

JUSTIN'S COMMENTARY

SEVEN 
Investment Management

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.



WILL THE GREEKS LOSE THEIR MARBLES (AGAIN)?

There has been much hyperbole over the potential for Greece to be thrown out of the Euro single currency scheme. Let us leave aside the fact that they should never have been allowed to join in the first place and subsequently persuading weak minded politicians to allow Cyprus entrance as well; after all it seems pointless to resurrect such a work of fiction that was the financial description of the Greek economy at that time.

The result is a mess that we all know, but the question is now what to do about it. The fundamental flaws in the design of the Euro are still there and will continue to be until someone is able to force through the vital disciplines needed to run a single currency across multinational borders and economies. That will take a long time. I was reminded this week when looking at an old Confederate \$5 bill of mine that of course the USA we know today had to go through something far worse to achieve a single currency. When thinking of that holocaust and conflagration, somehow the potential financial losses and write-offs make the management of Greek debt pale into some correct insignificance.

The fact is that the financial value of Greek debt, whilst including a lot of noughts, is not that significant when compared to the value of the Eurozone. The question though is one of politics rather than economics. So will Greece be defenestrated from the Euro? The answer is very likely no. Why? Well, one concern is the confidence of the markets around everything from the weak Eurozone economy through to the viability of its banking system.

The other key issue is one of precedent. The Euro deliberately didn't design an exit mechanism as, quite rightly, one could see this becoming a rotating door of an excuse for populist politicians seeking a coward's way out of unpopular policies and thus forcing greater financial discipline and good sound husbandry.

There would also be an issue in that if Syriza were elected as the ruling party and the Euro powers just 'kow tow' to their needs, then what message does this send to the other extreme parties in some of the peripheral nations of the Eurozone? What would happen if the Chorrizo party in Spain were to follow on with such a claim of 'reform or we leave'? Actually the Spanish party isn't called Chorrizo but Podemos (translates as 'We Can' - as in Bob the Builder I suppose).

What is likely to happen will be twofold. Firstly, there will be the realisation that the Greek debt is already dead debt, but that it cannot under current ECB and Euro rules be admitted as such. So the ECB will very likely come up with a new phrase or forgettable acronym (which they are well practised at) for parcelling the debt into a corner such that it will still exist and still incur a nominal minute interest but in effect become undated debt never to mature.

Secondly the ECB will then devise further descriptive terms that will allow significant investment into the single currency zone to ensure that both investor and consumer confidence are bolstered and sustained.

This is going to be vital not just to get the economy going, but also to negate the issues surrounding deflation which if left unattended could turn into something more in the style of Japan for the past two decades.

Deflation itself does not have to be negative, but it is dependent upon the confidence of consumer and businesses to see it as an economic opportunity and not as an excuse not to spend, invest, employ and pay more. That path leads to Tokyo, the other turns a cost cut into a market discount!

So Greece in a forced exit may sound like strong financial management, but in fact could lead us into far more economic difficulty following the law of unintended consequences – and a precedent for that? Lehmans.

Now here actually is an opportunity for the ECB to press the restart button with the potential for a new currency contract. So what could this new Euro currency contract be? Well, how about the ECB freeze the current debt (in a suitable frame of words that does not include the words 'write' and 'off') and that all new primary budgets come under central control of the ECB – with local expenditure localised under national budgetary control. Egos are stroked, pride protected and face saved.

So how would we know if this were to work? Well, just see the return of confidence to the European banking system which has been so hard pressed recently. So don't throw the Greeks out, and don't let them lose any more marbles, but use this as a moment of reform.

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Now We Are 5.

No not AA Milne, but rather the UK ranking in the world – in terms of size of its economy. Now I know this was announced in the UK over Christmas, but it comes to something when the French finally admit to such a change more publically.

The French daily 'Le Figaro' has reported that France has dropped behind the UK in the global economic rankings, citing EU documents. France is now the sixth largest global economy after the U.K. GDP reached €2,232 billion in 2014 compared with €2,134 billion in France. If confirmed, the report could prove very embarrassing for President Francois Hollande after he trumpeted the strength of the French economy in his solemn new year address: "France is a great country; it is the fifth global economic power," Mr Hollande said on December 31st.

So nothing to do with the anniversary of Waterloo - or even Agincourt - this year then?

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And finally...A prominent Saudi Arabian cleric has whipped up controversy by issuing a religious ruling forbidding the building of snowmen, describing them as anti-Islamic. Asked on a religious website if it was permissible for fathers to build snowmen for their children after a snowstorm in the country's north, Sheikh Mohammed Saleh al-Munajjid replied: "It is not permitted to make a statue out of snow, even by way of play and fun."

Quoting from Muslim scholars, Sheikh Munajjid argued that to build a snowman was to create an image of a human being, an action considered sinful under the kingdom's strict interpretation of Sunni Islam. "God has given people space to make whatever they want which does not have a soul, including trees, ships, fruits, buildings and so on," he wrote in his ruling.

A critic said the country was plagued by two types of people:

"A people looking for a fatwa (religious ruling) for everything in their lives, and a cleric who wants to interfere in everything in the lives of others through a fatwa," the user wrote.

Sheikh Munajjid had some supporters, however. "It (building snowmen) is imitating the infidels, it promotes lustiness and eroticism," one wrote.

Snow has covered upland areas of Tabuk province near Saudi Arabia's border with Jordan for the third consecutive year as cold weather swept across the Middle East. I have to say I have as yet still to come across the concept or even the reality of a lustful let alone erotic snowman. Still I suppose it depends on what you do with the carrot.

Have a good week.

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