

# JUSTIN'S COMMENTARY

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.

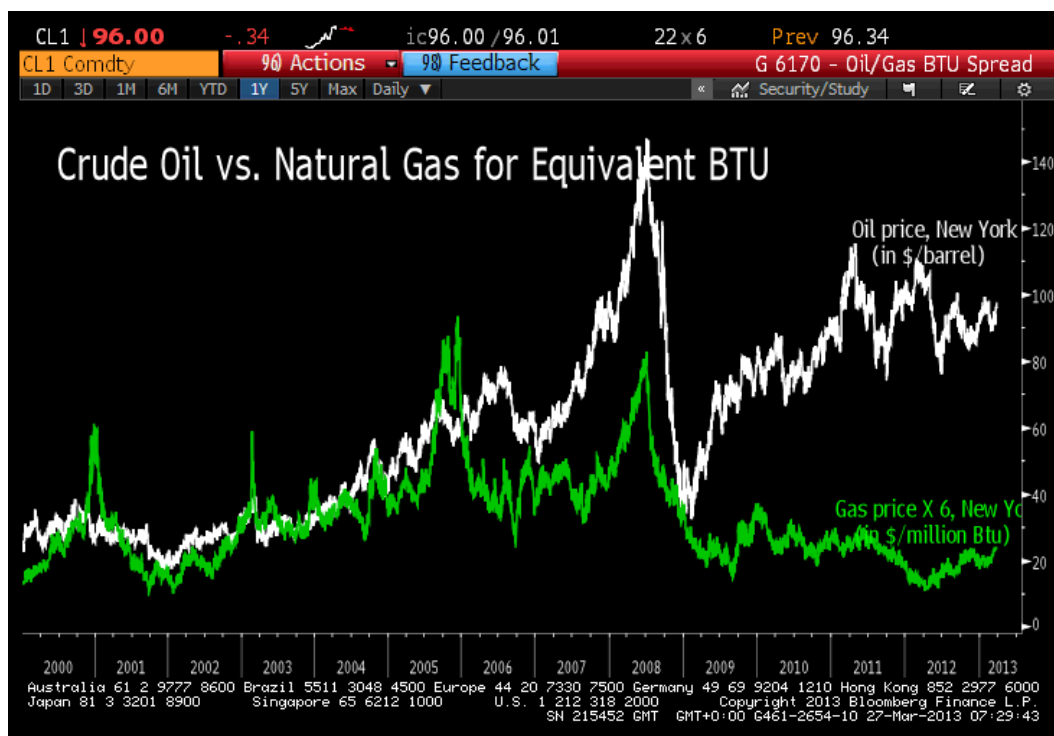


## A Game Changer?

Surely it is a given – the demand for oil will continue to rise. As the emerging and developing nations seek to grow - and consume a greater proportion of world energy - then this has to be a one way street? Well, just maybe, conventional wisdom and consensus is wrong this time.

The cause has been the controversial fracking programmes to release shale oil and gas. Fears in the UK that Blackpool might disappear anytime soon (no comments please) have constricted development domestically for the moment, but in the US they seem to have gone fracking mad. The possibility that Canada might have sunk by a few feet seems of little interest or relevance to them as the price for natural gas from the 'shale revolution' could become a real economic game changer for the US economy.

As you can see from the graph, the disparity between Gas and Oil is now very significant – Crude Oil is four times as expensive as Gas in the US, for an equivalent energy output. This has resulted in some quite dramatic changes in operational behaviour.



The argument for oil is often focused around cars, but they only account for some 22m of barrels per day out of 87m barrels per day (as estimated by OPEC). Many other sectors like lorries, railways and shipping are changing over to gas power. Add to this the fast developments of alternatively powered cars and you can see the sort of impact that this could have.

Given the recovering economy in the US and the 're-shoring' of overseas (especially Chinese) manufacturing, you could see this as a catalyst for an industrial renaissance in the USA. We are seeing a fundamental change in economic development - and with it political power, especially as the old oil cartel nations find themselves with less political energy leverage than they had before.

### **Pick three letters - any three letters - and you could have your latest regulator.**

So we've done away with one FSA (Financial Services Authority) but we get to keep the other FSA (Food Standards Agency). In place of the old guard we get the new guards but divided into three regiments. The **PRA (Prudential Regulation Authority)** will be in charge of supervising some 1700 banks, building societies, insurers and investment firms. It will operate as part of the Bank of England and seemingly in effect take back the old BoE controls originally lost in 1997 when they were stripped away to the FSA.

Meanwhile they will have a new but probably senior brother, also based at the BoE, the **FPC (Financial Policy Committee)**. This body has been tasked with preventing another crisis by monitoring market movements as well as the activities of the regulators. An example of their actions was the recent identification of a capital shortfall of the UK banks of some £25bn. In many ways this is returning power to the Old Lady of Threadneedle Street, using her strength and influence to identify and warn on risky situations in advance. However this is only of any use if someone is then prepared to take action!

Finally we then have the **FCA (Financial Conduct Authority)**. Here is the new watchdog for the consumer. It will not be under the auspices of the BoE but rather stand alone. However this will not be a supine watchdog, but rather an active one, and already that you can feel is looking for some easy prey and examples to be made '*pour encourager les autres*'.

Its key role will be to keep a watchful eye on financial service companies as well as protecting consumers and cracking down on criminal and unethical practices.

Also it will be able to go further than punishing breaches of rules and proactively intervene. It will be prepared to pull off the shelf any financial products which it may deem as being open to mis-selling and ban them for 12 months pending review, where appropriate, in their eyes.

### **And a Chinese example...**

In the week when we are starting to get used to the new set of letters for the next round of UK regulatory scrabble, we should take some comfort that as yet we have not been sold the benefits of the Chinese 'blooming sunflower' investment plan. This little gem is set to provide you with a relatively modest 4.6% annualised return. However this product matures in just 45 days, providing an apparently enticing short term return. A quick look inside reveals that two thirds could have been invested in a whole load of illiquid investments and assets with a muddle of maturities. In fact investors would have no real idea what they are being invested in, but in effect be placed into a subprime investment scheme, touted as a short term simple investment package.

Perhaps the Chinese authorities should show a greater concern over the market influence of a local actor Adam Cheng. It would seem that when he appears in a new film or series, the markets have a habit of falling. Well actually not completely true as on 6 out of his 17 television programmes, the market actually went up. But heaven forbid that the truth get in the way of a good Chinese superstition.

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**And finally... Chunky Check Ins.** Those more familiar with Samoa will recall that they are quite a well built population - as is often illustrated by their more significant rigger players. Of course such a physique can also have some other knock effects in terms of costs and expense.

Seemingly a Samoan airline says it is the world's first carrier to charge passengers by their weight rather than per seat. It defends the plan as the fairest way to fly, in some cases actually ending up cheaper than conventional tickets.

Samoa Air, which opened in 2012, asks passengers to declare their personal weight during booking, which is then charged per kilogram (2.2 lb) at a rate dependent on flight length. The customers will also be weighed at the check-in counter – what a glorious sight.

The Pacific Islands contain some of the world's most prevalent countries for obesity, many ranking in the top 10, according to the World Health Organization. Samoa is ranked number four, with 59.6% of the population considered obese.

The plan could actually prove cheaper in some cases, such as for families travelling with small children. "When the initial shock has worn off, there's been nothing but support, people who are up around 200 kg recognize...they're paying (for) 200 kg, so they deserve to get 200 kg of comfort," they said. Frankly if you are 200kg you are going to win most arguments.

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### **And another and finally.....**

I am indebted to the eminent historian Tom Holland for the latest piece of ancient financial news to come out on the foreign exchange markets... The unit of currency in Dark Ages in Ireland seems to have been the 'cumal', or slave girl. The exchange rate was 3 cows to the cumal.

Have a good week.

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