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THE BATTLE FOR SUPREMACY IN YEAR-2005: DEMOCRACY AND CHRISTIANITY v. OLIGARCHY AND ISLAM

And The Effects On Financial Determinations

The 21st Century will be marked in the history of the world as that period of time when the Western World applied itself, aggressively, to the task of imposing its political and religious will on the Eastern World.

Democracy and Christianity v. Oligarchy and Islam.

The 21st Century will be marked by historians for the duplicity of some high-ranking politicians of certain countries of the Western World where double-talk was employed, copiously, and when words, such as *'invasion'*, were shrouded in the cloak of *'liberation'*.

The struggle between the West and the East will, definitely, continue throughout 2005 – and beyond.

Depending on the success or failure, mainly of the American political and fighting machine, to install democracy and the Christian ethic in fundamentalistic Islamic countries, such as Iraq, Iran and Afghanistan, it will tend to chart, or, at least, influence to a greater or lesser extent, the course of international investment.

The West will vacillate between a guns economy and a butter economy, with one, at any time, being predominant over the other, depending on the international events of the day.

In the words of William Shakespeare:

'With Ate by its side, come hot from Hell,
Shall, in these confines, with a monarch's voice
Cry, "Havoc!" and let slip the dogs of war.'

Thus shall be the attitude of the Islamic Government of Iran, especially, should the American religious/political fervour extend to that country, which is ruled by Muslim fundamentalists where the ayatollahs are supreme and where the Council of Guardians ensures accordance with Islamic code.

Democracy and Christianity and Oligarchy and Muslim fundamentalism are not happy bedfellows, to be sure.

Iraq, much of the indigenous population, having tasted democracy, appears to be falling under the influence of the West; it appears that the dye is caste in this former dictatorship of deposed Sunni Shi'ite, President Saddam Hussein.

The illegal invasion of Iraq by the military forces of the **U**nited **S**tates of America (US) and **U**nited Kingdom (UK) was condoned by the leaders of these 2 Western powerhouses on the premise that the end justified the means.

The world, one is told, today, by President George W. Bush, is a safer place with the forced removal of President Saddam Hussein of Iraq.

The cost to the US and the UK of this war, now about to enter its third year, is in the tens of billions of US dollars.

With more than 150,000 US troops, deployed in Iraq, alone, the cost of this expeditionary force is, or should be, of material concern to investors of the Western World: It is weighing heavily on the economy of the only superpower of the world.

It is fortunate for US President George W. Bush that North Korea is *'for sale'* otherwise any formidable incursion by US troops, or any military force, for that matter, one that is seen to represent the US military might, or seen as being even thinly disguised US interests, on the North Korean Peninsula would be as welcome by Kim Jong Il, the undisputed leader of North Korea, as an invasion of gonococcal bacteria on the most sensitive mucous membrane of an extremely virile male.

Turning one's attention to Syria, its President, Bashar al-Assad, who succeeded his father, Hafez al-Assad in June 2000, is known to sponsor, what the US Government considers, terrorists.

Syria and Iraq have common borders and it is confirmed that Syria is not vigilant in stopping Muslim extremists from using Syria as a staging post for attacks on US forces in Iraq.

Both Syria and Iraq are Muslim countries, as is Afghanistan, but fundamentalistic Muslims see certain Muslims as having been corrupted by the West and, in some cases, corrupted by infidels, and, especially, the US Government's imposition of democratic principles in government.

Remnants of the Taleban, the former, Islamic fundamentalistic ruling power in Afghanistan, which was founded in 1994 and held absolute power in that country from 1996 to 2001, still remain a thorn in the side of the US Government, which ousted the Taleban in 2001.

The above-mentioned political/religious considerations and a host of other international events are going to decide the course of the economies of the Western World to a greater or lesser extent, depending on a number of factors, which come to the fore in the months ahead.

Interest Rates

While the US Federal Reserve Board has shown that it is not shy to raise interest rates in order to keep the US economy on the straight and narrow, at the same time, it will always weigh up the pros and cons of raising interest rates too quickly, during the year ahead.

Higher interest rates may be the weapon of choice for The Fed's Chairman, Dr Alan Greenspan, in order to control inflation, but higher interest rates are unlikely to prevent the US dollar from continuing to depreciate vis-à-vis other *'hard'* currencies of the world.

Japan, of course, will be most reluctant to increase interest rates because the yen is, already, much too strong for the likes of Japanese exporters and industrialists: A strong yen is an inhibitor to the growth of Japanese domestic exports.

After all, the US is, still, the largest single market for Japan's products and services.

In Europe, similar considerations will apply as those of the Japanese Government of Prime Minister Junichiro Koizumi: Higher interest rates may well take their toll of the economies of the European Union.

For this reason, during the year, the European Central Bank will try to hold the line, as far as interest rates are concerned, but, at the same time, it will be cognizant of the evils of inflation and the erosive effects inflation can have on any economy.

At the tail end of 2004, it was apparent that the US economy was slowing down: The statistics of the various departments of the US Government made that abundantly clear.

The number of new jobs, created in the US in 2004, was woefully low, which is indicative of an uncertain economic climate, among other things.

US industrialists were, clearly, not in a hurry to hire many more new staff members probably because there was no certainty that any appreciable increase in the production of goods and services would meet a consumer market, eager to take the additional goods and services, which were produced by the addition of more capital goods and with increased labour establishments.

The weaker US dollar, vis-à-vis the euro and the yen, made US products more attractive to European and Japanese consumers, during the third quarter of 2004, but even this de facto devaluation of the greenback did little to give the US economy much of a leg-up.

US consumption, which accounts for about 70 percent of the US **G**ross **D**omestic **P**roduct (GDP), waned in the last half of 2004 due to a number of factors, the 2 most important factors, being US corporations, being reluctant to hire new staff too quickly, and the high cost of energy, specifically, fossil fuels, which chipped away at the buying power of US consumers.

Household budgets in the US were constrained; purse strings were knotted, tightly.

Even the tax breaks and other benefits, pushed through by President George W. Bush, during the 2004-year, at the end of the day, did little to ameliorate the financial situation of the average Mr and Mrs America although the milkman, the butcher, the baker and the candlestick maker did get some of that money.

While energy prices have fallen back since last October's $US55-plus per barrel for US light sweet crude oil, and while employment has picked up somewhat, it is unlikely that there will be a smart acceleration in the growth of the US economy.

The US, still, faces difficult problems this year.

One of the many problems, which the consumer of the US will be facing, is the rising cost of debt service and capital repayments.

Higher interest rates will translate into lower spending power for the US consumer in the High Street.

As interest rates rise, so the residential housing market will be hit, albeit gradually, but the overall effect, before the year 2005 draws to a close, is likely to be that the equity of many US households with regard to the unencumbered portion of their investments in residences, will be cut, proportional to the reduced value of the bricks and mortar in which they reside.

Residential construction could well drop back, quite considerably.

A glut in the residential market may, and most likely will, ensue.

Banks and finance houses will start to tighten credit policies, once again, and any and all overstretched households could face increased hardships in order to meet the demands of lenders.

President George W. Bush is unlikely to release any more money into the pockets of US households – because he will have no way to find the money.

The US is, already, operating on a record-high deficit, in any event.

Cosmetic economics can have an effect for only a limited period of time.

In spite of few, or no, tax incentives on the horizon, many US companies, which are still flush with cash due to frugal practices, initiated in 2004, as well as cutting out the fat in many an enterprise, may well start to spend some of their cash and they will, without question, start to rehire, but such actions are not expected to be anywhere near to the extent of 2004.

As far as senior management of many a corporation is concerned, it will, most likely, be slowly, slowly, slowly … catch the monkey.

Capital spending, also, is quite likely to pick up, this year, but, again, not to any great extent.

If the US dollar continues to depreciate smartly against the euro and the Japanese yen, as is likely, it could stimulate some US exports, but such stimulus is likely to be to the detriment of many a European and Asian currency.

Having said all that, the US will, still, be among the leaders of the industrialised, developed world as far as growth of its economy is concerned.

All is far from being lost.

Equities

The key to investing in equities in 2005 may well be the weight of the state of world tension.

The US Government has embarked on a course of action from which there is no retreat.

The US troops, currently on service in the Middle East, are likely to remain on duty in that part of the world for the remainder of the year – at least.

This will continue to be a drain on the US economy: Somebody has to pay the troops and equipment.

If more jingoism and bellicose actions are taken by the US Government, it is likely to aggravate an already difficult situation.

US companies, producing armaments, military aeroplanes, etc, could see near full order books; and, this situation could stimulate certain segments of the US economy.

But, again, such stimulus will not see its way down the line to many other industries, those not engaged in the business of manufacturing materiel for war.

US consumers, who are likely to be hurt by higher interest rates in the months ahead, will look to continue to cut back on household budgets.

Goods, manufactured in Asia, where production costs are lower and where workers are paid much less than in the US, will be preferred by US households to their manufactured counterparts in the US and Europe.

Companies, selling such products, will, most likely, see profits rise before the year is out.

But US companies, producing and/or selling capital goods, could well be facing a difficult time.

While US exports may well rise during 2005, the value of imports will be curtailed, without question, because US consumers will not be able to afford them, with the exception of lower-priced, consumer goods, that is: Garments; shoes; etc.

The knock-on effect of a depreciating US dollar is that its buying power is reduced, relative to the amount of the depreciation vis-à-vis the currency of its most-important trading partners.

Pressure could be brought to bear on the currencies of certain trading partners of the US.

This was attempted in 2004 when President George W. Bush visited Japan and asked Prime Minister Junichiro Koizumi to apply the brakes on The Bank of Japan in its continued *'interference'* on foreign exchange markets in order to hold down the appreciation of the yen against the US dollar.

The People's Republic of China (PRC) is, already, under the gun of the US Government, which is *'suggesting'* that the renminbi is undervalued, relative to the US dollar.

The Government of the PRC is resisting any revaluation of its currency: It sees no reason to adjust parity values and wants to maintain the status quo.

The economy of the PRC is booming and it is estimated to expand by about 10 percent this year.

The US economy will be lucky to grow by more than 5 percent.

Japan is likely to be hard hit in 2005, the tell-tale signs, having been flagged in the last quarter of 2004.

A stronger yen will hurt this economy, the second largest in the world, right where it hurts the most.

In summary, during this year, depending on the actions of the US Government with regard to its avowed attempts to turn the course of history so that the world will be a *'safer place'* and where Christian values are deeply ingrained in the predominantly Muslim world, where democracy replaces oligarchy, so equity markets will be swayed, sometimes very violently.

The faint of heart may be well advised to keep their powder very dry.

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