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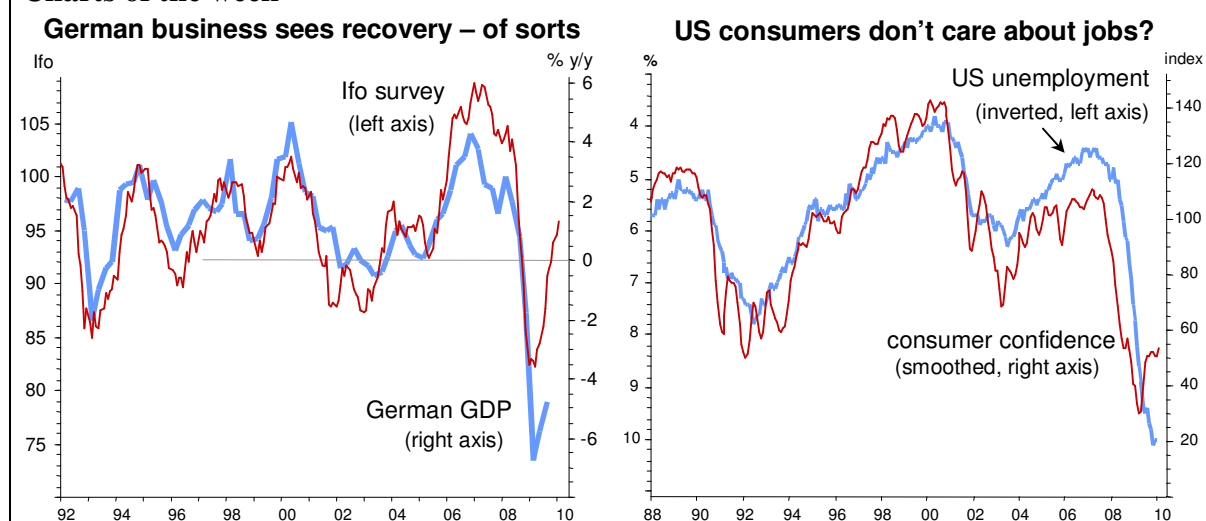
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Robin Aspinall's Weekly Notes

Week ending: 29th January 2010

Charts of the week



Monday 25th January

Oskar Lafontaine, Germany's Left Party leader stepped down; a revolution in German politics has begun. German consumer confidence (GfK) slipped a bit further (3.2 vs 3.3). German consumers, we need you! The headlines hailed the surprise success of a €8bn issue of Greek government bonds. But the price was a record spread over Germany, and credit default swap rates also hit new highs. Calamity postponed. Portugal, in the same boat as Greece, announced a fantasy budget plan – another excuse to sell the Euro.

A week that saw a barrage of support for Obama's bank plans from the BoE, ECB, UK and European politicians was kicked off by Paul Myners and Alistair Darling. (Beware: the Empire **will** strike back.)

UK consumers are saving more. So says a BRC survey. That would have been a Good Thing a few years ago. Now, as in the US, it is consumers' unwillingness/inability to spend that threatens recovery.

PwC have done the sort of Discounted Dividend Flow analysis that accountants (and actuaries) do and concluded that UK equities are close to fair value. Most aren't: Germany, 70% overvalued; the US, 45%.

US existing home sales formed part of a disappointing US housing continuum: December down 16.7%.

The Fed under pressure: Bernanke's reappointment was still in doubt; and its involvement in the AIG bailout is being investigated. That's the thanks you get for saving the world (from a disaster you caused).

Tuesday 26th January

S&P downgraded a Dubai investment vehicle and – much more significantly – Japan's credit outlook.

Germany's Ifo survey bottomed last March and has risen so rapidly that it points to GDP growth – of 1%.

France seems to be outpacing its neighbours. Today: December consumer spending +2.1% (+5.9% y/y).

Consumers are less enthusiastic in Italy, where consumer confidence retreated in January, from 113.7 to 111.7; and December retail sales were unchanged, which meant the y/y slipped from +0.5% to -1.3%.

Greece reportedly went cap in hand to China, but was rejected. That's part of two bigger stories – about the Greek/EMU predicament, and about the scale of Chinese capital flowing into the West, Africa, etc.

It is so fashionable to deride UK economic performance that Q4 GDP data showing growth of just 0.1% was leapt on as more evidence of terminal decline. Things aren't quite that bad – but the data are.

But there's no denying the risk to UK gilts now QE is ending. The DMO seemed to be panicking itself.

In another setback for Obama and hopes for US fiscal discipline, the Senate rejected plans for a debt panel that could bypass Congress in forcing through cuts. (Put like that, it never stood a chance, did it?)

Case-Shiller's price index was the next US housing disappointment – prices fell slightly in November. Although the semi-official Fannie/Freddie-based data from the FHFA said house prices rose slightly y/y.

Better news: US consumer confidence beat expectations with a rise from 52.9 to 55.9 – a 15-month high.

Wednesday 27th January

Japanese trade data exposed the arithmetic magic of y/y comparisons across a V-shaped slump. For the first time in 15 months they were up y/y, by 12%. But that still left them 32% below their 2008 peak.

French consumers refuse to be cheerful, so a rise in confidence from -30 to -29 was actually quite good.

Retailers doubted the weakness of the official UK sales data, but the CBI confirmed: -8, down from +13.

In Mervyn's footsteps (but with his own, finer mind) the BoE's Paul Tucker backed a bank crackdown.

This week's final US housing disappointment: new home sales were supposed to rise, but fell by 7.6%.

Some people seemed to believe the FOMC would tighten. No, but a preliminary step: 'recovery is here'.

Wall Street resumed its decline after a brief hiatus; the Dollar rose and the Euro fell, as did oil and gold.

Thursday 28th January

Canute-style, the German government has sought to stem the tide of rising unemployment with huge subsidies for short-time working. Inevitably, the tide is slowly turning – December saw a rise of 8,000.

Extending a multi-month trend, Eurozone economic sentiment rose impressively, from 94.1 to 95.7 in January, but that was entirely due to the industrial rebound, while consumer confidence was moribund.

US durable goods orders have lost their interesting volatility. December: +0.3%. Ex-transport: +0.9%.

The Chicago Fed's national activity index is a better guide to the US economy than GDP, and it points to growth – just. It dipped in December, from -0.39 to -0.61, which suggests GDP growth of about 1%.

The Senate settled for the lesser of two evils and finally approved the reappointment of Ben Bernanke.

Friday 29th January

With help from the y/y delusion, Japan produced a set of better-than-feared data for construction, car output, unemployment and even deflation. The stand-out: industrial output +2.2% (+5.3% y/y vs -4.2%).

Eurozone M3 slowed; inflation was an 11-month high (1.0%); unemployment hit 10% (Spain 18.8%!).

UK consumers aren't exactly chirpy, but they are less gloomy: consumer confidence (GfK) rose 2 to -17.

Is it because house prices are rising again? Nationwide said they rose 1.2% in November (+8.6% y/y!).

US Q4 GDP spurred by 5.7% pa, far exceeding expectations. 3.4% of that came from slower destocking.

The Employment Cost Index (once a Fed favourite) now tracks recession not inflation. Q4: up just 0.5%.

Can't spend, don't care: Michigan's US consumer sentiment index rose from 72.5 to 74.4, a 2-year high.

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