



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.

'New Banks for Old'

Despite my moans, even I have to admit that our state owned banks have been making some significant progress in their repair work. As I have mentioned (and praised) before, the dynamic action around Northern Rock has been both timely and effective with the result that most of the government's loan has already been repaid, the bank itself split between good and manure bank, recapitalised and is now strong enough to have the government protective guarantee removed. Good work in short order.

The work at Lloyds and RBS however has not been as timely. To be fair the tasks are of a totally different scale and proportion. These two leviathans are still in intensive care and although I would have preferred to see more dramatic surgery at an earlier date, diligent treatment is being undertaken. You can only have sympathy for the team at Lloyds which was the bank with the most respected credit control structure in the UK. For them to have been effectively dumped on by their inept senior management must have been appalling, especially as they have then had to trawl through all the bad and doubtful lendings of HBOS.

For Daniels and Blank to have taken Brown's tainted 'shilling' to take over HBOS was a commercial crime of astonishing proportions. Not only was it ridiculous to think that they could ride rough shod over the mortgage monopoly rules, but also to recklessly ruin the UK's strongest domestic bank – and of course just at the moment when we needed at least one properly functioning bank as we struggled out of recession.

RBS too have been taking action to repair their damaged structure and have made some significant progress already. Profits, at least on an operational basis, from these restructured banks are quite likely to be eye wateringly positive, mainly though as a result of increased margins – something which will no doubt rile many smaller companies who have seen the cost of their facilities go up significantly.

Over the next few months we will also be hearing news about the various branch sell offs and disposals and no doubt the names of Metro bank, Virgin and Tesco will all be mentioned. As part of this, it is interesting to see the investor confidence in British banking as currently being displayed by the likes of US tycoon Wilbur Ross who has committed £100m to the new Virgin Money banking plans. It is quite likely that Virgin will be making a bid for the 318 'ex Williams & Glyns' RBS branches to be their core, but it will be interesting to see who else is going to be making an offer. It will prove just how much confidence there really is in domestic utility and commercial banking in the UK.

The two track global economies appear to be coming into even greater contrast as the data of the two spheres show them to be moving at very different trajectories. The Western nations and Japan are growing but often at a grinding pace, with fears of deficits, deflation, and low demand. Interest rates show little sign of moving up for fear of forcing economies back into a double dip recession.

Meanwhile the Eastern developing nations see all the opposite signs, with bubbling economies, inflationary concerns and an increasing pattern of rising interest rates. India, Australia, Indonesia, Singapore and China are amongst those that have already raised interest rates as they act to try and rein in their speed of growth, bank lending and fend off asset prices bubbles and inflationary pressures. As we know, interest rates are not a precise surgeon's scalpel but a rather blunt mallet of an instrument and as a result some moves will be effective, others less so. The effects of such moves often take months to circulate through the system and economists in both the East and West will be waiting and monitoring these effects closely.

On a related subject, it has been interesting to see the increasing number of other nations who are now pressing for a Chinese change in its currency policy. I think a change will be likely and not only as a result of the more recent quiet diplomacy of Tim Geitner, the US Treasury Secretary, but also as a result of pressure from other developing nations. Both Brazil and India are feeling the effect with the head of the Brazilian central bank, Henrique Meirelles, saying that it was "absolutely critical for the equilibrium of the world economy". Even Singapore has been highlighting the benefits to China itself of such a change – now I suspect it is now going to be down to the inner wrangling of the Chinese communist oligarchy.

Some likelihood of encouraging news this week on the US economic front, I hope. Tuesday will show us some US consumer confidence data which, along with the University of Michigan Confidence Index of Friday, will give us a clearer indication of the strength of the recovery. Friday will also give us the US Q1 GDP figures which are likely to show still positive growth but the rate of increase will be a key measure to watch – and that will be crucial for the market sentiment. Keep in mind investors who will also be then quite focused on the direction future interest rates take – the decision on that will have already been made two days before by the Federal Open Market Committee.

And finally.....at a time when we are all wondering whether we can really trust our politicians, there comes a story of longer term political malfeasance and downright unreliability.

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It has been reported that New York City's oldest library says one of its ledgers shows that the first U.S. President, George Washington has racked up 220 years' worth of late fees on two books he borrowed, but never returned. One of the books was the 'Law of Nations' which deals with international relations. The other was a volume of debates from Britain's House of Commons. Both books were due on Nov. 2, 1789.

New York Society Library head librarian Mark Bartlett says the institution isn't seeking payment of the fines, but would love to get the books back. The ledger also lists books being taken out by founding fathers Alexander Hamilton, Aaron Burr and John Jay but we are not told if they too are on the list of miscreants.

Typical politicians – you can't even trust them with a book.

Have a good week.

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