



Justin A. Urquhart Stewart

Justin is one of the most recognisable and trusted market commentators on television, radio, and in the press. Originally trained as a lawyer, he has observed the retail market industry for 20 years whilst at Barclays Stockbrokers and developed a unique understanding of the market's roles and benefits for the private investor.

## A Global Fault Line

I think we learned our lesson with the Titanic. It is always worth having enough lifeboats - or in this case even one. Seemingly the Euro was designed without one. So when an iceberg is hit, the horns go off and the result is that all the officers of the leading nations rush around wondering what to do. Seemingly there was no 'plan B'. Because there has been no bailout plan, it has been inevitable that there has been a fear of systemic risk as the contagion spreads to other nations. The latest acronym after the PIGS has been the STUPID nations - to list those with potential the most serious sovereign risks. The STUPID list thus includes Spain, Turkey, UK, Portugal, Ireland and Dubai.

In fact we may get some more cogent guidance as to where we need to see restorative action by governments, from the IMF's own list of nations that need to make significant fiscal adjustments. At the top of the list are the UK and Japan where some 13% tightening of GDP would be required for the public sector to balance its books, then Greece, Spain and Ireland at 9% and then close behind is the USA at 8.8%.

Looking at the US predictions for managing this, the figures don't look encouraging. Although savings in US households have started again, it is unlikely to be enough to absorb the amount of debt issuance currently being planned. The old reliable buyer of days gone by was of course China; however, their purchases are seemingly declining at a rapid rate. In 2006 they bought some 47% of all new issuance. In 2008 this fell to 20% and last year apparently it had reduced to a mere 5%. So who's going to buy the rest?

So from Greece, it looks as though we can see a funding fault line from the Eastern Mediterranean to Spain, from there to the UK and then running across the Atlantic to the USA. This ruction is not over yet.

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I am sure I can hear a fizzing noise somewhere. It's a sound that always makes me slightly nervous as it reminds me of a fuse burning. The sound seems to be coming from the Far East where we are seeing some sharply rising producer prices, house prices and money supply figures. This is all data coming out of China and seems to me to be creating a sensitive economic blister which at least is going to be painful and at worst, could burst causing some most unpleasant side effects and collateral economic damage.

One other China issue that has come to the fore has been the rising attitude of domestic protectionism and anti-foreigner bias. This of course has not been a new phenomenon but has been less prevalent over the past few years. However, the economic slowdown of last year

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created significant pressures with growing unemployment, and seems to have fostered an attitude of greater preference towards domestic Chinese businesses and against foreign participants. Some have even described it as a 'witch hunt against guilao' (or gweilo – 'foreign devils') resulting in blocked access to markets, theft of intellectual property and rigged tendering processes.

Such domestic trade protectionism hasn't really been focussed on before but could now add to the concerns of rising protectionism I have mentioned in previous weeks.

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Interest rates have started to rise. Whilst the Western nations may well be seeing floored and flattened rates for some time to come, other more vibrant parts of the world have already been forced to take action on their rates against the threat of inflation. Australian rates have already gone up as the 'lucky country' has had a rather good recession thanks to its preponderance of commodities and enthusiastic Chinese demand for them (and come to that Australia itself if it ever came up for sale).

However, other countries have also started to raise rates. Vietnam has raised rates although Indonesia is, at least for the moment, are on hold at 6.5% despite inflation rising to 3.72% in January. This country now finds itself in a very different position from nearly two decades ago when the Asian crisis trashed so much regional value. Now with the Rupiah being a much stronger currency and with growing reserves, the nation has changed in both its attitude and pride. Last year it became a member of the G20 leading nations, this country (which by the way is as wide as the USA albeit mostly sea and islands) is beginning to show signs of greater stabilisation after the chaotic post dictatorship days and even starting to address some of its old problems of endemic corruption.

This focus on growth rather than inflation has further strengthened the currency however even here you can feel the concerns over the impact of the weakening value of the Chinese Renminbi. It's not just the Americans that are complaining.

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Also a cribbed quote from my good friend Anthony Peters, which is a priceless piece of Prime Ministerial rhetoric:

"What you as the City of London have done for financial services, we as a government intend to do for the economy as a whole"- Gordon Brown speech to bankers, Mansion House June 2002.

Yes, you certainly have Gordon.

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And finally.....just how much do you need a drink?

I don't know if you know the story about Antarctic explorer Sir Ernest Shackleton's "whisky on ice", but it got even better when recent explorers found more of the century-old whisky than they were looking for.

Explorers struggled to find a way to get to the whisky without upsetting Shackleton's historic hut which still survives above the ice. They said however that the experience was less than enjoyable.

"We were lying on our stomachs on the permafrost completely under the hut removing the ice enclosing the boxes; to say it was a pleasant job would be untrue," said Al Fastier, of the New Zealand Antarctic Heritage Trust. (I just love the idea of raiding whisky as being part of a heritage trust.....)

For three days, they chipped their way through the ice toward the crates. Their efforts were more than rewarded. "We got the two boxes out and were very excited and pleased with ourselves and then we looked through the layer of ice behind the second box and could see through the opaque ice the words 'whisky' again," says Fastier.

Fastier said they found not only the extra crate of whisky, but also two crates of brandy.

The liquor cache is believed to be what's left of 25 cases donated to Shackleton on his first expedition to the icy, unforgiving continent.

The biggest proponents of the expedition were from faraway Scotland. The makers of the original whisky said they want a sample so they can attempt to recreate the old recipe and no doubt with the world's worst storage instructions – leave for 100 years!

Fat chance.

Have a good week.

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