

29 March 2015

American corporations are chipping away at the enormous pile of foreign earnings which is drawing scrutiny from regulators and lawmakers. CFO Journal's report shows that companies in the S&P 500 companies including eBay Inc., VeriSign Inc. and Stryker Corp. set aside \$300 billion of their overseas earnings to bring back to the U.S. last year. That's up 7% from the prior year and the most since 2005, when a one-year tax holiday caused a spike in repatriated earnings.

The corporations have either earmarked the money for repatriation, meaning they booked the non-cash tax charge on their accounting statements or actually brought it back to the America and paid taxes to Uncle Sam. The nascent trend is confusing to many investors and analysts who expected companies to keep their foreign cash overseas in hope the federal government would cut the tax rate from the current 35%.

The number of new claims for unemployment benefits in the United States fell 9,000 last week to 282,000, the American Labor Department reported Thursday. Analysts had expected a figure closer to 290,000. The rolling four-week average of first-time claims is a more reliable indicator of trends in the labor market. Average claims in four weeks declined by 7,750 last week to 297,000, according to the report. The four-week average has been below or only slightly above 300,000 since last September, pointing to recovery in the labor market. Unemployment rate dropped two-tenths of a percentage point in February to 5.5 percent, the lowest level since 2008. The world's largest economy added more than 1 million jobs in November-January, the best quarterly performance since 1997, and the ranks of employed people have climbed by 3.3 million over the last year.

Home price appreciation of the American housing markets has outpaced the wage growth in over three-quarters, according to a new study. The study was conducted by data firm RealtyTrac and the findings were released on March 26. The home price appreciation in America exceeded wage growth from 2012 to 2014 by a ratio of 13-to-1. The home prices increased 17 percent and the median wages added 1.3 percent in this time. Declaring the study's findings, RealtyTrac vice president Daren Blomquist said, "Home prices in several housing markets countrywide found a floor in 2012 and since then have rapidly appreciated, mainly in markets that are attracting institutional investors, international buyers or some other flavor of cash buyer not constrained by income as much as traditional buyers."

Merced reported that the highest ratio of home price appreciation to wage growth was in California, at 141-to-1. It was followed by Memphis, Tenn. (99-to-1), Santa Cruz, Calif. (94-to-1) and Augusta, Ga. (78-to-1). Forty Four of the studied 184 metropolitan areas had greater wage growth than the home price appreciation. These cities include New Haven, New York, Conn., and Raleigh, N.C.

29 March 2015

The study found that 73 percent of housing markets had a median price of home sales that required less than 28 percent of median income for the monthly mortgage payments, which made them affordable as far traditional standards are concerned. Seattle, Los Angeles and Boston had traditionally unaffordable housing markets. Markets where wage growth has outpaced home price appreciation during the last two years are poised to see at least steady growth in the prices of home for 2015. The RealtyTrac study analyzed data of two years after the second quarter of 2012 when the prices of home bottomed out.

The price of oil and energy are rarely defined by the true cost of extraction as geopolitical, weather, supply and demand play a role in the direction in which the selling price of oil which includes the varying spread between Brent crude oil prices, New York crude prices and WTI crude prices. I have included a snap shot of break prices each oil basin needs to hit as of Sept 30, 2014. As you can see Marcellus oil basin, which competes aggressively with Canadian oil, has rock bottom pricing well below the selling price of oil even at oil lowest selling point this year. Rest assured since this pricing chart was put together, oil extractors have become even more efficient at getting more oil out of the ground at lower prices. One thing is for certain, energy refiners of gasoline are making a killing and not passing on the savings to the consumer. Refinery workers in Texas are still on strike which only slows down the supply of gasoline.

CREDIT SUISSE (Sept. 30)

BASIN	BREAKEVEN OIL PRICE PER BARREL
Marcellus Shale - SW liquids rich	\$24.23
Marcellus Shale - Super Rich	\$25.63
Utica - Wet gas	\$32.39
Mississippian Horizontal - East	\$42.15

The sudden and abrupt race of Saudi Arabia and other Arab nations to join America in their fight to put to rest extremism in the Middle East comes at no surprise as you learn how important Yemen's coastal waters are to the vital shipping lane which all Saudi oil travels on its way to global markets. Capture of these critical waterways by a non friendly Arab group would see the transportation of oil grind to a halt and render the Suez Canal anything but useless which is also why Egypt jumped in quickly with its bomber. Market responded accordingly as Brent crude prices rose immediately yesterday as bombing began.

29 March 2015

Greece on the other hand has a lot of economic problems, but being under-taxed is not one of them. In 2013, the latest year for which comparable data is available, actual government budget revenue in Greece was equivalent to 47% of GDP, the 12th highest level in the world, against 44% in Germany. That is, taxes make up a bigger share of the Greek economy than they do the German one. That's not to say that the Greek tax system is efficient, or that there isn't tax evasion, but the idea that one of Greece's core problems is that the government doesn't raise enough tax is just not right. As the Greece saga persists so too drags on the EU recovery. Italy is in a similar boat as Greece with taxation making up a large portion of the national GDP. Germany will demand to move forward and has no intention of letting Greece off the hook. However, Chancellor Angela Merkel has agreed to repackage some of debt owed by Greek .