- Commodities: Oil price YOY
- Bonds: Tough scenario in 2010
- Returns: 8% dividend with Telecom

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

Politics and business

Credit crunch in consumer loans.
Basis effect of commodity prices pushing inflation down for the first time.

Despite the record-high liquidity injections of the US Federal Reserve, consumer credits slumped significantly this year, more than ever since World War II. The reasons: more incisive solvency analyses of borrowers, massively higher interest rates due to increased risk premiums, and balance sheet problems in the banking community. As already mentioned on several occasions in this news service, banks are using the liquidity placed at their disposal (almost free of charge) mostly to rehabilitate their balance sheets, and the real economy is getting only crumbs from the table. At least as regards consumer credits, things are sluggish on the demand side as well, quite understandably. Consumers are simply no longer willing to incur debt to finance household spending.

No coal

Since the labor market situation is still very tense, the workforce cannot generate any cost pressure by pushing for higher wages. Employers have the upper hand. So wage demands are about as likely to be successful as trying to sell coal to Newcastle. In October, the US unemployment rate cleared the distressing 10-percent barrier when it climbed to 10.2 percent, the highest level since April 1983. Weekly work hours have also gradually declined and recently descended to a record low of 33.0 hours. The assessments of this data by economists are very disparate. The optimists are saying that the worst is behind us now, but for pessimists, these statistics confirm that the sustainability of the economic recovery is a myth. We will probably have to wait until next year to find out which appraisal is more realistic.

The positive news as regards inflation is offset by the basis effect in commodity prices. If we take oil as an example, it is clear that the rapid price collapse last year is now – one year later – having a negative impact on inflation. In a 12-month comparison, a barrel of oil costs exactly twice as much as it did 12 months ago (see graph).

Oil price

Home-turf advantage

The hopes nurtured by Switzerland that there will be a consensus solution to the tax dispute with Germany and the EU now rests on the shoulders of Wolfgang Schäuble, Germany's new minister of finance. Schäuble does have two major assets that his omnipresent predecessor Peer Steinbrück lacked. First, Schäuble's party, the CDU, is business-friendlier and thus more lenient in such issues than the SPD, Steinbrück's political moorage. And second, Schäuble grew up in Freiburg, not far from the Swiss border, so he can relate to the Swiss mentality a little better than terse, Hamburg-born Steinbrück. In spite of this "home-turf advantage", it would be wrong to underestimate the perseverance for which Schäuble is known. He's not a perpetually barking dog, but he can certainly sink his teeth into an issue.

Currencies and interest rates

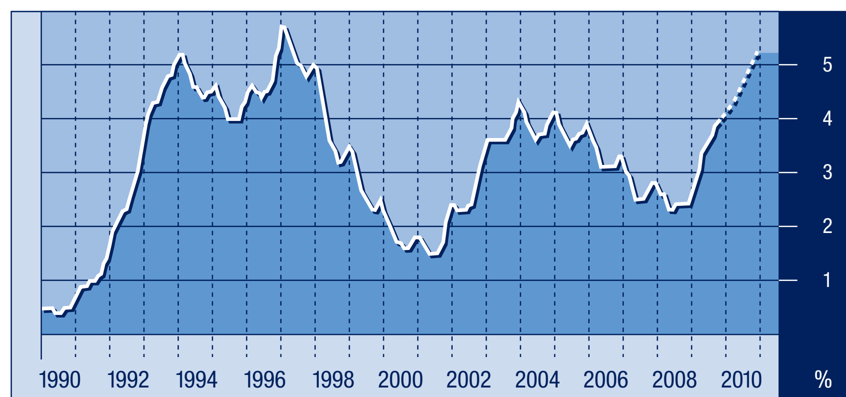
Australia increases the prime rate for the second time. The European Central Bank sees the end of easing. The Swiss National Bank is in a dilemma.

After the first hike in October this year, the Australian central bank raised the rate yet again. With a quarter of a percentage point added, lending rates there are now at 3.5 percent. Interest rates were adjusted in Europe, too. The Norwegian central bank lifted the prime rate to 1.5 from 1.25 percent.

The ECB gets vocal

Further interest-rate decisions were pending in England, Europe, and the United States as well. The Bank of England again broadened the purchase of financial assets (quantitative easing) and thus adopted an accommodative stance. Interest rates remained unchanged at a record low level of 0.5 percent. The US Federal Reserve also left rates where they were (range 0.00 to 0.25 percent) even though the economic outlook turned out to look a bit better. The decisive factors for the Fed were no doubt the weak employment figures (see "Politics and business").
The European Central Bank (ECD) was more outspoken. Even though it, too, left the lending rate unchanged at 1 percent, the ECB did clarify that "this excessive liquidity is not forever". The Swiss National Bank (SNB) is also between a rock and hard place. If it were to pursue an active monetary policy, it would have to keep the lending rate low, because the Swiss franc is too expensive, a painful situation for Swiss exporters. The labor market numbers are also encouraging the SNB to keep rates low (see graph). Its top priority, however, is stable prices. If the risk of rising inflation becomes acute, the SNB will also have to increase rates.

Unemployment in Switzerland since 1990, estimate for 2010



2010 is not a bond year

The US bond market was an exemplary case study. After worse-than-expected employment statistics were published, the prices for US government bonds rallied. As long as the labor market (and thus the American consumer) does not see any tangible signs of a recovery, interest rates will remain low in the US. Nonetheless, the bond market could be in trouble next year. On the one hand, there was a reduction, or normalization, of risk premiums for corporate bonds – the extra bonus for risk is gone – and on the other, bond yields are at multi-year lows because of the excess liquidity. This could backfire next year in bonds with long durations.

The dollar gamble

The carry trade function of the US dollar (speculators incur debt in dollars and invest the borrowed money in currencies with higher returns) could result in a fast and massive countermovement. It almost appears as if the whole world were short in dollars which at some point in time, of course, must be covered (bought back). This could happen if the USA were to increase lending rates faster than expected. And as always in such forex plays, everyone will want to do the same thing at the same time: buy.

Financial markets

Almost no breathers on the financial markets. Fantastic dividend yields in telecoms. Asia keeps buying gold.

After a short pause in late October and early November, the market rally picked up steam again. Since most late risers have meanwhile increased their exposure in stocks, there won't be much support if the financial markets show weaknesses. Opportunistic additions for cosmetic reasons (buy the winners and get rid of the losers) are expected as the year comes to a close, however. The portfolio clean-up phase begins in early December.

One person's joy …

... is another's sorrow. The bottom line on the telephone bills of many consumers is swelling because of new smart phones and money-draining applications. New gadgets, Internet and e-mail services as well as built-in cameras are encouraging consumers to engage in costly recreational activities. The winners are not only the cell phone makers – headed up by Apple – but also the telecom companies. The boom spawned many new providers, but most of them have already disappeared again. Erstwhile monopolists such as Swisscom or Deutsche Telecom are financially sound corporations that are generating enormous cash flows and paying dazzling dividends.
Deutsche Telecom, for example, is paying its shareholders more than 8 percent in dividends per year, is fairly valued with a P/E of 11, and generates free cash flow of about EUR 7 billion per year. Things look promising for the future, so this equity is worth buying (see graph).

Deutsche Telecom

Gold buyers

Gold is still a favorite among investors. After the old record high of 1030 dollars per ounce was broken in March 2008, the price surged rapidly. The 1050 and 1100 levels were defeated virtually overnight. To some extent, Chinese and Indian buyers are now splurging the dollars in the coffers of their central banks on the precious metal. Russia could also join the community of buyers, not because of runaway government debt but because of the natural dollar hedge. The three nations own tremendous US dollar currency reserves.

Last but not least

"Grass doesn't grow faster if you tug the blades."
African proverb

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