

HALKIN SERVICES LIMITED

INTERNATIONAL RISK ANALYSIS AND ASSET ALLOCATION SERVICE

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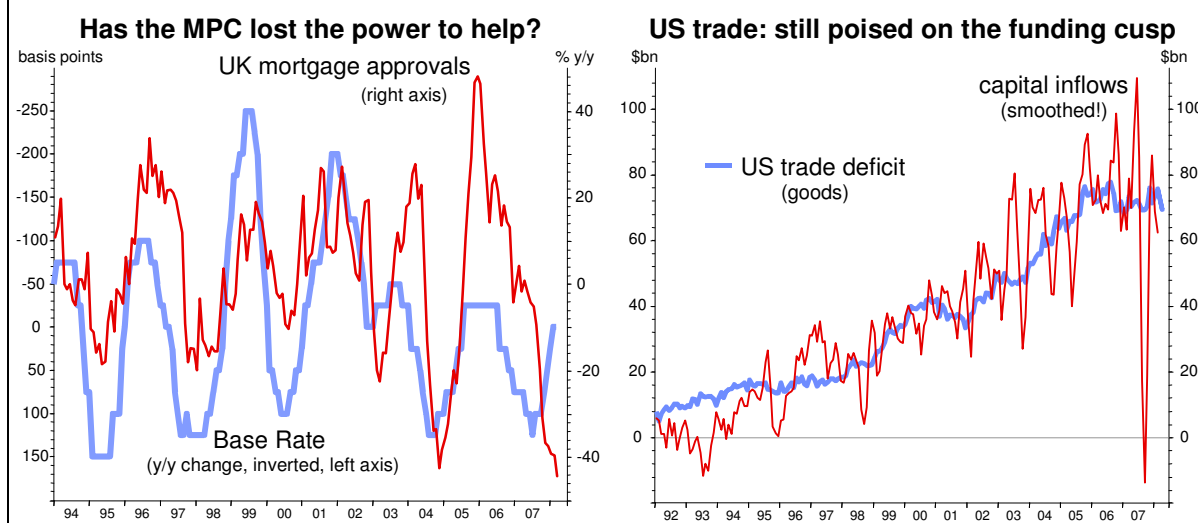
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Robin Aspinall's Weekly Notes

Week ending: 9th May 2008

Charts of the week



Monday 5th May

Cyclone Nargis struck Burma (Myanmar) on Saturday, leaving perhaps 150,000 dead. A trivial aside: it hit the country's main rice growing area, which sent prices soaring again. They are up by 60% y/y.

13 Asian countries, including China, Japan and Korea agreed an \$80bn emergency currency reserve. They don't need it, of course. Its significance is as a step toward Asian capital market self-sufficiency.

In one of his final acts as president, Vladimir Putin banned foreign investment in 42 'strategic' sectors.

Better news from the US services PMI, which rose to 52.0 from 49.6. Recession has been postponed.

The Fed's quarterly loan officers' survey showed banks' lending criteria at or near their tightest ever. This is the nub of the current crisis – the financial markets will stabilise eventually, but at the cost of a monetary tourniquet on the real economy. As banks reinvent themselves, the economy will flounder.

Tuesday 6th May

The Eurozone's services PMI rose from 51.6 to 52.0 in April. But the divide between countries is huge: Germany, 54.9; Spain, 42.5; Italy, 49.8. And, in France, the index collapsed from 57.3 to 52.8.

The UK services PMI slumped from 52.1 to a recession-nudging 50.4. Input prices hit a 12-year high.

UK manufacturing output reversed its recent winning streak with a fall of 0.5% in March. – the worst m/m performance for six months. The data are too erratic to declare a turning point, but we can guess.

NIESR used the industrial data to extend its (reliable) 3-month GDP estimate: steady at a mere +0.4%.

Fannie Mae reported a quarterly loss of \$2.2bn and is set for more losses on that scale. (At least its accountants now have some idea of its losses.) And this is the organisation that is meant to bear the brunt of rescuing the US housing market – its regulator, the OFHEO, approved a \$6bn capital-raising exercise and cut its required capital surplus. A safe pair of hands? Even the White House is worried.

Wednesday 7th May

The Renminbi fell sharply ahead of data expected to show slowing exports. Synthetic RMB futures had their biggest one-day fall since 1999. China, the locomotive of the world, is running out of steam. Helped by appalling (but freakish?) German data, the Eurozone's retail sales fell 0.4% in March. That left them down 1.6% y/y. With global demand fading, Europe is depending on its consumers. Oh dear. Another sign that the US slowdown is infecting Europe: German factory orders fell by 0.6% in March. After 2007's record €39bn, the French trade deficit reached €4.8bn in March. There's worse to come. The Euro will soon have 16 members: the EC approved Slovakia (from 1/1/09), despite ECB protests. The BRC said UK shop price inflation accelerated to 1.2%. Food prices rose by 0.7% in March alone. It is no surprise that UK consumer confidence is sagging, but the fall in the Nationwide's (newish, but superior) index was truly shocking. It plunged from 77 to 70 – a new low since its inception in 2004. US labour productivity grew by 2.2% pa in Q1 – because working hours are falling faster than output. One of the paradoxes of the moment is that long-term global stability depends on an end to US over-consumption, while short-term stability depends on US consumer strength. So news that US consumer credit grew by \$17.2bn during March – the most since last November – carried ambiguous messages. The message from US pending home sales was less equivocal: they fell from 83.8 to 83.0, a new low. George Bush's chief economic adviser said he is confident the US will avoid recession. What a relief! Hank Paulson is more credible, and was cautiously optimistic about the markets – although stability demands more de-leveraging and re-pricing of risk. And that means a tighter squeeze on the economy.

Thursday 8th May

The *FT* headlined that the US and EU are united in wanting a stronger Dollar. (Who's fooling whom?) German trade data showed exports down another 0.5% in March. Ex-EU exports are still up 3.5% y/y. As the world's largest exporter, German industry is heavily dependent on export success, so it is no surprise that industrial output was also weak. It fell 0.5% (+4.7% y/y), with capital goods down 1.8%. For those who care, it's much worse in Denmark: industrial output fell 6.9% m/m, the most in 8 years. No-one thought the ECB would cut rates yet. Not with inflation so far above target. And, J-C Trichet said, "inflation rates are expected to remain high for a rather protracted period". It will be a long wait. ECB inaction didn't stop Euro-Dollar hitting a 2-month low. (It's a consolidation not a trend reversal.) One or two thought that the MPC might cut. But, no. Which had little to do with confidence about the economy and everything to do with inflation, which Gordon Brown's 1999 edict said is its sole priority. AIG reported a Q1 loss of \$7.8bn and said it will need to raise \$12.5bn in new capital. Join the queue. A near-daily headline: oil prices hit another record high, with Brent reaching almost \$123. \$140 soon?

Friday 9th May

Japan's leading index relapsed to 20.0 from February's 54.5. The rise above 50 never seemed credible. France became the latest European nation to report soft industrial output: -0.8% in March (+2.0% y/y). The US trade deficit was smaller than expected, at \$58.2bn (vs \$61.7bn), which is good news, except if you are worried about domestic demand – import volumes fell 2.9%, their biggest drop since 1991.

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