



Justin A. Urquhart Stewart - Commentary

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.



Just who is rioting?

Students rioting, demonstrations, broken windows and graffiti - yes this all sounds remarkably familiar. Welcome to Britain? No, China. In a world where we are seemingly obsessed by irresponsible broadcasting of the tittle tattle and mutter from the gutter from Wikileaks, I find it astonishing that we are so complacent when it comes to mainstream news.

Only this week I heard one erudite commentator saying how well run the Chinese economy was with banking, growth, investment and even inflation under firm control. It seems that the more sceptical view on Chinese issues is coming from China itself rather than the armchair commentators elsewhere. A good example is that of inflation which, although at a two year high of 4.4%, is still seen as a reasonably moderate level. Well, back in the real world of Mr and Mrs Lim their life is very different and as the Lims, the typical workers, make up the majority of the population, their view should be taken account of.

We are seeing various factors playing out here. Firstly, domestic inflation in key areas is running at scalding temperatures with the price of certain key vegetables having risen by over 60% in the past year. Basic foodstuffs are essential for a well ordered society and if these are being priced away from the ordinary citizen then the authorities need to take care. "Inflation is the enemy of social stability" – not my words but those of economics Professor Hu Xingdou of the Beijing Institute of Technology. He has been predicting that inflation could even rise to 10-20% within the next year.

What is also apparent, the 'China Price' (the phrase that implied the cheapest manufacturing price of a particular product in the world) is rising. I have come across two manufacturing operations which are in fact now relocating their base away from China to another area where they can have a lower cost of operation – the United Kingdom. To be fair this has been related not just towards Chinese costs but also to shipping and associated transport issues.

However, what has also been clear is that the progressive search for ever cheaper manufacturing sites further inland has been curtailed by rising costs. Margins, as a result of the search for the China Price, are often wafer thin and thus wage pressures have resulted in a wave of industrial action putting further pressure on the authorities.

Here then is the key. The Communist authorities are very concerned over the increasing level of social unrest. The unemployment figures are somewhat opaque as they often refer to 'urban unemployment' as realistically there is little chance of seeing the entire country.

At the end of September China's urban unemployment stood at about 4.1%, with 9.05 million urbanites registered as unemployed, according to the Ministry of Human Resources and Social Security. The rate had in fact dropped 0.1% from 4.2% at the end of the second quarter this year. Some salt however, is required here as we cannot see the large number of rural workers that had been sucked into the factories but that have now been pushed back out to their villages in the countryside.

Apparently in the first nine months of this year, China also managed to create 9.31 million new jobs in urban areas, exceeding the annual target of 9 million for 2010. Confusing certainly!

There is a lot of sensitivity around these numbers and the authorities do not want to see any more negative pressure on employment - this then is one of the reasons that the authorities have been so protective over their currency as they fear any significant shift will put further pressure on prices and margins and in turn employment – which could result in further social unrest.

So what can be done? Well the short term action from authoritarian regimes is price control. This of course is an expensive palliative which only stores up the problem rather than resolving it. Merely welding the lid of the kettle does not stop it boiling – unless you can turn down the heat it will eventually explode.

With these inflationary pressures, action will also include some significant monetary tightening with further controls on bank lending and interest rates. The challenge though for the authorities is to try and control inflation whilst ensuring that the economy does not hit the ground too hard. A difficult role to get right as many governments will attest to.

Time for a Santa rally? Despite being normally so curmudgeonly, I have been most encouraged over the past few days at the more positive attitude towards investment markets. Normally this is supposed to be in the final run up to the end of the year, but it may be a little early this year. Let's enjoy it while it's there - I can go back to being curmudgeonly later after our next Asset Allocation meeting next week.

And finally..... news from Reuters – The French fast food chain ‘Quick’ said on Monday that it intends to offer “foie gras burgers” at bargain prices as a treat for customers ahead of Christmas.

Quick Burger said its "Supreme Foie Gras" will consist of the normally expensive foie gras, beef, relish and lettuce and will go on sale for only 5 Euros (£4.22) at more than 350 outlets across France from December 17th to 19th.

"We want to give our clients great taste at cheap prices and give them the possibility to party a little ahead of time," Quick's Marketing Director Laurent Niewolinski, told Reuters.

In a bid to rival U.S. fast food giant McDonald's, Quick has focussed its business strategy on innovations such as unusual burgers offered on a short-term basis and the launch of halal-only restaurants (selling meat and poultry permissible for observant Muslims), a move that sparked a heated debate in the country earlier this year.

What an insult to the poor old goose that gave its life for a hamburger.

Have a good week.

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