

After the “Yah! Boo! Sucks!” of what passes for democracy in Westminster yesterday, today we wake up to...well not very much.

The FTSE is called virtually unchanged as traders try to get a handle on Chancellor Darling's stimulus package, but the reality is that our markets are being buffeted by the winds from overseas. Yes the FTSE rallied by 370 points (9.7pc) yesterday, but the Dax put on 430 (10.3pc), the Cac 290 (10.1pc) and I am pretty sure that Captain Darling's time at the dispatch box was not exactly the reason for their moves. Since the close of business, UK time, last Friday, the S&P and Dow are both up over 12.5 pc so the bounce in the UK indices, whilst welcome, is not exactly world beating.

The Chancellor seems to be stuck in that most pernicious of tread wheels, believing that “if we can just get people spending, we can get out of this hole”. For Japan in the nineties this was indeed the case as the country had limited debt on a personal level and a trade surplus. The only similarity between us now and them then, however, was that in both cases the banking sector was a busted flush (hardly a comforting comparison). Unfortunately, the UK enters this downturn with a serious impediment to a turnaround in that average “savings” are actually negative. The size of the PSBR is huge, but this is not necessarily the problem. We had similar ones when interest rates were significantly higher than they are now. At least the servicing of the debt will be cheaper this time around. The problem now is that even after 15 years of ‘growth,’ the Government is still running a deficit (of around 3pc). This ‘core’ deficit must therefore be seen as endemic and virtually intractable. In the last ‘boom’ the country was operating a 2pc surplus, fully 5pc better than Mr Brown's best efforts.

I fear that the UK will suffer far more than its continental cousins in the coming years. The Fiscal stimulus is all about giving people more cash in their pockets (presumably to buy ever more imports) and to help out those in trouble. Unfortunately there was precious little from the State in the way of increased infrastructure build (loft insulation, my God is this all he could afford?).

The FTSE as mentioned was called unchanged, but in the time of writing the above the price has slipped a bit and now the best estimates are at some 30 off on the open at around 4125.

The early news that BHP has dropped its bid for Rio is the news that has caused this early indication of weakness. For the UK economy this is not exactly startling as both companies' entire operations are overseas, but for shareholders in Rio this will come as a cruel blow. Yet another board insisting to the last that a predator should pay more has ended up with a disaster for its members (but, of course, the board still

have their jobs!). There is a saying in the City concerning traders who always risk losing money merely to make a couple more pips on a trade, “don’t be a d*ck for a tick”. Well, Rio stock holders can now ‘en mass’ thank its board for becoming August members of that group.

Imperial Tobacco has seen profits fall from higher interest costs, which show rather dramatically the effect of the liquidity squeeze on companies wishing to tap the bond and/or cash markets (presumably the recent cuts will ameliorate this effect in the next half). Full year volume sales were up 46pc! The stock was up 105p yesterday and it would hope to at least hold onto that this morning.

In the currency markets the pound had a truly awesome day versus the dollar and yen rising 300 and 500 pips respectively. Against the yen we are through the short term down trend line which can now be called support. This is a falling support though and is therefore a bit dangerous to rely on. There seems to be resistance below the 140 level versus the yen and with the huge issuance in gilts now certain to flood the markets, the long term yield curve may give some support for positional investors. In the short term though, the trend is still bearish (notwithstanding the recent move higher). Against the yen we must get above 151 to break the medium term trend line lower, but against the Greenback even the short term resistance is way away at 1.5850.

Oil had its best day for ages yesterday, rallying some 5 dollars to break the trend lower. Unfortunately we have failed to get back above \$54 in January Brent which must be seen as crucial to any sustained rally and this morning we have drifted back a buck and a half to 52.50. There is a chance that we may trade the 53.00 to 51.00 range for a while today this was a high volume region last week.

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