

Interviewee: **Michael Shaoul**
Title: **Chairman**
Company: **Marketfield Asset Management**

Interviewee: **Abby Joseph Cohen**
Title: **Senior U.S. Investment Strategist**
Company: **Goldman Sachs**

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Interviewer: **Tom Keene**

Tom Keene

Let's bring in from Marketfield Asset Management, Mr. Shaoul. Good to have you here.

Michael Shaoul

Thank you, Tom.

Tom Keene

Isn't looking at a super, what's a super committee? Help me out here.

Michael Shaoul

You know, the old joke is that a camel is a horse designed by a committee, so God knows what a super committee design is.

Tom Keene

A super committee— what do you expect to see out of Washington? Can we actually get this solved?

Michael Shaoul

No, but I do think that the debt ceiling debate is a fiscal turning point for this economy and for this country. And I think in the long term, we'll look back at the debate of the summer of 2011 as a positive turning point.

Tom Keene

Just so much going on, just let me get your thoughts. With a better market down, up, down, today up, are you buying this morning at Marketfield?

Michael Shaoul

No, you know for us, we're looking for a resolution to the problems which have caused this sell-off, and we're of the belief that there are three things people are worried about out there.

Tom Keene

Please.

Michael Shaoul

The first one is the US economy. We, frankly, don't share their worry; much of the data which has come out in the last couple of weeks has really undermined the idea that the US economy is slowing down. The second worry is the one, I think, people do understand is there's a shortage of liquidity within the ECB funding system, and, you know, everybody sits around asking the Fed to do QE3. I think you need the ECB to do what we call QEE. The ECB needs to expand its balance sheet and not simply sterilize the bond purchases that it's made of Italian and Spanish bonds.

Tom Keene

Critical distinction, we did QEE. We took our Fed balance sheet. We've shown that chart, folks, many, many times. You're suggesting they haven't; they're using other tools.

Michael Shaoul

Well, you know, the ECB has not expanded its balance sheet since December 2008, and since December 2008, their corporate credit markets have healed themselves, but their sovereign credit markets are falling apart.

Tom Keene

Let's look at the number right now as we learn about the French economy, AAA. I've heard some nervousness over the years here. We're going to continue in this half hour, touch on the French economy. 2.2% R&D - research and development - for France. Germany at 2.8%. They just - and this really goes back decades - they just seem to be always a little behind in industrial development. Is that a stereotype?

Michael Shaoul

Yeah, I mean, I think that the whole point of the Euro was to create the illusion that France and Germany were equivalent. And what's really fascinating about the last month or two is that the bond market is telling you that France and Germany are not equivalent. The bonds vary, at the 10-year, is about 80 to 90 basis points over the last week, and that's not an equivalent bond market.

Tom Keene

I've had the privilege of speaking with President Trichet about this word "convergence". Are we de-converging it right now? Are we moving away from the attempt of an economic, social, and political convergence in Europe?

Michael Shaoul

I think it's got extremely hard to pull that off at this point in time, yes.

Tom Keene

To make the convergence happen.

Michael Shaoul

Yes.

Tom Keene

And here's another chart. It's an elegant chart. Per capita slope and difference. Okay, the white line is French per capita income and the yellow line is US. I mean, there is a distinction here. It's broadened out mostly due to US growth. I mean, "Euro-sclerosis" - do you buy that as a pat phrase from another time and place?

Michael Shaoul

You know, what I do buy is that the US internal domestic economy is expanding and can continue to expand, and that Europe has much more difficult problems ahead of it. You know, whether or not it's actually "Euro-sclerosis" or just an inability to make timely decisions, which may lead to that, I'm not sure.

Tom Keene

Earlier this morning, folks, on Bloomberg *Surveillance*, I spoke with Abby Joseph Cohen and I asked her if she thinks now is a time to act on the late Sir John Templeton's advice: when shares on sale, buy them.

Abby Joseph Cohen

Let's first determine if they are on sale. Our work would certainly indicate that stocks, not just in the United States, but in some of the other major markets, are also priced at very low levels. Simply stated, much of the ugly news that might take place in the economy seems to be already priced in.

Tom Keene

Abby Joseph Cohen, thanks for being with us this morning. Do you agree that we need to determine are they on sale?

Michael Shaoul

I think it depends which economy you're looking at. If you're looking at the US economy, yes. People underestimate the opportunity for growth going forwards. If you're talking about most emerging markets, you underestimate the opportunity for a recession or a severe growth slowdown. So you really have to differentiate in terms of global equities right now, and I think we're at a great turning point where people are going to look back and see that this really was the turning point for the US equity market versus global equities.

Tom Keene

Are you out of Brazil, as an example?

Michael Shaoul

Yes, totally, sure.

Tom Keene

And you're long the emerging market, the United States of America?

Michael Shaoul

We are long the Midwest, which my partner, Michael Aronstein, likes to call it. Yes.

Tom Keene

The Midwest. You're long the Iowa straw poll.

Michael Shaoul

We're long the Midwest, yes.

Tom Keene

Well, and how do you play the Midwest? John Deere, is that the way to do it?

Michael Shaoul

You know, I think internal industrial activity. I think that retail is very much an internal sector. We're quite bullish on it and I think the NASDAQ 100 will probably be the world's best-performing large index going forwards.

Tom Keene

Even with Apple? Even with Apple?

Michael Shaoul

Why not? It's not bad to become the world's largest corporation. It normally means more upside.

Tom Keene

Okay, well over here is John Deere. We're moving up. Here's the move and we come down. Everybody see that? And here we are, shares on sale. Is that enough on sale for you, US economy? You like the industrial [inaudible].

Michael Shaoul

You know, Deere, you know, stocks like Deere and I don't have a view on the actual company.

Tom Keene

I don't own it, by the way.

Michael Shaoul

We'd be more concerned about industrial companies with very heavy emerging market export businesses. They are going to be more vulnerable than companies with a more internally directed business model.

Tom Keene

Okay, let's switch back to Europe here. I want to talk some economics with you Michael. Too much information. Wow. I got to go back and read Ken Rogoff, who wrote an essay a jillion years ago on fourteen kinds of currency regimes. Fourteen! How about fixed? How about float? How about peg? What an intellectual exercise. The Swiss are considering seriously pegging to the Euro. I really had to just sit and think about it. This isn't Ecuador.

Michael Shaoul

No.

Tom Keene

This isn't Argentina. How did they pull that off?

Michael Shaoul

Well, it's, if you like, it's the reverse of a country like Ecuador, which is typically pegged to a strong currency. The Swiss seem to want to peg themselves to a weaker currency, which is going lower. But, you know, looking at all of this, I really feel that the Bank of England should be sending George Soros a bouquet of flowers. I mean, I think he did the British the incredible favor of pushing them out of the exchange rate mechanism in 1992, and I think you look at the ability to avoid the Euro project, I think was just a wonderful thing for that country.

Tom Keene

Sarah [producer], can you please put up a banner: "Shaoul: flowers for Soros"? Oh there it is already. Look how fast they are. I'm so proud of this team. Okay, so why do they want flowers for Soros? This is from decades ago.

Michael Shaoul

Yeah, back in 1992, you know, he put on the trade which pushed the Sterling out of the exchange rate mechanism. It was seen to be a disaster. It wasn't. It was the turning point for that economy and the UK never managed to get the political wherewithal to join the Euro project from that point on.

Tom Keene

Lucky them.

Michael Shaoul

Lucky them. A wonderful thing.

Tom Keene

Let's come back. Michael Shaoul with us from Marketfield Asset. We're going to come back.

[Ad break]

Tom Keene

Michael Shaoul with us; Marketfield Asset Management. Your colleague, Aronstein, will be with us tomorrow on Bloomberg Radio, I know as well. I was talking to my colleagues about Operation Twist from 1961, Twist and Shout. The other day, we saw Chairman Bernanke with a unique policy prescription, almost a la Canada. Is this Operation Twist and we just crush it out to a five-year and yet even the far-out part of the curve could even go up with debt worries? Is it a new kind of Operation Twist?

Michael Shaoul

Well, I think he'd hope to keep the long end of the curve under control as well. I'd admit, I was slightly surprised by his statement. I felt he's needlessly giving up future opportunities and he's making a very, very big bet that the US economy is, in fact, slowing down. If you got an acceleration of US economic data later this year or early next year, that sort of promised to not raise rates until the middle of 2013. It may come back to bite him.

Tom Keene

Michael, there's some of the mix there in the calculus of the moment. What do we need to see from Europe besides expanding the balance sheet? Where's the political institutions over there, as you and everyone else makes the sharp distinction between their crisis of two weeks and our crisis of two weeks?

Michael Shaoul

You need a solution which the market is going to buy into. Now, a year and a half ago, they could have gone down the route of allowing various countries to default and bailing out the banks which own too much of this debt. That probably would have worked, but it's probably a little bit late for that. I don't think they have an alternative other than to expand the ECB's balance sheet. There seems to be a shortage of liquidity within that part of the world and liquidity is now regionalized.

Tom Keene

We're going to come back with Michael Shaoul. *Surveillance Midday*.

[Ad break]

Tom Keene

Michael Shaoul with us, Marketfield. I really look at a lot of different ideas that we got there. Bring up Chart 6 right away. Let's come to auto sales. There it is. China weighs in. China, quietly. It's almost like non-news.

Michael Shaoul

Right.

Tom Keene

This would have been a headline in a slow news cycle and you could see down there in the lower right corner, down they go. There's their measured managed Yuan strengthening and then they change gear. What is China signaling with that?

Michael Shaoul

I think it's the last thing China really wants to do. They've already had a significant amount of monetary tightening this year. You saw Ford come out yesterday afternoon and say car sales are getting tougher to actually achieve in China. The last thing that country needs is a stronger currency.

Tom Keene

What is a slowdown for them, like a growth recession?

Michael Shaoul

Yeah, absolutely. I don't think they've got a negative there.

Tom Keene

4%? 5%?

Michael Shaoul

I think that would be considered shocking by people looking at China, yeah, sure.

Tom Keene

Yes. Here's auto sales. Let's bring it up. I'm glad you mentioned it, Michael. Far, far from 17 million units. Back to the United States and Matthew Dowd's Iowa; we got a long way to go, but you are optimistic on the US.

Michael Shaoul

Well, you know, I think it's good news that you've got a long way to go. I mean, we are where we are and corporate earnings are where they are and nothing could be better news than that we've got this point with auto sales still at 13 million, 12.5 million, wherever they are. It's fairly easy to add the next 2 million cars of sales. That's very positive.

Tom Keene

Thank you so much for stopping by today. Michael Shaoul, Marketfield Asset Management.

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