

# Thesis Market Commentary

December 2011

**In a break from the normal format, this month is a topical story for the festive season. Any resemblance to real persons or events is therefore purely coincidental! And on that note... We would like to extend warm wishes to all readers for an enjoyable festive season and a prosperous New Year.**

## This Month

- A Christmas tale
- Santa's coming but what's in store?
- Market news

### A Christmas tale

The story so far.....The three kings and their entourage were hopelessly lost and knew they had to do something drastic if they were to see the new beginning and achieve redemption (at least of the shortest dated Treasury bonds in the wilder areas of their kingdoms). The problem was that this was only possible with the blessing of their trading allies in the great empires across the water, and also of the powerful moneylenders and traders in the citadels through whom all transactions must be ratified.

In the early part of their journey they had feasted on exotic food and travelled in conspicuous luxury, as indeed did many of their subjects. But, truth to tell, their treasury vaults no longer strained under tons of gold, just dusty ledgers recording all their IOUs. For too long they had borrowed from the moneylenders to finance their kingdoms' lifestyles, mollify their subjects, and keep pace with the strongest of their allies. And now no one wanted to give them any more credit, despite their desperate promises, and their kingdoms were visited by a terrible plague, millions and billions of tons of paper descended from above, a dreaded CDS storm, which formed great rivers of default swaps, and the weight caused the banks to collapse.

Now King Merkel (aka the Queen of Europe) being the strongest and wisest, decided that they had wasted too much time debating the merits of Chianti, Retsina, Vinho Verde, Chablis and Guinness and now needed to find a way to convince the moneylenders that they should replenish their coffers (and burn their IOUs). But would the weaker kings accede to his (her?) sovereignty?

They needed to divert to somewhere where no sane person would willingly travel, to a cold and desolate place, a city populated by tax collectors and scribes - its name was Brussels. And it was here in a great castle, made of concrete and glass that a Summit was convened and, lo, a new Treaty was born (although King David of Cameron was banished because he was fearful of the wizards in his own citadel).

And the most powerful and the richest leaders and moneylenders from around the world watched from afar. For they had been invited to join this great feast - providing they brought wonderful gifts. But they had feasted before with the kings, and many suffered from chronic indigestion (partly caused by the Chianti, Retsina, etc) and so were wary of partaking without assurances that copious remedies would be at hand (a ban on short selling of root ginger

and Alka-Seltzer being a precondition). They also feared the kings' barbers as, like their Aztec ancestors, they suspected that their haircuts would be far more severe than promised. For much as they had invested in and enjoyed the fruits of the three kings' fertile lands, and profited by trade with them, they feared that, unless the kings and their subjects (including their moneylenders) reined in their profligate spending, then a great darkness - preceded by a plague of default swaps - would engulf much of the world for many years.

And so it came to pass that the kings renewed their vows of allegiance (except King David of course, who contented himself with kicking the court jester, Clegg, and distracting his subjects with a great sporting spectacle the following year). They received gifts from the mystical emperors of the Orient and loans from the great citadel of the Pacific West. King Merkel ruled with an iron corset until the following year, the tax collectors became more powerful and the scribes flourished with malicious rumours and prophecies of doom. But the harvests were not as forecast, many moneylenders and traders were forced to rein in their bonuses, and the loyal subjects of the kingdoms decided that they no longer wished to be part of King Merkel's empire.



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## Santa's coming but what's in store?

'Santa rallies' have seen UK blue chip shares rise in December for the last eight years in a row. Looking back further, the FTSE 100 has only had three negative Decembers in the last 27 years and has returned on average +2.88%. Although betting against a Santa rally this year might be foolish, at the time of writing we will need to see a rise of just over 5% to take it back to where it started the year at 5899.94.

So much depends on what happens in Euroland that most investors are currently experiencing 'Clarkson-like feelings' towards their European cousins. Certainly if a referendum on Europe occurred today - on should we be in or out, it would not be surprising if the majority voted for the latter - but what chance of referendum from the Coalition?

The net cost of the EU budget to Britain is £28 billion per annum\*, but the actual cost - direct and indirect, is much more than that. Last time it was calculated in 2008, the European Union was costing us £65 billion gross every year. That's about £1,000 each year for every man, woman and child in the UK. It increases every

year, so it will be a lot more now. Whatever the exact figure is, it could certainly go towards reducing the deficit!

The Germans are currently playing the hard taskmaster which is good news. They are keen to stop the rot and will only support the ECB and Quantitative Easing if they can get everyone to abide to some fiscal prudence. Undoubtedly, we will get limited practical information or detail ahead of Christmas;

those shocks can wait for the New Year, but don't be surprised if Santa sentiments do deliver more than we bargained for ahead of the year's close (aka window dressing). Merry Christmas!

\* Source: Office for National Statistics "Pink Book"

### Comparative Index performance ▼

| Indices                              | Value as at 30/11/11 | % Change on Month | % Change 2011 year to date | % Change on 12 Months |
|--------------------------------------|----------------------|-------------------|----------------------------|-----------------------|
| FTSE 100 Share                       | 5505.42              | -0.70%            | -6.69%                     | -0.41%                |
| FTSE All Share                       | 2835.84              | -0.87%            | -7.41%                     | -0.90%                |
| Dow Jones                            | 12045.68             | 0.76%             | 4.04%                      | 9.45%                 |
| Euro Stoxx 50 EUR                    | 2330.43              | -2.30%            | -16.56%                    | -12.09%               |
| Nikkei 225                           | 8434.61              | -6.16%            | -17.54%                    | -15.12%               |
| FTSE A British Government All Stocks | 170.68               | 1.38%             | 9.14%                      | 8.96%                 |
| Sterling/US\$                        | 1.5704               | -2.38%            | 0.59%                      | 0.91%                 |
| Sterling/Euro                        | 1.1678               | 0.60%             | 0.12%                      | -2.57%                |

## Market News

### Resources

**BP** has agreed to sell its Canadian natural gas liquids business to **Plains All American Pipeline** for \$1.67 billion as it continues to streamline its operations and bolster its balance sheet. The cash sale is part of BP's plan to raise \$45 billion.

**Gold** rose to its highest level in two weeks as the coordinated effort by the world's major central banks to unlock the credit markets and prevent a global financial meltdown gave investors confidence to cut their holdings of cash. Gold purchases in China via Hong Kong hit a record 56.9 tonnes in the month of September, registering a six-fold increase year on year.

### Financials

Banks should brace themselves to withstand the "extraordinarily serious and threatening" economic situation, the Bank of England governor has said. The Bank's Financial Policy Committee (FPC) said the Eurozone crisis was the biggest threat to the UK's banking system and that banks should build up their financial buffers.

**Nomura Holdings** of Japan has sharply reduced its exposure to some of the most indebted European countries. It has reduced its exposure to Italian debt by 83% to \$467 million from \$2.8 billion and cut its Spanish debt holdings by 62% to \$175 million from \$465 million since November.

**London Stock Exchange** reported strong first half performance across the Group with a 20% rise in total income and a 79% per cent increase in profit before tax.

### Consumer

Australian authorities gave their approval to **SABMiller's** proposed \$11 billion takeover of

**Foster's Group**, but added conditions to the deal. Local regulators said SABMiller must keep the management of Foster's in Australia and cannot move the brewer's facilities offshore to produce beer for the domestic market.

Suffolk-based **Greene King** said pre-tax profits were up 5.6% at £77.2 million, following good results from **Marston's** and **Fuller Smith and Turner**. But Rooney Anand, Greene King's chief executive, gave a bleak assessment of the economic climate.

**Starbucks** has announced that it will open 200 'drive-thrus' in Britain, hiring an extra 5,000 employees over the next five years, adding to its current number of 11,500.

### Tech & Media

**Yahoo's** directors are leaning toward selling a minority stake in the company to an investor group instead of selling the business outright, after a meeting of the company's board.

**Facebook** is likely to go ahead with an Initial Public Offering in April whether it wants to or not, a decision that is partly the company's fault. It just has too many shareholders. The regulations requires a United States company with 500 or more shareholders on record to begin filing reports, including audited financial information, with the Securities and Exchange Commission four months after the year it exceeds this threshold.

**Pearson** announced it has agreed to acquire **Global Education and Technology Group** for \$294 million. Global Education is a test-preparation service in China for students learning English. Pearson estimates that approximately 500,000 Chinese students take these tests each year, a four-fold increase over the past five years.

### Transport

**Rexam** - Outperformed the market following Q3 results in line with expectations. Strong performance in beverage cans (reflecting good cost control) made up for weaker results from plastic packaging.

**Melrose** - Q3 results in line. Revenue up 12%, orders up 14%. Energy, Oil and Gas revenue was strong and was broadly unaffected by the overall economic situation.

### Utilities

**National Grid's** half year results showed good underlying performance and steady progress toward strategic goals. Profit before tax up 2%, (up 19% excluding Hurricane Irene), and the dividend was increased by 8%.

**Centrica's** management statement blamed unusually warm weather in the UK for the impact on consumption. It also anticipates earnings may be marginally lower than current market expectations.

Sources: Dealbook, Yahoo Finance, Mineweb, BBC News, Reuters, Citywire and Investment Week.



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