

The Word from Hansard

German government plans to support Europe's largest economy with extra public spending appear to have lifted the spirits of the nation's retailers, leading to an unexpected rise in German business confidence at the start of 2009. The change in mood was a first tentative sign that German policymakers might be right in forecasting a stabilisation of Germany's export-dependent economy in the second and third quarters in 2009. This could encourage the European Central Bank to hold off for now from further rate cuts. The Munich-based Ifo economic research institute said its business-climate index rose to 83 points in January from 82.7 the prior month, surprising most economists.

The cost of shipping dry bulk commodities such as iron ore, coal and grains rose to its highest level in three months on signs of a tentative renewal in demand for raw materials. The Baltic Dry Index, the market benchmark often seen as a leading indicator of commodities demand and global economic activity, climbed 51% to 1,004 last week from its 22-year low of 663 in December. Analysts said the rally in shipping costs could be an early sign that global trade was beginning to revive. Peter Norfolk, director of research at Simpson, Spence and Young shipbrokers, said the improvement in the market had been driven by a surge in chartering of the world's biggest ships, known as "capesize" vessels, which are used to move iron ore. The bulk of demand has come from Chinese steel mills and iron ore traders.

France's Prime Minister Francois Fillon has unveiled a series of measures worth 26 billion euro (USD 33.1) designed to "revitalise" the French economy. The package includes 11 billion euro to help businesses and 4 billion euro to modernise rail infrastructure, energy and the postal service. The government expects that the stimulus package will produce economic growth of around 1.3% but may not be enough to achieve positive growth for the French economy in 2009.

Australia's government has announced a 42 billion Australian dollar (USD 26.5 billion) stimulus plan, targeting infrastructure and those on low incomes. The country's treasurer, Wayne Swan, said that A\$28.8 billion would be invested in schools, housing and roads. Another A\$12.7 billion will provide cash support for lower income families to be paid next month. The country's central bank also cut interest rates to 3.25%, the lowest level for 45 years. The government has halved its economic growth forecast to 1% for 2008/9.

The yen rose on a third day against the dollar and to a two-week high versus the euro as stocks fell and a drop in US manufacturing increased demand for the yen as a refuge. The yen strengthened to 89.91 against the dollar in London from 89.92 on Friday. It advanced to 113.31 per euro, the strongest since 23 January. The euro fell as low as USD 1.2706, the weakest since December 5, before trading at USD 1,2741. The pound declined against the dollar to USD 1.4211. Against the euro the pound fell 1.7% to 89.65.

The decline in US manufacturing further limited demand for oil has led to the price of crude oil to fall. Crude oil for March delivery traded at USD 40.88 a barrel in New York.

The world's largest money managers say China's steepest monthly stock gain in more than a year shows that its economy should avert a recession. The Shanghai Composite Index, the broadest measure of shares in China, rose to its highest level in a month on Monday. The index rose 9.3% during January, the most among the world's ten biggest markets. Chinese share values have risen on the back of five base rate cuts since September and the announcement of a USD 584 billion stimulus package by the Chinese government. According to fund managers Richard Urwin at BlackRock and Russ Koesterich at Barclays, who together help manage more than USD 3 trillion in assets,

China's economy is expected to grow by around 8% this year after expanding 6.8% in the fourth quarter of 2008. "The Chinese have a pretty strong pro-growth agenda at the moment and they tend to do whatever it takes to stabilise the growth slowdown," said Urwin.

Spotlight on Davos

The World Economic Forum has ended. While the general mood was very sombre it is interesting to note that several potential areas that may attract investors in 2009 were discussed.

Technology companies are convinced that the promise of innovation and efficiency will keep their businesses going. "In the world of technology you cannot afford not to keep investing in research and development," Intel's chairman said. The downturn may last a few years, he says, but customers will still want to buy his company's new energy efficient chips, because the savings could pay for themselves within a year. As a matter of fact, in all recent recessions it was new technology that was the key driver of economic recovery, said Cristobal Conde, chief executive of software firm Sungard.

Telecommunications offer plenty of opportunities for growth and profit for network operators, while whenever mobile phones are introduced in poor countries, economic growth follows. "For every 10% of mobile phone penetration, on average an economy gains 1.5% in gross domestic product," says Alexander Izosimov, chief executive of VimpelCom and chairman of the GSM Association. Growth opportunities abound not only in developing countries, he says. Once governments release the new frequency spectrum, a fast roll-out of 4G mobile phone networks with download speeds of 100 Megabits a second, promise huge economic benefits. Instead of subsidising failing industries during the current crisis, argues Mr Izosimov, governments should make the necessary spectrum available for free, sit back and watch the economic benefits.

With every government lining up huge spending programmes in activities such as building roads, bridges and electricity networks, infrastructure companies are likely to benefit.

The stock market turbulence of recent months appears to be settling into a period of less volatility. While an immediate recovery may not be on the horizon just yet there will nonetheless be investment opportunities available. Evaluating and selecting the right investments is probably beyond the capabilities of the ordinary investor in this environment and can only be achieved through professional advice. Your Hansard account executive will be pleased to illustrate how potential opportunities can be captured using a combination of our product and fund structures.

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