partners' view

- Unemployment: Germany shines
- USA: Its own biggest borrower
- Markets: Threshold countries not out

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

swisspartners

Politics and business

Declining joblessness in the USA and Germany. Africa's natural resources are being tapped by China.

Although official unemployment in the USA dropped surprisingly by another 0.4 percentage points to now 9.0 percent, most market specialists were disappointed by the metrics overall. The small number of newly created jobs in the private sector (50,000) and differences in survey methods have given rise to doubt as regards the initially favorable look of the data. In general, the quality of US economic data leaves much to be desired, so investment decisions should not be made on the basis of business data researched and published in the USA.

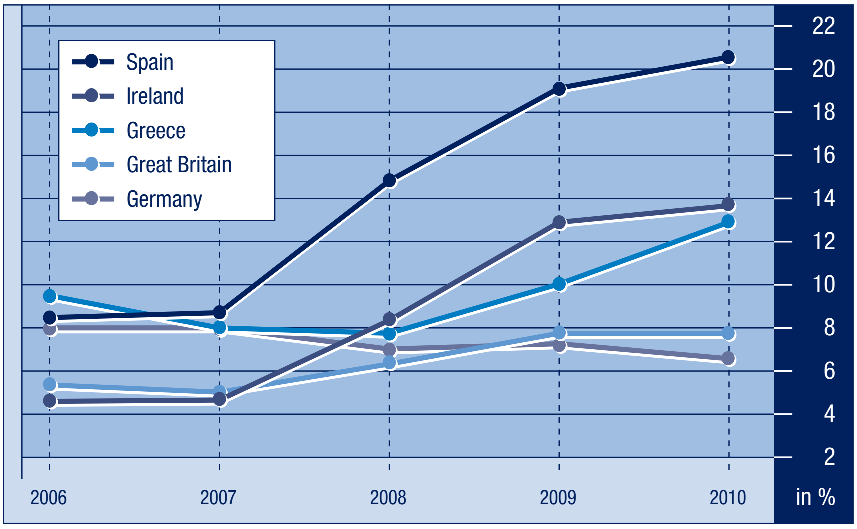
China is invested in Africa

The unrest in northern Africa began in late December last year in Tunisia, escalating with street fights and mass demonstrations by mid-January. Encouraged by the success of the uprising (Tunisia's President Ben Ali stepped down in response to the pressure), the spirit of revolution washed over to Egypt as well. This region in North Africa is significant to the global economy mainly for two reasons. First, because it connects the Red Sea with the Mediterranean, the Suez Canal is deemed to be the most important trade route for petroleum from the Middle East. It is not surprising that the cost per barrel of oil rose instantly and is now hovering at its highest level since October 2008. Second, Africa is a continent with many still unexploited commodity reserves. For years, China has been strengthening its presence and investments in Africa, much to the chagrin of the USA. The forward-looking Chinese have an eye mainly on oil (Angola, Nigeria, Kenya, Uganda, Libya, Egypt), natural gas (Nigeria), agriculture (Kenya, Uganda), uranium ore (Niger, Liberia), copper (Zambia), vanadium and platinum (South Africa), manganese, chromite, titanium, and other natural riches. The world economy would be severely affected by the wildfire propagation of the popular uprising (Libya, Middle East, Algeria, Yemen) because this could paralyze the national economies on site for a longer period of time, as may well be the case in Tunisia.

The weisswurst chasm

While Germany reported an unemployment rate decrease to 6.6 percent, the lowest in 18 years, the number of people in some of the southern regions of Europe without jobs has risen dramatically. Within a period of only 3 years, the number of jobless Greeks picked up by 60 percent. The situations (see graph) are even worse in Ireland (from 4.8 to 13.8 percent) and Spain (from 8.8 to 20.2 percent). The weisswurst chasm (the borderline between the northern and southern parts of Europe) makes it difficult to implement a unified interest-rate and monetary policy. After the recent increase in consumer prices (inflation) within the Eurozone by 2.4 percent, the time would have come for higher interest rates, were it not for the problems in the southern periphery (excessive debt, unemployment). On the one hand, this paralyzes economic policy-making in Euroland as a whole and on the other hand, it sparks tensions between the paying and heavily indebted member nations.

Unemployment trend in Euroland

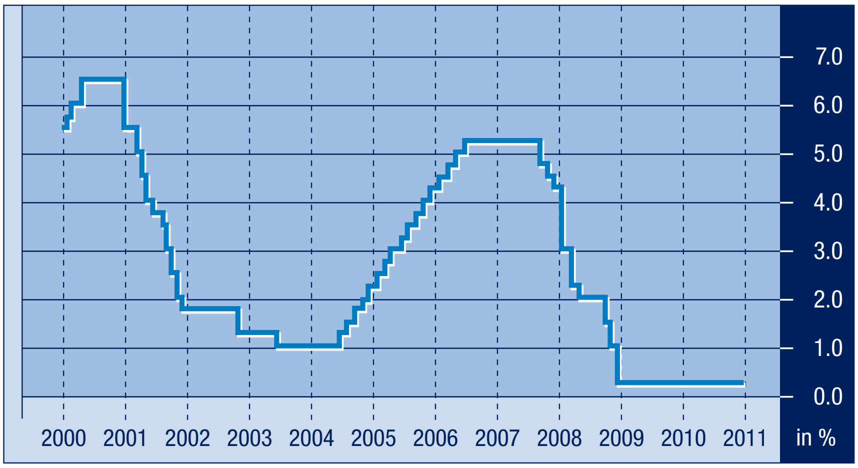


Currencies and interest rates

The Federal Reserve holds 1.1 trillion dollars in US treasuries. The long-term low-interest trend is coming to an end. Escape from the debt crisis with a new Eurobond?

The American Federal Reserve System (Fed) has purchased US government bonds (Quantitative Easing QE2) in such volumes that it is now the USA's biggest creditor, i.e. its own biggest borrower. Although the QE2 program has not yet ended, the Fed already owns US treasuries worth 1100 billion dollars, roughly 200 billion more than those owned by China, so far the biggest lender of money to the United States of America. The objective of QE2 to keep rates low for longer maturities as well was missed by far. In the past three months, yields for 10-year US government bonds increased from 2.5 to 3.5 percent. For the Fed, this means billions of dollars of book losses (provided the bonds are entered in the books at market prices in the first place).

Prime rate trend in the USA



Inflation moves up in Europe

For years, things were quiet on the interest-rate front at the world's major central banks (Japan, USA, ECB), and the financial markets responded with calm and composure to the press conferences and figures published after the central bank meetings because no interest-rate changes had been expected anyway. But now, some momentum is building up. The likelihood of an interest-rate hike is growing. It has been a long time (see graph) since the last hikes were announced by the key central banks in the USA (June 29, 2006), Europe (July 3, 2008), Japan (June 29, 2006), England (July 5, 2007), or Switzerland (September 13, 2007). But now, the latest inflation numbers are suggesting that the financial markets should adopt a cautious stance. The inflation rate of 2.4 percent has clearly exceeded the 2 percent threshold tolerated by the European Central Bank (ECB). But despite this signal, the ECB is still very cautious as regards its potential response. Nonetheless, the inflation metrics heated speculations in the euro, which is why short positions were closed down immediately.

Joint Eurobond?

The euro received additional support from the European umbrella fund EFSF (European Financial Stability Facility). The successful placement of the first bond with an AAA rating (the issue worth five billion euro was oversubscribed by a factor of eight!) feeds speculation that the euro member states could issue joint Eurobonds in the future. The huge advantage of this approach would be that Greece, Ireland, Spain, and Portugal could benefit from the AAA rating and that the new joint financing vehicle could buy Greek and Irish bonds (that are trading far below par) with a discount of up to 40 percent. This would amount to a classic refinancing of deficit-strapped countries. For the time being, Germany is vetoing this idea but would have to pay toward the default of a Euroland member anyway, be it via previously ratified commitments or with this new instrument.

Financial markets

Gold price consolidation probably over. Agriculture prices very high. Russia favorably valued.

By now, the consolidation of the price of gold is likely over. But the still looming danger of inflation, now corroborated by statistics, as well as the unresolved debt crisis in Europe and the USA will keep guiding investors back into physical assets. Central banks, especially in Asia, are hoarding more and more gold to park their US dollars.

Expensive agro products

Although the agriculture segment and mainly its fertilizer and seed businesses can expect a bright future, stocks in this category are overextended at the moment. After gaining nearly 20 percent this year, Syngenta, for example, is trading on the basis of a P/E of 18 (earnings estimate for 2011). Price setbacks after the speculative increases of soft commodity prices (wheat, corn, soy, sugar, coffee, cotton, etc.) are in the cards.

Frontier markets

In the past years, recommendations targeting the so-called frontier markets escalated. Contrary to emerging markets, this investment class is characterized by a loophole-ridden legal system, hardly developed capital markets, few listed companies, and in most cases political systems under tight semi-presidential rule. The most important regions are the Middle East (Kuwait, Qatar, United Arab Emirates) with a 58-percent share in the MSCI Frontier, Eastern Europe with 7 percent (Kazakhstan, Ukraine), Asia with 16 percent and Africa with 12 percent (Nigeria, Kenya). Brazil, India, and China also belonged to this group before they became emerging markets. After two very good years on the bourses in 2009 and 2010, the unrest in northern Africa this year is blatantly revealing the risks associated with such countries that have underdeveloped capital markets. Nonetheless, such markets are suitable as an admixture to a balanced equity portfolio. The prerequisites are the investor's risk tolerance and the long time horizon of such commitments.
Within the BRIC quartet (Brazil, Russia, India, and China), Russia looks very promising. Its geographical proximity to China, its commodity reserves, and its possible admission, as the last of the world's major economies, to the World Trade Organization (WTO) in 2011 are just some of the many reasons why the Russian stock market is so attractive. Russian equities are favorably valued with an estimated price/earnings ratio of around 8. Here, too, buy recommendations are primarily intended as complements to a balanced equity portfolio. Although warnings are currently being issued against investments in emerging markets (mounting inflation, interest rate increases, weaker growth), it is quite certain that Russia, alongside India and China, will be among the world's fastest-growing economies in the medium to long term.

Last but not least

"Never are more lies told than prior to elections, during wars, and after hunting."
Otto Eduard Leopold von Bismarck

Peter Ahluwalia
Robin F. Amacher
Marthe Ballet
Yves Baumann
Johan Buckert
Christ Johann Collenberg
Chantal Cvorovic-Lauper
Ute Dürtscher
Martin P. Egli
Peter L. Einstein
Ben Euving
Chantal Gehri
Olaf Gierhake
Mauro Golinelli
Gerhard Gottet
Robin Graetz
Narciso Grilli
Patrick Huurdemann
Urs Jäggi
Claude R. Jenni
Beatrice Kern
Daniel Kössler
Thomas Kostkiewicz
Markus Linke
René Meyer
Rainer H. Moser
Jos Raafs
Christian Rockstroh
Mark Rüegger
Manuela Schlegel
Bernhard Schürmann
Richard Smith
Dominique J. Spillmann
Barbara Stacey
Carsten Tillner
Bettina Wälti
Ralph Weidenmann
Markus Wintsch
Christian zu Pappenheim

swisspartners Investment Network AG
Am Schanzengraben 23
P.O. Box
CH-8022 Zürich
Phone +41 58 200 0 000
Fax +41 58 200 0 100

swisspartners Investment Network AG
Steinengraben 18/22
P.O. Box
CH-4002 Basel
Phone +41 58 200 0 500
Fax +41 58 200 0 595

swisspartners Investment Network SA
rue Neuve-du-Molard 24
P.O. Box
CH-1211 Genève 3
Phone +41 58 200 0 200
Fax +41 58 200 0 210

swisspartners Wealth Management AG
Am Schanzengraben 23
P.O. Box
CH-8022 Zürich
Phone +41 58 200 0 400
Fax +41 58 200 0 490

swisspartners (Liechtenstein) AG
Feldstrasse 16
FL-9490 Vaduz
Phone +423 239 79 70
Fax +423 239 79 80

www.swisspartners.com
info@swisspartners.com

swisspartners