



Justin A. Urquhart Stewart

Justin 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 20 years whilst at Barclays Stockbrokers and developed a unique understanding of the market's roles and benefits for the private investor.

### **Watch out for the inebriated barmaid**

The term 'crawling peg' does bring to mind a somewhat inebriated barmaid character out of Eastenders. Forgive me, but I am not a regular viewer. This term over the past week has been cast around by those Beijing watchers trying to read the runes of the inscrutable Chinese leaders at the National People's Congress.

As I have mentioned before, both the Americans and Chinese have whinged at one another about each other's currency policies. In my view both parties have some foundation for a just cause, but seemingly lack any form of appreciation or pragmatism of each other's position.

The Chinese moan about the devaluing \$ (until its recent recovery) and especially because much of their reserves are in US\$ Treasury Bills. The Americans moan that the Renminbi has not been revalued and as such is ludicrously undervalued and thus had led to the dumping of Chinese goods on overseas markets and the distortion of global free and fair trade.

Sadly this is not helped by the populist rhetoric cast from the battlements of both parties – "we will not yield to any form of pressure forcing us to appreciate" said the Chinese leader Wen Jiabao in December 2009 – and Tim Geithner the US Treasury Secretary (he is the one who looks like a Lord of the Rings extra) said in January last year "President Obama believes that China is manipulating its currency". This is hardly creative diplomacy and the US must understand that if the Chinese are to move, it will not be as a result of bombastic oratory from the foreigners.

Perhaps it would be more constructive if the Americans were to highlight the benefits of revaluing for the Chinese themselves in order to win more support and friends for this policy. The populist US politicians, and especially those in the House of Representatives, whose short term tenure of two years inevitably lead them towards near term popular policies, would be sensible to focus more on this and less on jingoistic, job-protecting flag-waving.

After all, a re-valued currency could help ease some of the pressure off an economy that has been building up quite a head of steam. In fact I think such a move will come and we may see the Chinese currency being subject to a gradual appreciation, not just against the \$ but rather against a basket of currencies - and it will be done on the basis of political pragmatism, not being seen to be giving in to 'gweilo' barbarian pressure. Those 'tea party' US politicians should also remember that between 2005/8 the currency actually did revalue against the \$ by some 21%.

However, there is still a fundamental point – the Chinese national income per capita is \$3,000 per annum. Thus its leaders will have to consider restructuring the economy away from just exports to the West, to some domestic opening up and improvement as well. The dragon cannot forever just sit on its trading reserves 'geld' which now stands at \$2.4trn and rising.

As an aside, I noted with some concern a few weeks ago that the Chinese had in fact started selling some of their US treasury holdings. This was a worrying sign, so it was with some relief that I see the authorities have gone out of their way to reassure the markets that they will continue to be purchasers, but at what level is a state secret, as is the composition of their reserves as a whole.

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So it has been a year since the market turned and the day that Satan entered the S&P 500 when it bottomed at 666. As you will also have heard it has been a decade since the 'dot.com' bubble burst, and for Tom Sheridan and I, the time when we decided that a change was required and we should go back to the common sense of disciplined investment management and not stockbroker gambling on the 'stock du jour'.

So what happens next? After a very significant year long rally and with volatility (US VIX Index) at a near record low (a key gauge of risk aversion), implying a level of over confidence or even complacency, I can hear a level of creaking amongst these somewhat stretched valuations. We have come too far potentially too fast. Prepare for a correction.

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So now we can all look forward to an exciting Budget on the 24th of this month. Leaving aside the political blather, the main requirement is to send a message out to the markets that the Government and Treasury really do have a credible plan for paying down our debt. Presumably we will not know the real plans from any party until after the election.

However, I would appreciate at least some greater clarity of direction. The problem has been quite clear – we have been living beyond our means and in the good times we didn't manage our spending either at government or personal level. If excessive spending is the problem, then lower spending is your solution.

The arguments over higher taxes and spending cuts will rage, however what must be admitted is that most taxation is a negative and not an encouragement to grow and develop. Although VAT is a discretionary tax it still is a dampener on an economy. History shows us that with tighter housekeeping in economies like Canada and Sweden, vigorous tightening was followed by some quite significant growth. Examples of the opposite, where there were increased taxes and

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reduced tax incentives, occurred in both the US in 1937 and Japan in 1997 and in both cases the result was to see their economies fall back into a pit of recession.

It may be a painful process but at least there will be incentives; the bludgeoning of taxation does little to encourage anyone.

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And finally.....You've heard of the dangers of texting while driving and talking on the phone while behind the wheel of a car? Well yet again our American cousins have taken this to a totally new level.

Seemingly a two-car crash on a Florida highway was caused by a 37-year-old woman who was shaving her bikini area while in the driver's seat, according to the Florida Highway Patrol. Her ex-husband was steering from the passenger seat.

Megan Mariah Barnes and her ex-husband Charles Judy were driving southbound on Tuesday morning when they slammed into the back of a pick-up truck.

Ms Barnes said she was meeting her boyfriend in Key West and wanted to be 'ready for the visit.' Barnes and Judy allegedly drove on for another half-mile before switching seats. When they were pulled over, Judy claimed to have been driving. The trooper noticed burns on Judy's chest from the passenger-side airbag, which disproved their story. The airbag in the steering wheel apparently did not deploy.

Three passengers – a man and two women – were treated for minor injuries – but presumably quite painful ones.

Have a good week.

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