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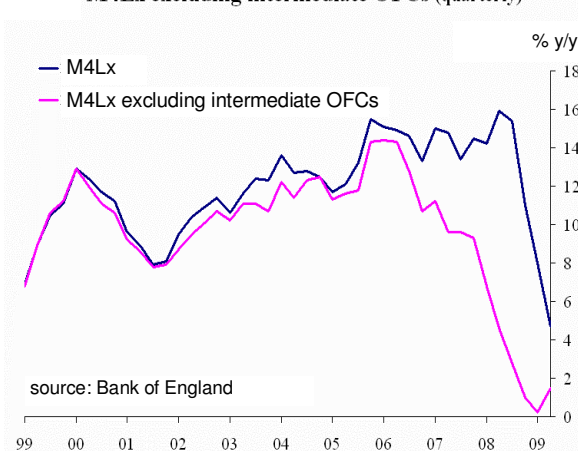
**Robin Aspinall's Weekly Notes**

**Week ending: 5th February 2010**

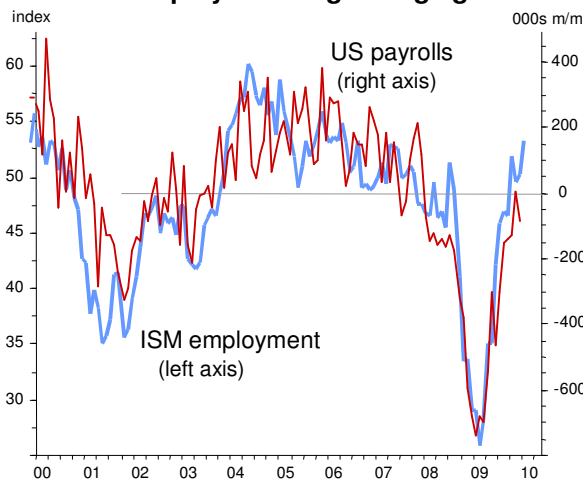
**Charts of the week**

**A hint of recovery in UK money supply?**

M4Lx excluding intermediate OFCs (quarterly)



**US employment is growing again**



**Monday 1st February**

Manufacturing PMIs caused a flurry of optimism around the world. The Eurozone kicked off with a rise to 52.4 from 51.6. Less than scintillating because Spain Ireland and Greece suffered actual falls.

The UK fared better, prompting a euphoric ‘Manufacturing surges back’ from the *FT*. The reason: an increase to 56.7 – a 15-year high. (Beware: PMIs are based on month-to-month changes, not levels.)

UK M4 fell 1.1% and y/y growth slowed to 6.4% from 9.2%. But the BoE’s preferred measure, which excludes a multitude of distortions, accelerated from nothing to next to nothing. Mortgage approvals fell!

In the US, the PMI (aka ISM) also caused excitement with its rise from 54.9 to 5½-year high of 58.4. As in the UK, exports were a leading force, employment rose 3.1 to 53.3, and prices soared 8.5 to 70.0.

Barack Obama unveiled a budget that was greeted with incredulousness by economists of every hue. Even with the help of unbelievably strong economic assumptions, debt-to-GDP reaches 73% in 2015.

Still, US households are cutting their borrowings: incomes, +0.4%, spending +0.2%, savings rate, 4.8%.

Moody’s warned that US junk-rated companies face a huge jump in refinancing in the period to 2012.

The Swiss Franc soared to its highest since its central bank promised to intervene to restrain it. A promise fulfilled: through the vehicle of the BIS, intervention caused a sharp (but temporary?) reversal.

**Tuesday 2nd February**

More cats among currency pigeons as Australia defied confident expectations that it would raise rates.

Japanese workers’ total ‘cash earnings’ slumped 6.1% y/y in December. That was the 19th fall in a row.

German retail sales managed a paltry, 0.8% recovery in December. The y/y rallied to -2.5% from -2.8%.

Similarly puny: US pending home sales rose 1.0% in December. The y/y slid from +19.3% to +10.5%.

US car sales fell well short of expectation, with Toyota suffering from recent mishaps with a 16% fall. Hard-line ex Fed chief, Paul Volcker went to Congress to 'sell' his plan to ban banks' proprietary trading.

### **Wednesday 3rd February**

More tightening in China: listed companies will not be permitted to raise capital in the equity market if the purpose is to repay bank loans or to fund working capital. Real estate IPOs will also be limited.

Greece won EU backing – whatever that means – but at tremendous cost to its dignity. The EC will monitor, probe, control and cross-check its programme of cuts and reforms – and the associated data.

That helped Greek government bonds to recover a little as investors switched their attention to Portugal. Doubts about its budget plans provided the excuse to drive the 10-year yield up 25bp to 4.7%.

Spain was also in unwelcome limelight with a 125,000 rise in unemployment to over 4 million – 17.5%!

Even Germany has problems: local government workers began a week of strikes over a 5% wage claim.

It's an ill wind ... European sovereign CDS traders saw volumes explode to record levels last week.

Eurostat described Eurozone retail sales as "steady"; others might call them stagnant. 0 m/m; -1.6% y/y.

Global services PMIs were more subdued than manufacturing. The Eurozone's fell from 54.2 to 53.7.

The UK's services PMI also drooped in January, from 56.8 to 54.5. Apologists blamed the bad weather.

The BRC said food price falls meant shop price inflation only edged up to 2.3%, despite the VAT rise.

Nationwide's UK consumer confidence rose 3 to 73 in January. A year ago it was 39 (5 years ago: 109).

The US non-manufacturing PMI managed an increase, but only to 50.5 from a downward-revised 49.8.

The Obama budget has been criticised by many, but some carry more weight than others. Moody's took a day or two to digest it and then pronounced that tougher action was needed to avoid a downgrade.

### **Thursday 4th February**

Despite a surprise, 2.3% drop in German factory orders, the y/y increase accelerated to 8.4% from 4.5%.

Interest in the ECB's meeting was not on rates, but Greece. J-C Trichet had soft words for Greece (he mustn't undermine confidence), but threatening words about budgetary policy throughout the Eurozone.

Similarly, no-one expected the MPC to change rates, but the meeting was still keenly anticipated. Would it extend QE? The answer: no. Now we'll see what happens to gilt yields (and to the economy).

The Halifax said UK house prices rose 0.6% in January. Not a lot, and inflation fell to 3.6% from 5.4%.

UK new car sales jumped 30% y/y in January – a much stronger start to the year than anyone expected.

Mixed messages from a package of US data. Productivity rose at a scintillating 6.2% pa pace (but it didn't really). Factory orders rose another 1.0% – their third successive increase. But unemployment claims jumped 480,000 – a 7-week high – in what looks uncomfortably like a new deteriorating trend.

World stock markets suffered a bout of nerves for no particular reason. The S&P fell 3.1%, FTSE 2.2%.

### **Friday 5th February**

Japan's lead index jumped to 94.0 from 90.7. (Industry is recovering strongly, domestic demand is not.)

Another industrial disappointment from Germany: output slid 2.6% in December. Flagging recovery?

A 0.4% rise in UK output prices lifted inflation to 3.8% from 3.5%; input costs soared 2.0% (+8.4% y/y).

US payrolls disappointed with -20,000. But: manufacturing +11,000; and unemployment down to 9.7%!

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