

LET'S TALK SOME SENSE, SHALL WE ?

When US President Barack Hussein Obama was able to twist the arm of The Congress in order to push through his financial stimulus package, everybody and his cat sat up in anticipation that the new US '*broom*' would sweep the country clean of its problems.

The expectation was that the Magi had returned, bearing gifts to the world's largest, single economy.

Well, the stimulus package is in place, but things, still, are in tatters.

Only last Friday (May 22, 2009) was it announced that another 3 US banks were in such bad financial shape that US regulators had to step in, taking control of them.

The brief details of these banks are as follows:

<u>Name of Bank and Location</u>	<u>Rescue Cost to US Taxpayers</u>
BankUnited FSB of Florida*	\$US4.90 billion
Strategic Capital Bank of Illinois	\$US173 million
Citizens National Bank of Illinois	<u>\$US106 million</u>
	<u>\$US5.18 billion</u>

* This was the largest banking failure of the year

The 3 bank failures brought the number of bankrupt US banks since January 1, 2009, to 36 institutions.

In 2008, US regulators seized a total of 25 banks.

The new broom's stimulus package, thus far, appears not to have accomplished that which was expected of it.

But it is, still, early days, of course.

A vital question, at this point, is: How many other corporate failures will there be before the good ship, USA, is righted, once again?

The following well known and is, now, relegated to history:

- Unemployment continues to rise in the US and is expected to hit 10 percent before the year is out;
- Profits of most corporate entities – when there are profits, that is – are no great shakes;
- Consumer spending in the High Street has not happened as had been predicted by the Obama Administration and its advocates;
- Some of the largest and most-prestigious banks in the US have gone kaput and have had to be rescued by the US Government with hundreds of billions of dollars; and,

- Detroit, as the world's largest producer of motor vehicles, has, just about, had it, with Chrysler LLP, having filed for bankruptcy, and General Motors Corporation is known to be awaiting for the bell to ring for its turn.

In short, the Obama stimulus package has yet to prove itself to be the magic wand which, when waved, changes the pumpkin into a golden carriage, the rats, transformed into 4, stately white horses, and Cinderella, transformed into a princess, wearing glass slippers.

What in the world did the gurus and investors of Wall Street, as well as investors, around the world, expect from the first black President of the most-powerful economy of the world?

Since the coming of the Magi in the form of the first Afro-American to sleep in the White House, The World Bank has made prognostications about the rapid deterioration in the growth of the economies of Europe for the remainder of the year; other informed and well-respected agencies have warned that the worst with regard to the global recession is yet to come.

Widespread social unrest cannot be further away than the horizon.

The US Treasury continues to print greenbacks and it would not be incorrect to state that inflation, somewhere down the road, is going to be an issue.

However, as fast as the US Government has printed money, so it can call back the money, one may suppose.

However, the US national debt is another matter.

In the past, the US Government has financed most of its grand plans by the issuance of bonds and suchlike; this policy has succeeded.

Today, however, the sales of US Government '*paper*' are not proving to be exciting investment opportunities to many people and international corporate entities, including the Sovereign Fund of the Government of the People's Republic of China (PRC).

US Government bonds are not considered as gilt-edged as they were perceived to be in the past; questions are being raised as to whether or not the US Government will be able to honour its financial commitments to its many tens of thousands of creditors.

In the Hongkong Special Administrative Region (HKSAR) of the PRC, investors are faced with one conundrum after another.

And the problems seem to continue to come from many unexpected corners.

The HKSAR economy is suffering, badly, unemployment is rising, rapidly, the Government of Chief Executive Donald Tsang Yam Kuen () is veering more and more to the political right of centre, banks in the territory are, just about, stopping to pay interest on deposits, while, at the same time, tightening up on lending to qualified borrowers, and tourism is declining due to a number of factors, the Swine Flu, being only one of those factors.

The equity markets of the HKSAR have been gathering strength, of late, because investors are looking to try to obtain a decent yield on their surplus cash in view of the attitude of banks.

Property prices should, logically, rise, at this time, because, if rental yields are greater than the interest that one may obtain at a bank, then, purchasing bricks and mortar is a viable option to maintaining a bank deposit.

But banks in the territory are loath to come to that party, also.

Banks can be persuaded to lend to qualified prospective borrower in most cases – provided that, for every million dollars, lent by the bank, the prospective borrower agrees to place 3 times that amount of money in the bank as a pledged deposit.

As for investing in equities, listed on The Stock Exchange of Hongkong Ltd, if PCCW Ltd () (Code: 8, Main Board) is an example of an investment in the future growth of what should have been a gilt-edged corporate entity, then, one can understand the reluctance of many people to buy into such a company, preferring, instead, to sit on their hands.

Publicly listed companies are suffering and each and every working day, the disappointing financial results of companies stain the pages of the Popular Press.

The HKSAR Government is embarking in new, long-term infrastructural projects, the costs of which are in the tens of billions of Hongkong dollars.

These projects should give rise to more employment for blue-collar workers and labourers, but the projects will do little for new school leavers of the territory unless they are willing to throw away that which they have learned in school and join in with the labourers in order to earn a living.

Also, these projects mean very little to the white-collar workers and the so-called, middle class, also known popularly as the sandwich class.

The Government of the PRC has engaged in similar policies to those of President Barack Hussein Obama, with the difference, being, that Beijing is trying to stimulate domestic consumption of the products, being churned out by the many hundreds of factories, dotted throughout the Middle Kingdom.

It is just as well that the PRC Government has determined to go this route because the US and Europe, the 2 largest trading partners of the PRC, are buying less and less from Asia as the days pass by.

It is noted, at this point, that the Government of the PRC is buying fewer and fewer US Government Bonds and other US Government ‘*paper*’, determining, one would suppose, that there is better use for the cash in its Sovereign fund at home.

Charity begins at home, is the voice of the world.

It is fully appreciated by Beijing that the interest that the country can earn from investing more trillions of US dollars, held, presently, in its Sovereign funds, by purchasing more, US-dollar-denominated ‘*paper*’, could, and no doubt, would be eroded on translation of the greenback to other currencies of the world.

It does not longer hold true that US Government bonds are as good as gold – because gold is much better as a long-term investment, at this point in time.

When Will The Stimulus Package Bear Fruit

Recently, **TARGET** () was challenged.

The challenger was a relatively new observer of the movements of equities in the HKSAR, who stated that this medium was wrong in not promoting the purchases of equities because ‘*Look at the gains over the past few weeks!*’

True enough!

And what about the losses, incurred in the share price of, for instance, CITIC Pacific Ltd () (Code: 267, Main Board, The Stock Exchange of Hongkong Ltd)?

What about the falls in the share price of Star Cruises Ltd () (Code: 678, Main Board, The Stock Exchange

of Hongkong Ltd)?

What about the falls in the share prices of etc, etc, etc?

This medium is not interested in the day-to-day movements of stocks and shares, but looks much further down the road at the time that the economic fog has lifted.

To this medium's thinking, it is simplistic in the extreme to invest in infrastructural-related equities just because of a recent fad or because of a government stimulus package has just been put in place.

Case in point: The Macau Special Administrative Region (MSAR) of the PRC where the casinos have run out of ready cash to continue their grand plans and have been forced to sack more than 18,000 workers.

Any stimulus package, be it in the US, in Asia, in eurozone, and/or in the Antipodes will take time before the tap roots are able to hold the economy stable.

This medium cannot see any material improvement in the economy of the US before the end of the year and, in Europe, not before the middle of 2010 ... or later.

TARGET, also, does not hold that doling out money to the populace will do any good to anybody.

History has proved that, if a government doles out money to the populace with the idea that it will stimulate purchases in the High Street, this is little more than a government, indulging in mental masturbation.

When euphoria abounds in the finance and/or the securities industry in times, such as these, it is a warning sign: Keep away!

One has seen, over the past few months, rapid gains and equally rapid falls in the share prices of banking counters, such as Bank of America Corporation, Citigroup Incorporated, Wells Fargo and Company, American Express Company, HSBC Holdings plc () (Code: 5, Main Board, The Stock Exchange of Hongkong Ltd), The Bank of East Asia Ltd () (Code: 23, Main Board, The Stock Exchange of Hongkong Ltd) just to name 6, well-known banks.

All of the above-named banks, with the lone exception of The Bank of East Asia Ltd, have passed round the hat, of late, asking for cash contributions, either from the shareholders and/or the US Government (in the case of the US banks, only).

If an economic recovery be at hand – and **TARGET** employs the subjunctive mood at this juncture – such cash calls would have been completely unnecessary.

Wall Street gurus would have us believe that, as quickly as the recession descended upon the world, so an equally quick recovery will manifest itself.

Such rubbish!

America is not buying.

Europe is not buying.

Airlines are struggling just to break even.

Motor-vehicle manufacturers are on the balls of their proverbial arses.

Departmental stores are struggling just to break even.

US consumer confidence continues to wane.

The price of gold is rising as people fear to hold paper money, not knowing of the translation value in the next month or so.

It is true enough that the rapid downswing of the US economy must come to an end, sooner or later, but that does not mean that there will be a rapid upswing to follow.

It is amazing how many intelligent people can be duped with seeming ease, caught up as they are in the frenzy of what may appear to be bullish markets, only to discover, far too late, that, in the heat of the moment, they could not see the true horizon, but only a mirage, created by their own fantasies ... or greed.

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