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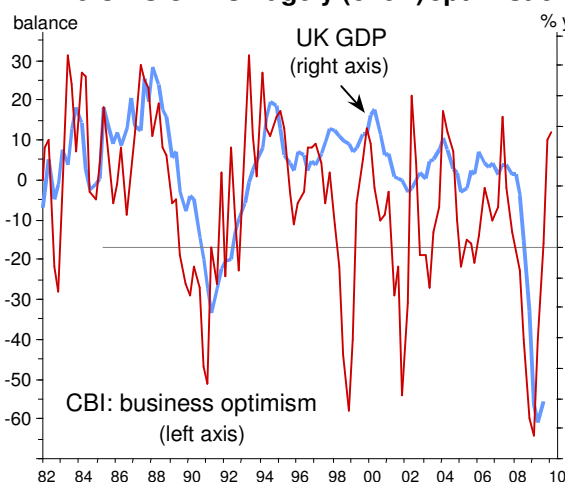
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Robin Aspinall's Weekly Notes

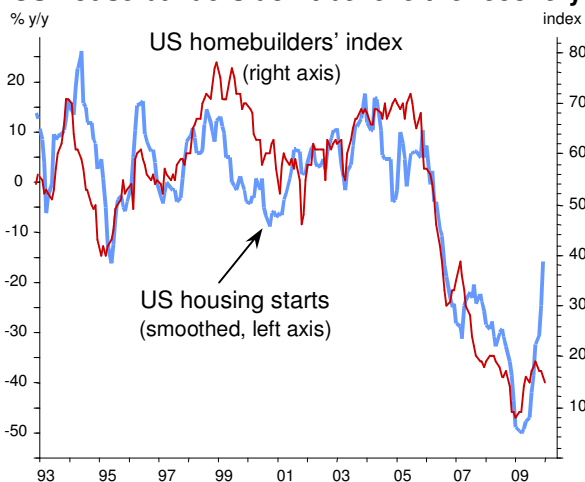
Week ending: 22nd January 2010

Charts of the week

The UK's CBI is hugely (over-)optimistic



US house builders don't believe the recovery



Monday 18th January

Estimates of the victims of last week's Haitian earthquake disaster soared to several hundred thousand. Japanese industrial output in November was trimmed to +2.2% (-4.2% y/y), but still looked impressive. When is \$10bn not \$10bn? When it's Abu Dhabi's rescue package for Dubai, which turns out to be \$5bn. The first round of Ukraine's presidential election was won easily by the pro-Russia candidate, Viktor Yanukovich. The run-off against the glamorously charismatic PM Yulia Tymoshenko is on 7th February. *Déjà vu*: Eurozone finance ministers castigated Greece (again) and Greek banks' shares plunged (again). Dominique Strauss-Kahn – the head of the IMF – was alone among the world's prominent economic opinion formers in spotting the severity of the 2007 crisis. Now he is warning of a possible 'double dip'. Even so, the IMF persisted with official, 'decimal-point forecasts of a mild slowdown. Which puts ITEM into context. Using HM Treasury's decimal-point model it still produced horribly gloomy UK forecasts.

Tuesday 19th January

It has been looming for months, but Japan Airlines finally filed for bankruptcy. Massive restructuring will follow, which may leave Asia's biggest airline viable. Congratulations to Japan for biting the bullet. Consumer confidence in Japan fell again in December, which took it to a 6-month low of 37.6 (vs 39.5). Germany's ZEW index is based on a survey of investment professionals, so it is driven more by market sentiment than economic wisdom. Consequently, it is very volatile, but it does tend to pick important turning points. So, its fourth successive fall – from 50.4 to December's 47.2 – is unnerving. EU machinations led to the postponement of selecting the ECB's deputy head. Germany has let France claim many prime EC posts because it wants the top ECB job for itself (J-C Trichet's term is up next year). If the Portuguese nominee for vice president is chosen, Germany would be a certainty over Italy.

Kraft wrapped up its bid for Cadbury with an offer of £11.6bn (and £12m for Cadbury's ceo). No-one in the UK seemed to like the deal, but nor did Warren Buffett, who knows a bit about this sort of thing.

UK CPI inflation exceeded expectations yet again with a jump from 1.9% to 2.9% in December. Last year's reduction in VAT explained much of that, but not all. And, there is worse to come when January's reinstatement of 17½% VAT comes through. It all makes life very tough for the MPC's doves.

US capital inflows were a net \$26.6bn in November – not nearly enough to cover even a shrunken trade deficit. But most attention is paid to supposedly 'long-term' flows, which ran a \$114.5bn surplus.

Citigroup reported a Q4 loss of \$7.6bn and implicitly blamed the moribund US economy: 'Bric is best'.

The Fed has mounted an immense publicity campaign in a forlorn attempt to defend its reputation and power. The latest: it has made a paper profit of over \$15bn on its much-criticised purchase of AIG CDOs.

Barrack Obama's first year in office ended with a dramatic loss to the Republicans in Massachusetts. A predictable reversal of earlier euphoria, but one that undermines his control of Senate, and his authority.

Wednesday 20th January

China's GDP growth spurted to 10.7% y/y in Q4, putting it on the brink of overtaking Japan as the world's no. 2 economy. But not even China is happy: it issued an edict curtailing lending by some of its banks. That spooked world stock markets, undermined commodities, and sent €-\$ to a 5-month low.

The UK MPC's minutes showed a 9:0 vote for no change, but failed to mention the widening gap between gilt yields and interest rate expectations – a reversal of the trend it loudly celebrated last time.

UK unemployment claimants surprised with a fall of 15,200. Mind you, the 'inactive' total reached 8m.

In contrast, the BoE's regional agents' report was notably downbeat about prospects for jobs and pay.

The US PPI was unsensationally soft in December with an overall rise of 0.2% and a flat 'core' index.

US housing starts fell 4.0% in December. Even so, they were slightly up, y/y – a warning of the deception now creeping into y/y comparisons. The NAHB index is a better guide, and that fell 1 to 15.

Thursday 21st January

The ECB's bulletin was gloomy about recovery prospects – significant policy tightening is ages away

More records for UK public finances, although net borrowing (PNB) of £15.7bn was less than feared. Total debt climbed to 61.7% of GDP, and the IMF said that, on its definition, it is on its way to 82%!

UK M4 fell 1.1% in December – a (post-1982) record. That threw doubt on QE's effectiveness, although the BoE's *Trends in Lending* report did show a slight recovery in both corporate and mortgage lending.

The quarterly version of the CBI industrial survey showed business optimism climbing, from +10 to +12 in Q4. This gravity-defying outcome was based on the highest optimism about exports since 1995.

The US leading indicator jumped 1.1% in December, but the Philadelphia Fed index slipped 7.3 to 15.2.

President Obama announced plans to ban banks from own-book trading or hedge fund investment. Wow! Wall St took fright, with banks leading a fall that saw the Dow down 2%, wiping out this year's gains.

Friday 22nd January

Japan's all-industries index (pseudo-GDP) rose just 0.1%; but the y/y improved to -3.5% from -6.5%.

French business confidence rose from 88 to 92 this month, but firms' output expectations slipped. Odd.

Led by Italy(!), Eurozone industrial orders rebounded from -1.9% to +1.6% in November (-1.5% y/y).

UK retail sales only managed a 0.3% rise in December, and 2.1% was the weakest y/y rise since 1998.

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