November Market Commentary

Introduction

Whatever else happened in October, Hurricane Sandy happened. Or Superstorm Sandy or 'Frankenstorm.' Take your pick. A week before America went to the polls, the storm hit the North Eastern seaboard with tragic consequences and adding one more headache for President Obama to deal with as the post-election euphoria clears.

On this side of the pond, David Cameron's brief period of respite at the Conservative party conference quickly faded as the Office for Budget Responsibility suggested that the austerity programme might have hindered Britain's recovery. By the end of the month, the Prime Minister was once again battling Europe's demand for more cash. Ed Miliband compared him unfavourably to John Major and on Halloween, 53 Tory rebels resolutely said "trick" as they joined Labour in the division lobbies, defeating the Government on EU spending.

October also saw an agreement between the PM and Alex Salmond, paving the way for a referendum on Scottish independence in 2014. Currently the 'no' campaign are in the lead, but with figures released showing that only 12% of Scottish households pay more in tax than they receive in benefits, you suspect the result might be slightly different if the English had a vote.

In Europe, the words "Spanish crisis deepens" (which regular readers are so familiar with) were once again to the fore, whilst in the Far East, the Asian Development Bank slashed growth forecasts for the region.

Like so many months in 2012, October could be described as a little challenging…

UK

The economic news for the UK was mixed in October, with good and bad news seemingly alternating on a daily basis.

JJB Sports went into administration with the loss of 2,200 jobs whereas Aldi announced the creation of 4,500 jobs as the hard-pressed middle classes flocked to their door. Not surprisingly, Tesco reported a fall of 11.6% in their half year profits – the first fall since 1994 – as they complained of 'difficult trading conditions' pretty much everywhere.

There were signs that UK consumer spending was finally picking up – particularly on winter clothing – and inflation fell to its lowest level for three years, at 2.2%. The unemployment figures for the three months to August also showed a fall – down by 50,000 to 2.53m.

But then Paul Tucker, Deputy Governor of the Bank of England, warned that the “worst may be ahead” and Ford closed factories in Southampton and Dagenham with the loss of 1,400 jobs – and possibly more in the supply chain.

In the final week of the month, figures were released showing the UK was officially out of the double-dip recession. But many economists were sceptical, saying that the improvement the Government was claiming could all be down to one-off factors. The argument rumbled on…

Perhaps the most accurate barometer of the UK economy came from Greggs the Bakers. They warned of a slump in UK consumer spending, pointing out that lunchtime shoppers were switching to “significantly cheaper sandwiches.” The FTSE-100 index was happy to go along with this sombre assessment, and ended the month a mere 41 points higher at 5,783.

Europe

October started with contradictory messages from two of Europe’s more troubled economies. The Greek Prime Minister warned that without a re- negotiation of the bailout package, the country couldn’t manage “beyond the end of next month” – which is now this month. But speaking at the LSE, the Spanish economy minister, Luis de Guindos, flatly refuted the idea that Spain would need a bailout.

Unfortunately the figures from the Spanish economy showed no signs of backing up his claim: by the end of the month, overall unemployment in Spain was above 25%.

The worry for countries like Greece and Spain must be that permanent and irreversible damage is now being done to their economies. There are signs that Spanish tax revenues are starting to fall as many companies leave the country for more stable economies elsewhere, and this was graphically illustrated in Greece when Coca Cola Hellenic announced that it would be relocating. Trends like this are not going to be reversed quickly.

German Chancellor, Angela Merkel, had another interesting month. French President, Francois Hollande, continued their spat over the austerity programme – although increasing factory closures mean that everything is not entirely rosy in M. Hollande’s own back garden. Frau Merkel then visited Greece where she was able to see herself burned in effigy (several times) before coming home to be blamed for the collapse of the proposed BAE- EADS merger.

The larger European stock markets reacted to all this excitement with Gallic indifference. The German DAX index rose by around 1% to finish at 7,260 and the French index was also up slightly at 3,429. The Greek stock market turned in a spectacular performance, rising by over 10% in the month, but it would be a brave man that invests there at the moment.

USA

The forthcoming Presidential election overshadowed everything in the US last month until, of course, Hurricane Sandy struck. Up until then most of October's economic news was good. Car sales in September showed the biggest rise for four years – although inevitably a Japanese company was the biggest beneficiary. The US service sector grew as confidence apparently returned, and there was a surprise fall in the US jobless figures. Analysts had anticipated a slight rise: in the event there was a fall to 7.8%.

Obviously weighed down by the consequences of Hurricane Sandy, the Dow Jones retreated slightly in October, closing the month around 3% down at 13,096.

While the Eastern Seaboard cleans up the wreckage of Sandy, newly re-elected President Obama has a hurricane of his own to deal with. 20 years ago Ross Perot captured 19% of the public vote when one of his key messages was that the US national debt was far too high at $4tn and something needed to be done about the $290bn annual deficit. Today US national debt stands at 16tn and the annual deficit has been above $1tn for four years in a row. Both parties have promised to tackle the debt. Don't hold your breath…

Far East

Perhaps the most important news in the Far East is the once-in-a-decade change of leadership in China. 59 year old Xi Jinping has been selected as the country's next leader and Communist party chief. A chemical engineer by training, Xi is pro-business and may well introduce measures to boost the Chinese economy, which has (by its own standards) been in the doldrums this year.

There are signs, however, that Chinese manufacturing is showing signs of an upturn with two surveys – one Government sponsored, the other private – showing confidence returning. Doubts remain over electronics in the region however, with losses continuing at some of

Japan's leading manufacturers. Asian markets were also depressed during the month by disappointing results from Apple and Amazon, who have so many of their products manufactured in the region. The downbeat assessment from the Asian Development Bank reported above confirmed these worries.

There were no such fears for Samsung though, as profits soared on the back of better-than-expected sales of its Galaxy smartphones.

Among larger stock markets in the region, Hong Kong enjoyed a good month, rising by 4% to close at 21,642, whilst Japan and China were largely unchanged. However two of the smaller markets had disappointing months: South Korea was down by 5% in October, whilst the Taiwan market fell by just over 8%.

Emerging Markets

The major 'emerging markets' – India, Brazil and Russia – all saw slight falls of between 2% and 3% in October. As always though, it was Venezuela who led the way with a spectacular rise of 30% in the month.

In GDP terms, the 'best' five countries over the past 12 months have been Mongolia, Panama, Rwanda, Malawi and Iraq – very much reflecting the fact that we're now really living in a world economy. To no-one's surprise, Italy, Portugal and Greece all figured among the main GDP 'losers', reinforcing the point made above that companies who move away due to the economic uncertainty in Europe will find no shortage of homes to go to. Europe cannot wait indefinitely to sort out its problems.

And finally

Despite the fact that so many countries, companies and individuals around the world are struggling, McClaren Automotive – the 'normal car' branch of the F1 team – unveiled their new P1 Supercar. Most of the publicity apparently featured Lewis Hamilton, who then unfortunately defected to Mercedes. Nevertheless the launch of the P1 went ahead and despite global economic problems there is apparently no shortage of customers ready and willing to stump up the £800,000 needed to put a P1 on their drive. Rest assured that the author of this newsletter is not one of them and will be pedalling back to his desk to deliver the December report…