

JUSTIN'S COMMENTARY

Justin Urquhart Stewart is one of the most recognisable and trusted market commentators on television, radio and in the press. Originally trained as a lawyer he has observed the retail market industry for 30 years whilst in corporate banking and stockbroking, and has developed a unique understanding of the market's roles and benefits for the private investor.



“EUROZONE SOUFFLÉ”

History does not repeat - well that is my view - but it does resonate. The effect is that we can often see some remarkable similarities and we certainly should take notice of them, or we will very likely suffer similar consequences of those earlier times.

Perhaps we are seeing another such similarity right now. Currently the Eurozone is behaving like one of my soufflés. Having risen up superbly with its golden centre crowning the dish, and its outer edges slightly burnt, sadly now the centre has collapsed into a soggy mush, whilst leaving the outer edges looking fairly flaky. Not a brilliant simile I am afraid but the core of the Eurozone has seen its growth figures fall down quite dramatically, with France and Italy flat and even Germany's figures looking comparatively dire. Perversely the much criticised peripheral nations have been generally faring better, although their youth unemployment position for the most part is still terrible and will no doubt be socially damaging for the long term.

Parallels with history here take us back to the time before the Second World War and the Depression. However there are some very key differences in that the economy suffered a sickening dramatic see-saw then, but this has been replaced this time around by a longer, lower, slower trajectory of subdued growth. At least this time we are not seeing (at least not as yet) the destruction of political stability. However we have seen the rise of right wing parties in many areas, and with youth unemployment at painfully high levels in nations like Greece and Spain, social stability is very much at risk unless meaningful action is taken.

So what is the answer? Huge programmes of QE, which the Germans don't want? Or maybe a loosening of the fiscal policies, which the Germans could do but don't want to do, and which the French and Italians want to do but can't afford to. The key issue though is the lack of confidence, in that although the banking system has been partially repaired and the banks encouraged to lend, if there is no confidence to invest and spend then little is going to happen.

The pressure is rising on the politicians now to act, as the ECB has already started its own form of QE with corporate bond purchases. There seems little uniformity or agreement as yet, but I wouldn't be surprised if we see some further initiatives from Mrs Merkel to try and encourage the economy, maybe through the easing of pension payments for a while.

But back in the Baltics...

Whilst the travails of the Eurozone cast an economic pall over the continent, this is not stopping new members joining in with the currency. Lithuania will become the 19th member of the Eurozone on the 1st of January 2015. Their current currency the Lita has not lasted long as it was introduced quite hurriedly following its independence from the crumbling Soviet empire. Stocks of Euro notes are already being transferred ready for the handover and there is an educational programme taking place to explain to some three million people about the changeover. For some, they will regret the passing of their own currency, but for many, standing so close to the shadow of the Bear, it is a sign of greater connection to the West and Europe which has been a source of comfort given the growing concern this year as the Ukrainian crisis unfolded.

Just another note to carry on that theme, I note that the Estonian government has ordered a clearing of the bush and woods along their border with Russia. A total of €200,000 has been allocated for the task along with the improving of border guard equipment. Another €2 million has been spent on reinforcing the border with night vision cameras, better weapons and protective "devices". This comes after a recent alleged kidnapping of an Estonian counter intelligence agent across the border. I wouldn't be at all surprised if Harry Palmer turns up next to replay the Cold War all over again (Michael Caine in the Ipcress File amongst others).

A small piece of good news from the Ukraine.

It seems that despite the conflagration in the eastern part of this troubled nation, Ukraine may well have a record grain harvest this year. Its total harvest forecast of all sorts of grain has risen from 60m tns to 64.42m tns with increased production per hectare. Exports are likely to be over 30m tns making it one of the world's largest grain exporters and, given the dire state of the nation's finances, very welcome indeed.

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And finally... for Belgians who drive a bit over the speed limit, forget to buckle their seat belts or park illegally, they can breathe a little easier this week as police turn a blind eye in protest against plans to raise their retirement age.

The country's police are up in arms over plans by the incoming government to raise their pension age to 62 from 58 as part of its efforts to cut the federal budget. Some 40,000 officers demonstrated against it in Brussels two weeks ago.

They began the next step in their protest recently by going easy on minor infractions for the next week.

"Clearly this wouldn't cover major offences, such as reckless or drunken driving," said Vincent Houssin, deputy chairman of the 18,000-member VSOA police union.

Police unions say the officers will continue to uphold traffic safety, but for a week at least the state budget will not get the benefit of their work.

Have a good week.

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