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UNCERTAINTY CONTINUES TO DOG THE WORLD'S MAJOR ECONOMIES

To a very great extent, the recent boomlet on Wall Street was being driven by a surfeit of cash liquidity.

Setting to one side all of the nonsense that comes and goes, daily, at the end of the day, fundamentals will out, to be sure.

The first quarter of 2002 is likely to see some pretty horrible statistics, hitting The Street, and these statistics could well lead to a reversal of the current trend.

According to UBS AG, US stock funds saw net inflows of $US750 million in October, compared with the $US29.40 billion outflow in September.

This is a 180-degree turn.

Money market funds saw an inflow of $US74 billion in October Year-to-date (November 30, 2001), the total is $US341 billion, which exceeds the like period in 2000 of $US309 billion equity inflow.

And last year set a record, at that.

Looking at investments in equities, US domestic funds saw inflows of $US5 billion against outflows of $US4.25 billion in overseas funds.

The cash position in equities was unchanged at 5.60 percent.

As for money market fund assets, they swelled to 33.90 percent of the total, which is well above their more traditional 25 percent share.

This excess – 8.90 percentile points – has the potential to generate about $US585 billion in equity inflows, more than the cumulative total of its 2 best years, UBS points out.

Summarising UBS's findings, it appears that the current boomlet may not yet have been exhausted, but that does not mean that it can be sustained for an extended period.

Another seemingly positive, near-term aspect about the US economy is that consumer spending appears to have been much stronger than many economists had expected.

Cutting out motor-vehicle sales from the equation, even so, consumer spending in the US appears to have stabilised rather than continue to spiral, downwards.

The latest statistics have not been seasonally adjusted so that one will have to wait for more definitive figures before being too optimistic about the latest batch of figures, pouring out of the US Government's statisticians' basket of tricks.

Also, one of the logical fallacies that is often promulgated is *'Figures Prove'*.

If the latest figures can be backed up by more of the same, or even better – that is favourable – statistics, then it is likely that that which nearly every Wall Street guru has been stating for the past year may come to pass: The worst is behind the US economy.

TARGET, however, still feels bearish about the US economy in the intermediate term.

TARGET feels that one should wait for the figures, pertaining to the second quarter of 2002, before deciding on which horse one should place a wager.

The fourth quarter of this year is guaranteed to see a further retraction in the US economy, but some US economists are, now, suggesting a short-lived, and quite shallow, recession.

This is quite likely to be correct, provided that the term *'short-lived and quite shallow'* are defined in relative terms.

Positive considerations include, of course, the complete and absolute success of the coalition forces in the battle against terrorism in Afghanistan.

Such a military success tends to fuel confidence in the US ... and that would cascade down the line to other economies of the world.

There is evidence, also, of increased shipments of goods, internationally, as the Baltic Freight Index continues to rise, from 864 points to 868 points, week-on-week.

It must be borne in mind that early November saw the Baltic Freight Index at its nadir of 842 points.

The US Government continues to tell its people that it will fan the embers of the US economy, and that it will continue to prime the economic pump, probably by more interest rate cuts, which could see Fed Funds hit 1.50 percent during the first quarter of 2002.

Against this, unemployment in the US, still, has not been curbed and, today, it stands as its highest levels in the past 2 decades.

Last week, the US Commerce Department announced that seasonally adjusted Initial Unemployment Insurance Claims for the week, ended December 1, were 475,000 claims, which appears to be mildly positive, considering that the Initial Unemployment Claims for the week, ended November 24, were 493,000 claims.

However, the 4-week moving average is, now, 461,000 claims, as at December 1, which does not stand up well to the 4-week moving average of 455,000 claims for the previous week.

Also, there are many other considerations, not yet factored into the equation: The natural expansion of the US workforce; layoffs, recently announced due to corporate failures (one has yet to assess the Enron situation with about 8,000 jobs on the line); seasonal factors; and, of course, those companies which, as yet, having been playing their cards very close to their chests.

In the world's second largest economy, those people, who said that it could not be that bad, have been proved to be wrong – because it is worse than most people thought was possible.

Just last Friday, the Japanese Government announced that Japan's **G**ross **D**omestic **P**roduct (GDP) had shrunk by 0.50 percent in the July-September period, representing the second successive quarter of retraction since, in the April-June quarter, the economy retracted by about 1.20 percent.

Further, Japan's Trade Minister, Mr Takeo Hiranuma, suggested that more of the same could be expected up to March 2003(!).

The very idea of using public funds to prop up the world's largest banks – Mizuho Holdings and UFJ Holdings – is unthinkable to most adherents of a free-market economy, but that is, exactly, what was being considered in Tokyo, just last week, by senior Japanese Government officials.

Unemployment in Japan continues to rise; it will, almost assuredly, continue to rise.

In Euroland, one notes its declining fortunes, as various economies of the European Union (EU) retract at great speed and business and confidence wane apace.

Germany, the world's third largest economy, has already suggested that it has entered a recessive phase.

In Argentina, the country heads closer and closer to reneging on promises to repay external debts; last week's limits on monthly withdrawal by depositors will take its toll on the economy and of confidence, to be sure.

In the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC), investors are trying to hold onto any leaf in the hope that it will support them.

It won't.

All the bullish statements of moguls will come to naught because, until the US – the HKSAR's major trading partner – can start the show, the audience will be unable to enjoy the performance.

Investors in the HKSAR are known to be gamblers of the worst kind (or should that read, *'the best kind?'*), as is only too apparent by looking at what takes place on The Growth Enterprise Market of The Stock Exchange of Hongkong Ltd.

At the end of the day, equity prices, long term, will only rise when fundamentals dictate.

The trouble with penny stocks is that they can, at any time, turn round and bite one on the arse – and that bite has the ability to be very painful.

The economy of the HKSAR is linked, directly, to the economies of its major trading partners, of which the US is the single most important.

The entire, global economic picture is filled with misgivings and uncertainties, but it is a foregone conclusion that the US economy will be the first to lead the world out of the shadows of that uncertainty.

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