COMMENTARY

JUSTIN'S WEEKLY 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 20 years whilst in corporate banking and stockbroking, and has developed a unique understanding of the market's roles and benefits for the private investor.

GOING PUBLIC, GOING GERMAN, GOING EAST

I don't wish to dwell too long on the Facebook Initial Public Offering - whether there has been a technical breach of issuance law by the parties involved that is a matter for the US courts to unravel and, frankly, rather them than me. It's the media treatment of the situation that has piqued my interest - it has been intriguingly different compared to that of normal IPO's.

The manner in which the non-financial press has approached the situation (although the trade papers haven't been completely free of sensationalising the issue) has been well worth keeping tabs on. The flotation of the world's largest social network has, appropriately, become a social event. Just like the release of a summer blockbuster movie, the big stars - Zuckerberg, Saverin, etc., and the people closest to them - Morgan Stanley et al - have been interviewed and photographed. The film and the company itself examined and commented upon by "experts" - and there has been the same breathless sense of anticipation over the success or failure.

There has been a wave of interest from large sections of the population who rarely concern themselves with financial markets, but this fame, created largely through mass use of social enterprises like Facebook itself, is already proving fickle. In the world of Hello! magazine, the more praise received, the more knives are being readied for the fall from favour.

Welcome, ladies and gentlemen, to the age of the Celebrity IPO.

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The German Bund market keeps breaking new ground, with the yield on 30 year bonds falling below 2% for the first time in history. When compared with the neighbouring European countries, this gives a rather stark indication of how confident people are in the various Eurozone member states.

In a quick summary, the yield on a bond is a reflection of how strongly investors believe that the country will be able to continue meeting its obligations over the time frame - so typically, the longer-dated a bond, the higher the yield, to allow for the fact that the future is uncertain.

So currently, buyers of German debt are of the opinion that Germany will still be a sturdy developed economy in 2042, and are willing to lend to the government at 1.95% per year. In France, just next door, investors are also accepting a yield of 1.95% - but only for bonds maturing in 7 years. In the former Roman Empire, which lasted 1000 years, a yield of 2% can be found, but sadly for Italy, only on 6-month bonds, and the situation is the same for Spain.

The conclusion I draw from this less-than-robust analysis is this; Mr Market trusts Herr Germany four times as much as Monsieur France to look after his money, and 60 times more than either Señor Spain or Signor Italy. That probably conforms to a fair few British stereotypes; further confirmed by the 2% yield on our 10 year Gilts - lagging the Germans, but better than the French. Europe hasn't really changed that much at all...

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In between the Facebook furore and the Eurozone crisis, those of a gloomy disposition are also finding time to worry about an economic slowdown in China dragging the entire world into a black hole. Now in some ways, people are right to worry: China faces a leadership change at the back end of this year; property prices have inflated like the Hindenburg, and could well end the same way; and the current lack of global growth isn't healthy for an export focussed economy.

These are all realistic worries, but it is sometimes nice to look at the positive side of things. If these shocks (or any others) don't occur, or are less savage than imagined, what is the upside?

I will borrow from Jim O'Neil, of Goldman Sachs Asset Management and creator of the BRIC acronym, to emphasise the potential. Every 12 weeks, China adds to its GDP the equivalent of the entire Greek economy, without the olives or the accumulation of massive debt. Every 15 months a 'new' Spain is added, without the tapas or the accumulation of massive debt. In 2011, the combined BRIC countries added the equivalent of one Italy to global GDP - the 8th largest economy in the world - without the pasta or the accumulation of massive debt. The message is simple - should disaster be avoided in the Eurozone, and we believe it will be - the growth trends elsewhere, given time, are encouraging.

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And finally...Rather fittingly, this serves to illustrate my final point. The Chinese authorities clearly have everything so well in hand that they can afford to micro-manage. This week in Beijing, a 'two-fly toilet' policy has been implemented. Directions have been given to the cleaners of the notoriously unsavoury public toilets that no more than two flies should be allowed in the toilet at any one time. This has amused Beijing's citizens for two reasons - firstly because it seems to be an unenforceable rule, and secondly because it highlights the superior standards maintained in Beijing - the southern city of Nanchang allows a maximum of three flies, demonstrating the wanton disregard for hygiene outside the capital city.

Have a good weekend.

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