultancy CSM Worldwide.

Employment

New U.S. Jobs Have Lower Wages, Benefits

The U.S. Conference of Mayors, during its annual meeting in Boston on June 28, released a new Metro Economies and Jobs report, analyzing the employment wage gap as well as the impact of job gains and losses on health benefits. The study, conducted by Global Insight, estimated that all new jobs created, or that it assumed will be created, between 2004-06 will have an average wage of 12% less than jobs lost between 2000-03. In addition, new jobs created in the top ten job-creation sectors of the U.S. economy, will have a 15% lower average wage than the ten sectors that lost the most jobs during the previous three years.

Moreover, there is a 14.5% "health benefits gap" for new jobs, meaning that 14.5% fewer people with new jobs will have health-care coverage, compared to those who lost their jobs between 2000-03. The report attributed the health-care benefits gap to a structural shift in the types of jobs, from well-paying (and physically productive) manufacturing jobs with strong health benefits, to jobs predominantly in the service sector, many of which are lower-paying with no health benefits.

Detroit Mayor Kwame M. Kilpatrick warned, "Lower-wage jobs with no health benefits severely impact the overall economic and physical health of our nation."

Briefly

BONDS of U.S. corporations lost 3.7% on average during the second quarter as a result of rising interest rates, the worst quarterly performance since third-quarter 1981, Merrill Lynch reported on June 30. Investment-grade corporations sharply contracted the volume of new bonds issued: $121 billion, a 34% drop from the first quarter.

THE U.S. HOUSING bubble could jeopardize the economy, wrote Ian Morris, chief economist at HSBC (formerly HongKong Shanghai Bank) on June 25. In a report issued by the bank, Morris presented the case that America has a housing bubble that will burst in mid-2005. Morris' report demonstrates that U.S. home prices are at or near record highs relative to income, rent, replacement cost, and home equity.

BANKRUPTCIES forcing auctions of homes are at a record high in Germany, 47,000 in the first half of 2004. Compared to one year ago, such auctions were rising fastest in Hamburg/Schleswig-Holstein (+26.7%), Berlin/Brandenburg (+7.9%), and Saxony/Thuringia (+9.6%). The number of forced auctions had more than doubled in Frankfurt/Main compared to one year ago (+116%). But in absolute numbers, Leipzig (2492 cases) is the depression leader.

FREDDIE MAC reported on June 30 that its 2003 profits plunged by 52%, due to losses on derivatives which it uses to "hedge" against interest-rate swings; it warned of more drops in the future. The government-sponsored mortgage-finance giant said it earned $4.9 billion last year, down from $10.1 billion in 2002.

AUTO sales fell sharply in the United States in June. General Motors said its U.S. sales of cars and trucks in June fell 15%—down nearly 50,000 vehicles—compared to last year's level. Ford's U.S. sales fell 11%, the 12th drop in 14 months. Chrysler's sales rose a scant 1%.