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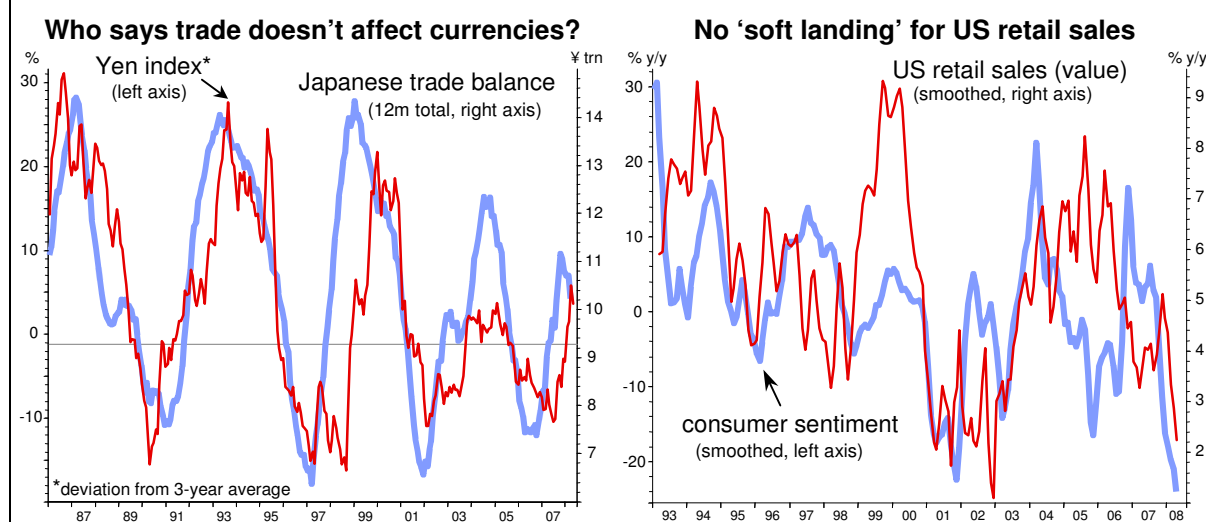
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Robin Aspinall's Weekly Notes

Week ending: 16th May 2008

Charts of the week



Monday 12th May

Japan's bank lending rose a tiny 1.3% y/y, and the economy watchers index relapsed to 35.5 from 36.9. Serbia's election resulted in a surprise victory for the pro-EU coalition. (Now for Russia's response.) Italian industrial output fell again, by 0.2%, in March, making -1.1% in Q1 and -2.5% y/y. Recession! UK producer output prices jumped by a staggering 1.4% in April, lifting inflation to 7.5% from 6.5%. The UK's trade deficit narrowed slightly, to £7.4bn, in March. But, with financial services revenues and related capital inflows slumping, that decline is not nearly enough to put a cushion under Sterling.

Tuesday 13th May

UK CPI inflation surged to 3.0% from 2.5%; and the BoE thinks it will carry on rising to 4% or more. Rics said that a balance of -95.1% reported UK house price rises, a record (post-1978) low. But, the DCLG said that house prices rose by 0.1% in March, although inflation dropped to 5.2% from 6.3%. The BRC said UK like-for-like retail sales fell 1.5% y/y in April, although total sales managed +1.0%. US retail sales (value) fell by 0.2% in April, but autos were the culprit. Ex-autos, sales rose by 0.5%. A survey of economists by the Philadelphia Fed foresaw two more years of housing market weakness.

Wednesday 14th May

Japanese consumer confidence rebounded from a 5-year low, rising from 36.1 to a still-desperate 36.6. Inflation is a hot issue in France, and no wonder, with large retailers' prices up by 5.3% y/y in April. Alistair Darling revealed an emergency secondary Budget to compensate the losers from the abolition of the 10p income tax band. But £2.7bn seems an unaffordably high price to stave off internal dissent.

Mervyn King is out of the Volcker* mould. His presentation of the BoE's *Inflation Report* was as gloomy as could be – about growth and, especially, inflation. It was clear which is his main priority.

An early sign of a reversal in the UK labour market: unemployment rose by 14,000 in January-March.

The US CPI rose by 0.2% (0.1%, core) in April. But 3.9% inflation is too high for any central bank's comfort (except the Fed) and is fast becoming investors' main worry (said the Merrill Lynch survey).

That rise in the CPI, accompanied by fewer hours worked, meant US real wages were squeezed 0.5%.

Freddie Mac lost \$151m in Q1, but that was better than feared after losses totalling \$4.5bn in Q3/Q4.

*Paul Volcker, the Fed's anti-inflation crusader of the 80s, warned that 70s-style inflation is returning.

Thursday 15th May

S&P cut Pakistan's foreign currency rating to B on rapidly rising public spending and deteriorating political stability. That was the first cut since the military coup in 1999, and the outlook is negative.

Eurozone CPI inflation was confirmed at 3.3%. Core inflation eased to 1.6% from 2.0%. Good news? That depends on whether energy, food, alcohol and tobacco prices matter. (The ECB thinks they do.)

In an echo of the BoE's *Inflation Report*, the ECB's bulletin spoke of inflation remaining high "for a rather protracted period". Its not-very-coded message was that interest rates stay put for many months.

A rebound in German GDP growth to 1.5% q/q enabled Eurozone growth to exceed expectations with a 0.7% increase in Q1. France managed a 0.6% rise, but Spain slumped to +0.3% (with worse to come).

UK housing starts subsided by 21% from Q4 and were down 24% y/y. On their way to -50% or worse.

US capital flows data are viciously volatile, but total inflows were a net -\$48.2bn in March, down from a (downward-revised) +\$48.9bn. All that swing was explained by huge Dollar sales in the inter-bank market. That may be a technicality, but it still leaves the trade deficit dangerously underfunded.

The NY Fed's Empire State index fell from +0.6 to -3.2 in May, which points (unreliably) to recession. ...something the Fed's industrial data instantly confirmed: production fell 0.7% in April (+0.2% y/y).

The Philadelphia Fed's index rallied to -15.6 from -24.9, but that is still consistent with falling GDP.

US continuing claims – a better guide to the labour market than the jobs data – reached a 4-year high.

Ben Bernanke urged US banks to raise still more capital (ie sell chunks of themselves to foreigners). He knows the consequence of excess consumption is that your assets are sold cheaply to foreigners.

Opec joined the IEA in cutting its forecast for oil demand, with 2008 consumption slightly down y/y.

Friday 16th May

Japanese Q1 GDP grew 0.8%, which looked odd set against industrial output that fell 3.4% in March.

And, Japan's consumers still aren't happy: confidence fell in March from 36.7 to a 5-year low of 35.2.

CBs digging holes: Nordic central banks set up a €1.5bn swap arrangement to provide a 'safety' net for Iceland; the ECB expressed "high concern" at the quality of assets it is receiving in its liquidity scheme; and, UK banks have manufactured £90bn of mortgage-backed bonds to swap with the BoE.

Has desperation driven US homebuilders to multi-family starts? They rose by a thumping 40.5% pa in April, while single-family starts fell 1.7%. Less ambiguous: the NAHB index relapsed to 19 from 20.

Michigan's consumer sentiment index sank to its lowest since June 1980 in early May: 59.5 vs 62.6.

Rice prices have tumbled (by 20% from the peak), but oil keeps rising: it hit a record \$127 on Nymex.

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