JUSTIN'S COMMENTARY

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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.

OIL & SPAIN

An Oily Quandary

There was an oddity the other week when we had our latest flash crash in the global markets. The list of apparent woes and excuses that were cited for the market falls seemed to grow ever longer, but one struck me as being especially odd. For years in the West we have all been brought up on the mantra that oil prices rising were going to be bad for the economy, although no doubt a helpful fillip to the profits of the energy companies.

Perversely then it seemed strange that one of the 'negative' factors thrown at us was the fact that the price of crude oil was falling. This was to the headline writers obviously a further sign of deflation and a weakening economy and....so it went on.

In fact a falling crude price is of course better for users in terms of lower costs both for companies and countries, although naturally those producing nations will be feeling the pain as well as the oil companies. There will in fact be a very unpleasant ripple through the energy industry as the potential for investment in marginal drilling fields will become far more concerning if the base cost of the product has fallen away. The stormy and deeper water Western Atlantic approaches in Scotland could be one such area.

Many producing countries have grown soft and lethargic lying on the fluffy duvet of comfortable oil prices, and have allowed the cost of production to rise such that current prices even make Saudi production to be running at cost - or even a marginal loss.

The real pain is probably in fact going to be felt by the higher cost producers, especially those who have been reckless in their finances and wastefully spending their precious asset. The likes of Venezuela come to mind along with Iran, and of course there is another individual who will especially be feeling the pain, a certain Mr Putin. One can argue that the fall of the Soviet Union in 1991, whilst not wholly caused by the fall in crude prices by some two thirds, certainly significantly contributed to it. Thus is Mr Putin in the same position? Well not yet. He does have reserves to draw upon, and a far weaker Rouble makes a Dollar valuation less painful, but his military expenditure (which may now be up to 20% of the public purse) will mean that in the not too distant future he will run into some financial difficulty.

Of course the companies involved will suffer as we saw last week in the figures from some of the energy companies and not least BP. Their share price may have held up but that was with shareholder bribery (an increased dividend), but the underlying figures were concerning. Not only has the huge ($20bn) Deepwater Horizon charity budget been exhausted, but their disastrous Russian investment just seems to go from bad to worse. They still hold 19.75% of Rosneft and its income from this has slumped in the past year by 86%, thus leaving their overall profits down by 25% for the quarter.

The weaker oil price will be possibly more worrying to those countries already destabilised or those with less firm foundations that could be further unbalanced. Libya and Iraq come to mind and of course the situation in Nigeria is by no means certain.

However, for the consuming world lower commodity prices will be a welcome boon. For developing and emerging nations we can divide the beneficiaries as the consuming countries like Taiwan and South Korea, whilst the commodity producers will be suffering, and Brazil last week - further exacerbated by its election result - was a prime example.

A nasty Brazilian Cough-ee

With the price of iron ore and oil falling and a negatively received presidential election, the election result affected both stock market and currency worries. Therefore just what they didn't need was a drought to further blight them. In fact the drought they are suffering is one of the worst in decades and has been devastating for the local coffee bean producers. However, one man's loss is another's gain and sure enough Indonesia's foreign exchange earnings from coffee exports are expected to increase by 10% this year. This is despite that fact that the local population barely touches the stuff.

A Spanish vote

We may fret about the future of Gibraltar, but for once the attention of the Madrid authorities will not be on a plucky bunch on a rock with a group of monkeys, but rather they will be looking nervously at the results of the vote on 9th November.

Catalonia will vote on independence on that date. The recent Scottish result has been important but has not seemingly doused any of their patriotic (or is it just regional?) fervour. Unlike the UK, when the Catalans asked for a vote, the central government declined on the basis that this was a national issue and therefore needing a national vote and not a local one.

Time for bit of history...Catalonia was in days gone by an independent region of the Iberian Peninsula, with its own language, laws and customs. In 1150, the marriage of Petronilia, Queen of Aragon and Ramon Berenguer IV, Count of Barcelona formed a dynasty, leaving their son to inherit all territories concerning the region of Aragon and Catalonia.

This lasted until the reign of King Philip V when the war of the Spanish Succession ended with the defeat of Valencia in 1707, of Catalonia in 1714, and finally with the last of the Balearic islands in 1715 - resulting in the birth of modern-day Spain. Subsequent kings tried to impose the Spanish language and laws on the region, but they abandoned their attempts in 1931 when the Generalitat (the national Catalan government) was restored.

General Francisco Franco, however, set out to destroy Catalan separatism and with his victory at the Battle of Ebro in 1938 he took control of the region, killing 3,500 people and forcing many into exile. The region was granted a degree of autonomy once more in 1977, when democracy returned to the country.

Now for the economic effect of Catalonia on the rest of the nation. The Catalan region has long been the industrial centre of Spain. It is one of the wealthiest regions of Spain - it accounts for 18.8% of Spanish GDP, compared to 17.6% from Madrid.

Secession would therefore cost Spain almost 20% of its economic output, and trigger a row about how to carve up its 836 billion Euros of debt. Catalonia would have a GDP of $314 billion (£195bn), which would make it the 34th largest economy in the world. That would make it bigger than Portugal or Hong Kong. Its GDP per capita would be $35,000, which would make it wealthier than South Korea, Israel or Italy. Oh yes and by way of comparison Catalonia's contribution to the Spanish economy is twice that of Scotland's to the UK.

And finally...A UK citizen who has spent a total of seven years in jail for going naked in public lost his legal battle to wear no clothes as Europe's human rights court told him he must respect the feelings of others.

Reuters reported that Stephen Gough, dubbed 'The Naked Rambler' by British media for his bid to trek the length of the country wearing no more than a hat and bulky rucksack, has faced some 30 convictions for public order disturbances and other offences.

Gough argued that European laws on respect for private life and freedom of expression gave him the right to nudity whenever he chose it. But the Strasbourg-based European Court of Human Rights (ECHR) ruled that they did not apply given his 'deliberately repetitive antisocial conduct'.

"He had plenty of other ways of expressing his opinions," it concluded. Quite right. The last thing I want to come across is a nasty surprise in the bagging area.

Have a good week and hopefully a safe and peaceful All Souls night.

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