Investment Commentary
by Roger Nightingale

Monetary failure should reinvigorate us; inspiring redoubled activity, not depression.

Easily said, less easily done. Central Bankers have learned nothing from the Fed's misanalysis in 1929, nor the BOJ's in 1989. Will they ever?

23rd July 2010

Economics growth has been disappointing for months.

The authorities—political and monetary—are worried. They'd expected 2009's anaemic economics recovery to broaden and strengthen as 2010 progressed. It hasn't. Recent data have been more than a little disappointing. Perhaps it's nothing, just a statistical hiccup. Perhaps, on the other hand, it's the start of something serious.

Another recession can't be ruled out.

In the States, earlier this week, Fed Chairman Bernanke was deliberately circumspect. He didn't say that the economy was heading for another downturn, but didn't rule it out either. Instead, he spoke cryptically of uncertainties and ambiguities!

The Americans are frantic; so are the Chinese.

In China, concurrently, there was still the pretence that everything was going to plan. Premier Wen implied that a "soft landing" was being successfully achieved. The slower pace of growth in the early summer, he said, was to be welcomed: it would allow the country to redeploy its resources more efficiently. A new surge in activity might be the result!!!

The Europeans, almost inured to failure, are calmer.

In Europe, Governor Trichet has stopped trying to fool investors. He no longer affects to believe that the EZ economy has been performing satisfactorily. Some parts of it are acknowledged already to be in recession; others are expected shortly to follow. For him, and his unelected collaborators in the Commission, survival constitutes success!

Might the pesky banks collapse again?

It's the banks that are the focus of anxiety. Whether they flourish or flounder depends more, it's being belatedly appreciated, on the health of their customers than on that of their balance sheets. That means that the bailout in 2008, the transfer of huge sums of money from the former to the latter, was a mistake. It did more harm than good.

If so, what could be done? Nothing!

If there should be another recession, if delinquent banks should begin to teeter again, it's unlikely the mistake would be repeated. So how would the authorities react? Is there anything they could do? Not a lot. They'd be restricted to quantitative easing (and asset liquidation).

But the general public would be furious.

In such circumstances, Central Bankers would have a lot for which to answer. Incumbent Governments likewise. Both would be unpopular, but it's the latter that would more easily dismissed. Not many would survive an election.

Incumbent Governments, where elected, would be dismissed.

In the States, Obama's ratings have plunged. The Democrats are set to suffer severely in this year's congressional polls. And, if the recession should occur on schedule in 2012, they'd be wiped out in the general election.

Obama in the States; Kan in Japan.

Japan's newly elected Government has sustained an even faster fall from grace. Recent elections to the Upper House have dealt it a painful defeat. The DPJ-led coalition no longer commands a majority there. It's a lame duck already; its days are probably numbered.

Merkel and Sarkozy in the EZ.

It's much the same in Europe. Merkel and Sarkozy are headed for an early bath. Their performance has been dire. But, irritatingly, they lack humility; let alone remedy. Shades of 1789? Time for another revolution?

Likewise Cameron in the UK.

Nor is Cameron immune. Thus far, it's Clegg whose stock has taken the hit. But it'll not last. The Tory is headed for a fall. In New York, he played his cards badly. The assertion that the Brits were the junior partner in the Second World War alliance may have been intended to flatter his hosts, but it'll have infuriated his countrymen.

Asset markets, though, perhaps perversely, might rise.

And the markets? They're vulnerable, but will probably hold up better than the economy. Or the politicians. Government bonds will be chosen for safety; equities for yield.

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