Ecclestone provides Double Talk on Deflation

I heard a boggling thesis this week that went like this: “deflation is upon us devaluing all the currencies and by default favoring the US dollar and subsequently gold and silver”. I had to do a double take as I thought that gold was the hedge against inflation. Now it seems to do double duty as a universal cure-all in both inflation and deflation. The relevance of this is that the deflation scenario seems to be the titanic economic struggle of our times… well of the first few months of 2015 in the absence of any other hobby-horse for pundits to ride.

Much of the deflation argument rests upon one commodity alone and that is oil. Never has a major trend argument been based on such a thin premise. Late last week the benchmark West Texas Intermediate price for March delivery advanced US$1.21 (2.4%) to settle at US$51.69 per bbl. This came after a couple of days of strengthening which moved the price up nearly 10% from the previous week’s lows.

Across the Atlantic, Brent North Sea crude for March, the European benchmark, ended the week at $US57.80 a barrel, up US$1.23 from the previous day. These oil price moves could of course be merely a dead-cat bounce as the growing amount of oil in storage should act as a shock-absorber to any revived demand and slow down a recovery as the stored oil is wound-down. It should also be noted that the fickle markets had been worrying only a week ago that ample supplies and slowing global economic growth would send oil down even further. This should not be discounted. However if rumours that the US engineered the price retreat for geopolitical reasons then it has probably gone as far as it needs to go to inflict maximum pain without shooting its own newly attained oil independence in the foot.

“Slowing global economy” is all in the eye of the beholder as the closely watched US monthly jobs report came in much better than expected with the Labor Department reporting the US economy added 257,000 jobs in January and revised upward already healthy growth in the prior two months. The unemployment rate edged up to 5.7% from 5.6%, but that was in part because more people were actively seeking jobs, in itself another positive.

While Greece did not have much of a tidal pull on markets last week with mainly toing and froing between Athens and Berlin, the market had the chance to digest what is seemingly becoming an irrevocable breakdown. The announcement over the weekend that the government in Athens was going to hike wages and rehire thousands of dismissed public sector workers signals that there can be no deal. How this plays out is difficult to see with neither side wanting to be the one seen to have pushed the “ejector-seat” button. We suspect the Germans at least have a game plan for remedial action in the event of Greece’s exit we are not so sure that Greece has the same plan. The main concern of the core members of the Euro scheme will be that any Greek-quake does not produce a financial tsunami. If achieved without excessive ructions then markets will be considerably relieved. In any case the chance of contagion developing amongst the other weaker members of the Euro is much reduced from when the crisis started to evolve in the wake of the 2008 crash.

Gold and silver prices had a rough week with silver losing over one dollar per oz. Despite this InvestorIntel member Carlisle Goldfields added over 7% with ongoing positive vibes from its rollback.

So to conclude matters, and to return to the deflation theme, we now have the hardcore goldbugs arguing in the debate on inflation versus deflation that gold is the solution… heads you win and tails you win..