

# ECB Full House: “Okay, Show Me Your Cards”

Key economic indicators and market events for September by Joe Terranova, Chief Market Strategist



Throughout the second quarter, market speculators, both short-term and longer-term, moved into very defensive portfolio holdings. In late July and throughout August, they quickly scrambled to increase their risk exposure as the equity markets began heading back towards this year’s earlier highs. While many observers will try to figure out what exactly fueled the appreciation, the reason matters little. More important is the very strong message ECB President Mario Draghi has sent to the markets over the last six to eight weeks. He has revealed that he has a full house, and the time will come in September for the markets to respond, “Okay, show me your cards.”

## September 2012

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
					<b>August 31</b> 9:00 PM: <b>China Manufacturing PMI</b>	1
2	<b>3</b> European Banking Union Debate (Brussels) European Manufacturing PMIs	<b>4</b> 10:00 AM: ISM Manufacturing Index	5	<b>6</b> 6:00 AM: German Factory Orders ECB Governing Council Meeting	<b>7</b> 2:00 AM: German Exports/Imports 4:30 AM: German Industrial Production 8:30 AM: U.S. Unemployment	<b>8</b> China Key Economic Data
9	<b>10</b> China Trade Report	<b>11</b> EU Banking Union Plans Announced	<b>12</b> German Constitutional Court ESM Ruling Apple iPhone 5 Rollout	<b>13</b> 8:30 AM: Jobless Claims 12:30 / 2:15 PM: FOMC Mtg. Announcement / Press Conference G20 Finance Ministers / Central Bankers Mtg. (Mexico City)*	<b>14</b> 8:30 AM: U.S. Retail Sales EU Finance Ministers Meeting	15
16	<b>17</b> 8:30 AM: Empire State Manufacturing Survey	18	19	<b>20</b> 8:30 AM: Jobless Claims 10:00 AM: “Philly Fed” Manufacturing Survey	21	22
23	<b>24</b> German Ifo Business Climate	25	26	<b>27</b> 8:30 AM: Jobless Claims	<b>28</b> Chicago PMI	29
<b>30</b> China Manufacturing PMI						

Times shown are Eastern Time. \*Indicator on calendar only.

## September indicators / events of note:

### China Manufacturing PMI

China manufacturing PMI (purchasing managers' index) is released on the last day of the month. This monthly gauge of China's manufacturing sector, combined with the monthly U.S. ISM Manufacturing Index value released the next day, gives a clear picture of global manufacturing health. An index value above 50 indicates growth, below 50 contraction.

## You should be watching:

China PMI came in at 50.1 for July. We're looking for no change in that figure with the end of August update. China has been in a significant economic pause. I had expected China to refresh, but evidence to this point suggests that it is not. I don't think we are looking at a hard landing for China, but I do think the market is delivering a message to Chinese policy makers that while they wanted to focus on domestic demand, they need to move away from fiscal and monetary policy and go back to the old playbook and put money into public projects, infrastructure, and overall construction.

### European Banking Union Debate (Brussels)

On September 3, ECB President Mario Draghi, Eurogroup President Jean-Claude Juncker, and EU Economic and Monetary Affairs Commissioner Olli Rehn will attend a meeting in Brussels where the European Parliament's Economic and Monetary Affairs Committee is holding a debate on banking unions.

I think this meeting is the real reason why neither Draghi nor any ECB member attended the Fed's Jackson Hole symposium on August 31. When U.S. markets resume trading on Tuesday after the Labor Day weekend, we might be trading off a lot of what happened in Brussels.

### European Manufacturing PMIs

A country's PMI is a key measure of the state of its manufacturing sector. An index value above 50 indicates growth, below 50 contraction.

Last month's European PMIs came in at 44.3 for Italy, 46.2 for France, 45.1 for Germany, and 45.4 for the U.K. These recessionary, sub-50 numbers continue to underscore the need for ECB monetary easing and a cheaper euro.

### ISM Manufacturing Index

Issued by the Institute of Supply Management, this report provides an influential monthly measure of the health of U.S. manufacturing based on an in-depth survey of 300 manufacturing firms. An index value of 50 is the dividing line between an expanding or slowing economy. Data released is for the previous month.

The ISM Manufacturing Index has had two consecutive months below 50—last month's 49.8 and the previous month's 49.7. The expectation for September is that the index gets back above 50.

### German Factory Orders

Germany will issue its monthly release of manufacturing orders (domestic and foreign).

Last month's German factory orders were down 1.7% month on month and 7.8% year on year. Germany's equity index, the DAX, has been one of the leading global equity indexes in the second quarter, and it is one of the indicators I've suggested investors watch to gauge whether the recent rally in the global capital markets will fail. German economic data remains incredibly important. If the data continues to border on recessionary, it places a lot of pressure on Chancellor Merkel to go along with aggressive easing measures.

### ECB Governing Council Meeting

At its first September meeting, the Governing Council will assess its monetary policy stance for the euro area, including decisions on key interest rates.

The press conference is what matters most about this meeting. Draghi has suggested many potential measures that could be used to rescue the euro over the last couple of months, but he will need to talk more about tactics at this meeting.

## September indicators / events of note:

### German Exports/Imports

Export and import data will be provided in Germany's monthly trade report released by the Federal Statistical Office in Wiesbaden.

## You should be watching:

In July, German exports were down 1.5%, and imports were down 3% over the previous month.

### German Industrial Production

Industrial production measures the physical output of German factories, mines, and utilities. Every month this report shows which sectors of Germany's economy are growing and which are not.

Germany's recent economic numbers have been contracting, including industrial production, which last month was down 0.9% over the previous month.

### U.S. Unemployment Report

Private payroll data is part of the U.S. Labor Department's monthly U.S. Employment Situation report. This data gives the true employment story, is the best gauge of the economy's direction, and has the power to move markets.

The August unemployment report is going to be interesting. My expectation is that the improvement we witnessed in the July report – where private jobs came in at 172,000 and the headline figure at 163,000 – was a one-off. The expectation for the August report is 100,000-125,000 for the headline number, 110,000-140,000 for private jobs, and an unchanged unemployment rate. It looks like this report is not going to be as strong as July. If the headline figure is 100,000 or less, I think Fed Chairman Bernanke will take a very dovish stance in the language used in the FOMC's September 13 statement in keeping with the tone of the August FOMC minutes.

### China Key Economic Data

We will get a number of key data points from China on September 8:

- > **CPI** (consumer price index) measures the price of consumer goods and services. As such, CPI data are significant indicators of inflation.
- > **Industrial production** measures changes in output for the industrial sector of China's economy, including manufacturing, mining, and utilities.
- > **Retail sales** measures total receipts at stores that sell durable and nondurable goods.
- > **Fixed assets investment** discloses how much China is investing in the country's infrastructure projects, like roads and bridges.

Last month, China's CPI was up 1.8%. This is the clearance the PBOC needs to embark on further easing measures. On the same day we will also get retail sales, fixed assets investments, and industrial production figures for China. All of these figures came in at low levels last month. Industrial production was the weakest since September 2009, and retail sales were the weakest since January 2010.

### China Trade Report

China's monthly trade report provides important import, export, and interest rate data on the Chinese economy.

Last month, China's exports were up 1%, and imports were up 4.7% over the prior month's figures.

### EU Banking Union Plans Announced

On September 11, the EU's European Commission is expected to announce proposals to overhaul Europe's banking regulation in an effort to protect the euro zone from future crises.

This will be the first opportunity to learn about the ECB's new centralized oversight role over Europe's banking system and how the European Banking Authority (EBA) will operate.

## September indicators / events of note:

### German Constitutional Court ESM Ruling

Germany's Constitutional Court is scheduled to rule September 12 on whether to block the European Stability Mechanism (ESM), the permanent eurozone bailout fund.

### Apple iPhone 5 Rollout

Apple will roll out its latest product offering on September 12.

### Jobless Claims

This weekly release by the U.S. Labor Department shows the number of individuals who filed for unemployment benefits for the first time. An increasing (decreasing) trend suggests a deteriorating (improving) labor market.

### FOMC Meeting Announcement/Press Conference

On September 13, the Federal Open Market Committee (FOMC) releases its interest rate decision following its two-day monetary policy meeting. Fed Chairman Bernanke will also give a press conference following the announcement.

### U.S. Retail Sales

Retail sales data is released monthly by the U.S. Department of Commerce. Retail sales measure total receipts for sales of durable and nondurable goods. Consumer spending accounts for two-thirds of GDP and is therefore a key element in economic growth. Each report is based on the previous month's data.

### EU Finance Ministers Meeting

European Union finance ministers meet in Cyprus on September 14.

## You should be watching:

It would be surprising if the court rejects Germany's participation. A rejection would take us back to square one and be a potential catalyst for market turmoil.

With all the macro headwinds and central bank speculation, it's rather ironic that what the market may want to digest most is the growth potential the Apple iPhone 5 represents over the next couple of quarters and holiday season and the derivative plays off of that. Apple and its ecosystem may very well prove to be larger than the ECB and the FOMC.

If I am correct in my expectation that the U.S. unemployment numbers will be a little soft in the upcoming month, we really need to watch the weekly jobless claims figures in September to see which way they are trending. They really could begin to decide the outcome of the U.S. presidential election.

As I reported recently, I was surprised how "dovish" the FOMC's August minutes were. It was clear that the "doves" are ready to act at the first sign of labor market weakness. If the Fed does announce QE3, I expect asset prices will be muted. Monetary easing from the ECB, not the Fed, would have the most positive impact on asset prices.

Retail sales came in last month a little bit better than expected, up 0.8%. This will be first reading on the back-to-school season which I expect will come in a little better than expected given the wealth effect and the S&P 500, which established a new high for the year of 1426.68 on August 21.

Greece will be the most important topic at this meeting. On that day, Greece will be outlining 11.5 billion euros in budget cuts in order to receive more bailout funds. Around mid-September, I expect the conversation to somewhat intensify on Greece exiting the euro. Also, at some point in September, the EU, ECB, and IMF "troika" will be reviewing Greece's economic conditions and finances and its ability to adhere to the bailout terms.

## September indicators / events of note:

### Empire State Manufacturing Survey

The Federal Reserve Bank of New York conducts this monthly survey of manufacturers in New York state across a variety of industries. Report data is for the month in which it is released.

## You should be watching:

Regional U.S. manufacturing data remain important to watch. Here are the most recent numbers for the New York region:

- > August -5.85
- > July +7.39
- > June +2.29
- > May +17.09

### “Philly Fed” Manufacturing Survey

This monthly survey provides useful intelligence on manufacturing conditions within the Philadelphia Federal Reserve district and is useful as an indicator of broad manufacturing sector trends.

The most recent manufacturing figures for the Philadelphia region:

- > August -7.10
- > July -12.90
- > June -16.60
- > May -5.80

### German Ifo Business Climate Index

This index, prepared by the Ifo Institute for Economic Research in Munich, is a leading indicator for Germany’s economic activity. The index is based on a monthly survey of 7,000 manufacturing, construction, wholesaling, and retailing firms on their current business situation and their business outlook for the next six months. Results reported are for that month.

The Ifo index is trading at its lowest level since March 2010. The more German economic numbers that come in weak, the greater the pressure on Chancellor Merkel to move to the center.

### Chicago PMI

This monthly index, compiled by the Institute of Supply Management – Chicago, provides insight into business conditions at manufacturing and non-manufacturing firms in the Chicago area, and is considered a proxy for the overall U.S. economy. A reading above 50 indicates an expanding business sector, below 50 contraction. Data released is for the previous month.

September’s Chicago PMI will give us some insight on what we could expect for the ISM manufacturing reading that we get on Monday, October 1.



**JOSEPH M. TERRANOVA**, *Chief Market Strategist, Virtus Investment Partners*

Joe Terranova is chief market strategist for Virtus Investment Partners. He was elevated to that position in June 2009, having started with the company in the role of chief alternatives strategist.

In his current role, Mr. Terranova works with Virtus' regional sales teams and the financial advisors who sell the company's investment products, providing insight into the domestic and global investing landscape and has represented Virtus as a keynote speaker for several financial institutions. He is a member of the Virtus Investment Oversight Committee.

Prior to joining Virtus in 2008, Mr. Terranova spent 18 years at MBF Clearing Corp., rising to the position of director of trading for the company and its subsidiaries. In this capacity, he managed more than 300 traders and support staff for MBF, one of the New York Mercantile Exchange's largest firms. His work was highlighted as the feature story in the June 2004 issue of *Futures* magazine.

Mr. Terranova is perhaps best known for his risk management skills, honed while overseeing MBF's proprietary trading operations during some of the most calamitous times for the U.S. markets, including the first Gulf War, the 1998 Asian Crisis, 9/11, and the collapse of Amaranth Advisors. In 2003, he was one of the first Wall Street professionals to make an early call for higher energy, natural resources, and commodity prices. In June 2008, he cautioned investors to move to the sidelines in commodities and, in March 2009, he encouraged investors to ignore the global "embracement of pessimism" and overweight equities. Before joining MBF, Terranova held positions at both Swiss Banking Corp. and JP Morgan Securities.

Mr. Terranova is a regular panelist on CNBC's highly rated program *Fast Money* and a frequent panelist on CNBC's *Fast Money Halftime Report*. He is the author of *"Buy High, Sell Higher"* (Business Plus, 2012), a book about the "new rules" of investing based on his years as a professional trader.

In 2007, Mr. Terranova and Hockey Hall of Fame player Mike Bossy established "Bossy's Bunch," a program that rewards excellence in the classroom for elementary school students.

Mr. Terranova earned a bachelor's degree in finance from the Peter J. Tobin College of Business at St. John's University in New York.

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