



financial services group

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OCTOBER 2011 COMMENTARY

Crisis du Jour: Thoughts (and Attendant Thoughts)

The European Union v the United States of America: Comparisons.

- It is far easier for US structures (read this to mean the government plus the quasi-independent Federal Reserve system) to take money from tax payers in Texas in order to bail out tax payers in California than it is to do the same from Greek to German tax payers using EU structures.
 - We repeat, and paraphrase wildly, Angela Merkel's assertion that German tax payers are not going to retire older so that Greek tax payers can retire younger.
 - And we note Italy's concession, as part of the most recent EU summit, to lift its retirement age to 67, though we strongly suspect that, by the time all the talking is done, retirement ages around the world will have been lifted to over 70.
 - For additional thoughts see 'Two Key Notes' below.
- That being said, the supposedly more efficient US wealth transfer mechanism is part of the same conglomerate of mechanisms that allowed for deadlock on the US debt ceiling to hold markets captive. All of which would be highly, and darkly, comical if there weren't so much at stake.
- Doubling back on ourselves, EU government structures aren't all that efficient either. All 17 European Union members are required to go back to their legislatures to approve any bailout. Enter Slovakia and their refusal to approve and subsequent 24-hour change of heart. Again, darkly comical, though the joke is fast becoming stale.
 - We do concede, however, that the EU consists of far more than just two main political parties who both speak the same language and, therefore, the relative speed with which the latest bailout program achieved consensus is a greater achievement in some ways than the US resolution of the dollar value of the debt ceiling.

Euphemisms abound:

- Haircut: otherwise known as default. The term used to describe the extent to which the holder of debt is required to write down that debt. The word 'default' is apparently associated with financial implications too great for policy makers to contemplate much less set free into the public domain.
- Reserve Labour Pool: also known as unemployment, albeit unemployment with vague prospects for re-employment, sometimes known as redundancies. The term used to describe the condition Greek civil servants find themselves in now that their nation has finally admitted to not having been able to afford them in the first place.

Jargon abounds as well:

- GIPSI, the new PIIGS. Where PIIGS (Portugal, Ireland, Italy, Greece and Spain) was coined first, GIPSI may be the new favourite as it places the previously mentioned nations in the order in which they fell/are likely to fall (Greece, Ireland, Portugal, Spain, Italy).

Crisis du Jour: Thoughts, Continued

Why the EU's latest rescue plan is no rescue plan at all:

- The 50% haircut demanded of holders of Greek debt should have seen that debt reduced from some 350 billion euros to 175 billion. However, factoring in all those who have been exempted for one reason or another, the outstanding amount after haircuts is actually left at 275 billion. Some 100 billion in haircuts shy of the target (if 175 was ever the target). A bit like going in for a short back and sides and coming out as you were went you went in but now with trimmed eyebrows.
- Any self-respecting central banker/finance minister worth his salt from an EU member country now has an opportunity to demand that the ECB and/or IMF and/or insert acronym here, put forward a proposal for their country to enjoy a debt haircut; *whilst allowing that country to remain a member of the EU and to continue enjoying all its attendant benefits* (i.e. lower interest rates than a defaulting country should ever enjoy and access to capital markets that would ordinarily be closed to it).
- Raising bank's reserve requirements is a prudent, risk management strategy. Doing so in the teeth of an ongoing crisis simply removes further capital from the system. All of which is akin to attempting to fill up a bath whilst leaving the drain unplugged.

Two Key Notes

In relation to retirement ages we have the following additional comments:

- Raising retirement ages means individuals stay in the work force longer than they might have previously; which has knock-on unemployment consequences for those that are younger and that may have filled the spaces left vacant by those retiring. Lifting retirement ages means that those close to retirement end up deferring taking state pensions and relying on the state for their medical expenses whilst those that might have started working will be claiming unemployment benefits; the math is complicated but appears to be in favour of lifting retirement ages.
- A brief look into history is enlightening. When consideration was first given to state pensions the retirement age was equal to or slightly above average life expectancy! Only as time has gone on has life expectancy increased so much that it is now ten or fifteen years beyond retirement age, and that's the average; it not being all that uncommon to live to 100.

OCTOBER 2011 DATABANK

	Index Value	Last Month	Year-to-Date	1 Year
SA Repo Rate	5.5%	0.0%	0.0%	-0.5%
JSE ALSI	32,348	9.0%	0.7%	6.3%
ALBI	371.3	2.8%	8.0%	7.7%
R157	6.6%	7.0%	7.3%	7.0%
USDZAR	7.9	-1.8%	20.1%	13.8%

All charts and data are sourced from I-Net Bridge.