- Debt: US government debt explodes
- Lending rates: Australia takes the first step
- Model business: Buy Roche

partners' view

January	February	March	April	May	June	July	August	September	October	November	December
1/09	2/09	3/09	4/09	5/09	6/09	7/09	8/09	9/09	10/09	11/09	12/09

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Politics and business

The first stimulus packages are now expiring. New car sales have collapsed. Government debt in the USA has meanwhile risen to 11,910,000,000,000 dollars.

As expected in the run-up to the elections, Germany will be governed by the conservative CDU/CSU alliance together with the FDP. Happy-go-lucky Guido Westerwelle pulled the chestnuts out of the fire for Angela Merkel and not only shoved Peer Steinbrück out of the administration but also "animated" the acerbic Minister of Finance to step down from his post as deputy chairman of the SPD. On Paradeplatz in Zurich, no one is likely to shed any tears over his retreat.

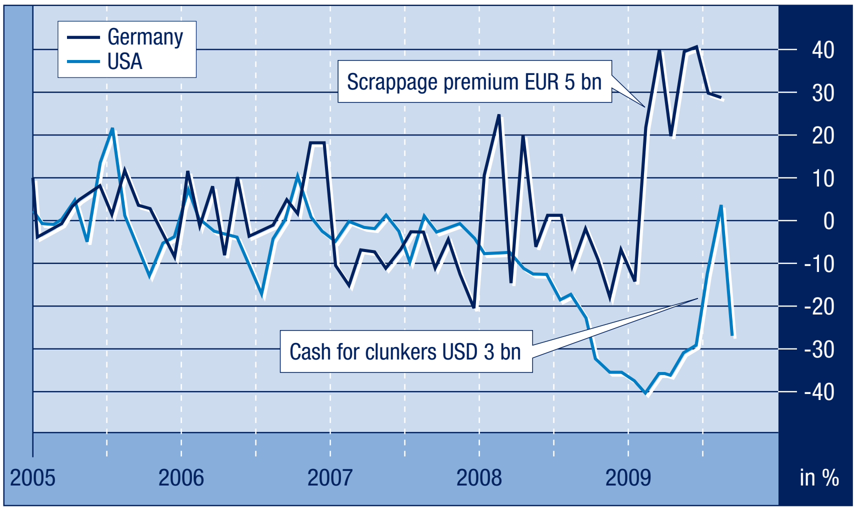
Cash for clunkers

The first victims of the expiry of government stimulus packages can be found in the automobile industry. Until early September, Germans who bought a new car received EUR 2,500 in exchange for having their old one scrapped. This subsidy rewarded automakers with hefty sales increases. After all, the German government invested about EUR 5 billion in this economic incentive program. Now that the premiums have dried up, auto sales declined by no less than 50 percent versus the previous month! New vehicle registrations in the USA rose and fell along similar lines (see graph). Further sectors, for instance the construction industry, will follow and have to report plummeting revenues after an interim high attributable to government stimulation measures. This reaffirms the hypothesis that the economy has to stand on its own feet and that artificial growth financed by the state is not a long-term option.

Record debt

The governments themselves are victims of their own spending policies because they have amassed record debt with their spendthrift attitudes. Great Britain will be selling public assets in an attempt to reduce its deficit: the Thames Bridge, a bookmaker, a bank, and a rail link are expected to flush 16 billion pounds into the country's coffers. It's but a drop in the bucket given the anticipated total debt of 1,400 billion pounds. The towering debt and the ongoing deficit are topics in the USA as well. USD 1,400 billion more was spent than earned during the current fiscal year, catapulting government debt to a staggering USD 11.91 trillion. Barack Obama has no option but to present the US Senate with a painful austerity program. The latest winner of the Nobel Peace Prize can already take credit for a first victory: the health reform program which should generate savings of about USD 80 billion in the next ten years, has cleared a first important hurdle in the US Senate. Problems may also lie ahead for the central banks. Ample liquidity injections have massively bloated the balance sheets of the monetary authorities. Pushing liquidity back into the financial system, a topic often discussed lately, will require a great deal of sensitivity.

Annualized rate of car sales in Germany and the USA



Source: www.marktdaten.de

Currencies and interest rates

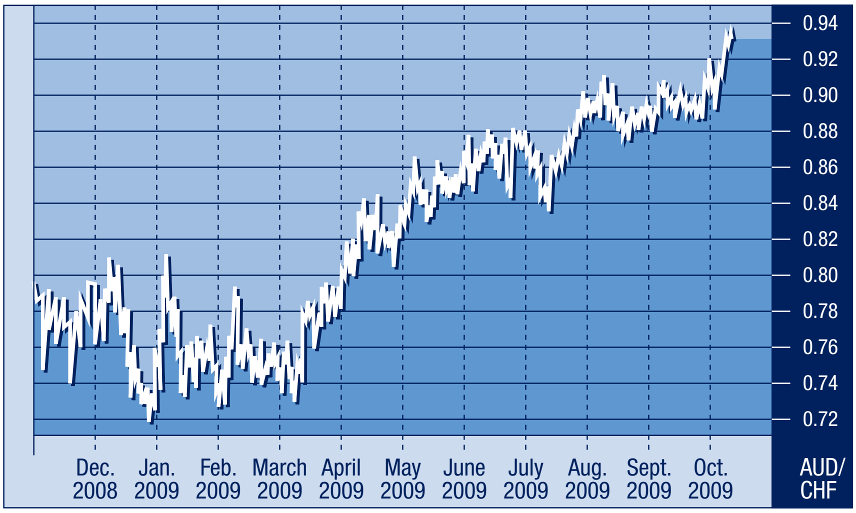
Australia is assuming a bellwether role as regards lending rates, being the first country to tighten monetary policy. Analysts are bashing the US dollar.

The US Federal Reserve's meeting transcript again emphasized the uncertain economic outlook. It looks like the central bankers were standing on a hot tin roof, impatiently awaiting an economic upswing. If it doesn't materialize, they will hardly be able to avoid pumping further billions into stimulus measures.

Australian rate hike

Since both consumer and producer prices are not yet under pressure, the national banks do not see the need to increase interest rates – at least those in 19 of the 20 G-20 nations. Australia was the first G-20 country to raise lending rates (in early October), which buoyed the Australian dollar. It has already advanced by about 30 percent so far this year (see graph)! The gains in the other commodity currencies such as the South African rand or the Norwegian krone illustrate that this is not due exclusively to the interest spread bonus. These countries are benefiting from the commodity appetite of the Asian markets, mainly China. This also shows that these currencies are dependent on an economic upswing, because commodity prices are extremely cyclical. The Norwegian krone still seems to be a smart buy (see also partners' view 10/2009); although it has attained new highs this year, it is still trading at about 20 percent below its peak in 2008.

Australian dollar



Dollar weakness

Sooner or later, the massive expansion of debt in the USA will result in higher interest rates. As a borrower, the USA will have to pay its lenders (China, Japan) more in debt service. It is questionable whether the dollar will profit. Most analysts expect a continued depreciation of the greenback, some of them a drastic one. Indeed, the dollar declined to annual lows versus most reference currencies. This worsened the outlook of the already ailing export markets of the USA's key trading partners. They see the dollar weakness as a competitive disadvantage because the soft greenback makes their products more expensive.
The gigantic reserves in US dollars, built up from the proceeds of exports, are a burden for the central banks of the USA's trading partners. Thus, the "rest of the world" has no vested interest in a further weakening of the dollar.

Zero-sum game

Gold investors, however, have welcomed the weaker dollar. Gold, and thus silver and platinum as well, have climbed to new highs.
But arithmetically, the "dollar hedge" doesn't really work. In francs and in euros, it is nearly a zero-sum game, because the dollar weakness destroys much of the gains of the price of gold. Even EFTs traded in Swiss francs or euros cannot offset this handicap because indirectly, they too are invested in the US dollar.

Financial markets

Too late to buy? The market rally continues unabated even during the third-quarter earnings season.

The liquidity-driven bull market on the international bourses continues unabated, catapulting this year's performance to roughly 20 percent. Many observers are expecting an end-of-year rally triggered by the numerous underinvested players. Of course, all investors are interested in seeing how company valuations might change. Rising stock prices can be justified only by rising profits. The third-quarter numbers that are about to be published are important for establishing a sound foundation at current price levels. Valuations can be calculated based on the presented figures and earnings projected for the next quarter, but there is not much latitude for disappointment, so caution is advised!

Roche

Model companies

All wish lists should still include Novartis and Roche (see graph). The two pharmaceutical heavyweights are not only reporting solid earnings but have also been consistently pursuing an attractive dividend policy. At over three percent, they are returning more than Swiss-franc bonds, offering shareholders the opportunity to participate in the abundantly filled pharma pipeline. Third-quarter sales figures yet again demonstrate that Switzerland's model companies did their homework and can post double-digit growth. As regards valuations – Roche has a P/E ratio of 12 times estimated earnings for 2010 – both pharma stocks are a buy. The price setback in Roche that occurred when the excellent third-quarter figures were published can be tapped as a welcome entry point.
Investors seeking more pizzazz (high beta in the vernacular) should point their radar at the following equities: Holcim, ABB, Siemens, Kali & Salz, and Syngenta. To some extent, they are beneficiaries of government infrastructure investments in energy projects (ABB, Siemens) or well-positioned companies that are benefiting from the upswing in Asia (Holcim). Kali & Salz as well as Syngenta are agribusiness companies that will profit from the rising demand for food.

Last but not least

"On the stock market, money is made by perseverance, not by intelligence."
Traders' aphorism

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Yves Baumann
Jörg O. Blickensdorfer
Johan Buckert
Christ Johann Collenberg
Chantal Cvorovic-Lauper
Martin P. Egli
Peter L. Einstein
Boris Eschmann
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