WHAT MAY ONE EXPECT FOR THIS YEAR ?

And It Ain't Good News, Folks !

The answer to the question as to what one may expect for the new year is, simply put:

1. Constant and multiple problems on the financial front, internationally;
2. Constant and multiple problems on the economic front, internationally;
3. Constant uncertainty on the currency front, internationally; and, lastly,
4. Gradual and constant erosions on the equity front, internationally.

About the only countries on the earth that are likely to be able to ride out the very bumpy and treacherous road for most of the 2011-year in fairly reasonable shape are India and the People's Republic of China (PRC).

Of these 2 countries, obviously, the PRC is the better choice for investors, looking for opportunities, or even just looking to find a safe haven for cash.

The PRC and India will not escape all of the problems, confronting the rest of the world, however: These 2 countries will feel the pain, too, but not anywhere near to the extent of the pain, experienced in the United States of America and a large portion of Europe.

The reason that **TARGET** () believes that the PRC is a better bet than India as a relatively safe haven for investment dollars or surplus cash is due, inter alia, to the recorded, long-term stability of the PRC Government and its track record over the past 2 decades with regard to the constant and, in some cases, spectacular growth of its economy.

This is not to suggest that the PRC will not have its problems, also, during the coming 12 months, but it is clear that the PRC has a far better chance of continuing to experience material growth in its economy, albeit perhaps slower growth than previous years', whereas, in Europe and the US, it is questionable that these economies will be able to chalk up very much in the way of any material growth – if at all.

In the US, which is the largest single economy of the world, today, it is evident that it cannot service its huge debt burden and, in effect, it could be argued that the country is technically, potentially insolvent, being forced to borrow from Paul in order to pay Peter.

In the eurozone, one does not know, from day to day, which of the 17 nations is about to scream for a financial bailout, or even another financial bailout.

Never, in the history of the world, has there been such a huge mountain of debt, owed by so many countries that one notes, today. It would be fair to state that the debt load of the United States and most of the eurozone[1] is unsustainable and is unlikely, ever, to be retired in full.

Many investors and country lenders could well find themselves forced to experience financial haircuts, like it or lump it.

The word, *'implosion'*, is being used, these days, to describe the current situation in the eurozone.

How many eurozone countries are potentially technically insolvent is still not very clear, but one is well aware of the outright admissions of Ireland, Greece and Portugal and how each of these countries' economies needed to be rescued by the EU and the **I**nternational **M**onetary **F**und (**IMF**) as a matter of urgency.

The biggest financial failure, of course, was that of the Ireland. The country had to be bailed out with loans, amounting to €85 billion, made available by the EU and IMF.

The Government of Ireland has been forced to nationalise 4 major banks of the country's 6 banks, the largest catastrophe, being Allied Irish Bank plc, once the biggest bank in the country. The Irish Government, today, owns a 93-percent equity stake in this bank due to a force-majeure situation.

The banking system of Ireland suffered miserably when the managements of the country's banks failed to realise that excessive lending to one sector of the Irish economy, namely the construction and property sector, at the expense of many other sectors of the economy, was a sure-fire guarantee of the creation of a property bubble; and, when the bubble burst, the banking system found itself with the debts, the amount of which represented more than 60 percent of the country's **G**ross **D**omestic **P**roduct (**GDP**).

Many people, no doubt, have forgotten that Ireland's GDP grew by an average of 9.60 percent per annum between 1995 and 1999. By 2000, Ireland was the sixth richest country of the world in terms of GDP per capita.

Between Fiscal 2008 and 2009, the country's GDP fell by about 3 percent and 7.10 percent, respectively. Unemployment in the country, today, is known to be in excess of 13 percent – more than double the 2008-level of about 6.12 percent.

Stand ready for what is almost certain to be the shock announcement in respect of the 2010-Year with regard to the country's GDP and the unemployment level in the nation that used to be called the *'Celtic Tiger'*.

Looking at Greece, the first EU country to admit, openly, last year, that it required a financial handout in order to save it from bankruptcy, it received a €144-billion, rescue package, made available from the EU and the IMF.

Today, the Government of Greece makes the claim that the country would not be declared bankrupt and that, by 2012, it will return to financial health.

That remains to be seen.

Turning to Spain, the ninth-largest economy of the world and the fifth-largest, European economy, it is known to be enjoying an unemployment level of between 19 percent and 20 percent.

As with Ireland, Spain fanned the flames of a property and construction bubble, during the past few years, but that bubble burst, also, with many Spanish banks, holding onto what the US Government terms as *'toxic assets'*.

Property prices in the country, today, are going for a song.

On January 18, 2009, Spain's Finance Minister told the world: *'Spain faces its deepest recession in half a century …'*.

The country's external debt, as at June 30, 2009, was put at about $US2.41 trillion, representing the sixth-largest debtor of the world.

The biggest, single debtor of the world, today, is, of course, the United States. It had debts, amounting to about $US13.45 trillion, as at 30 June 2009. The country's unemployment level is just a shade lower than 10 percent, a level that has hardly moved since June 2010.

It is estimated that the value of imports into the United States in 2009 stood at about $US1.575 trillion, down about 26 percent, Year-On-Year.

As for exports, in Fiscal 2009, it was about $US1.069 trillion, down about 18 percent, Year-On-Year.

The public debt of the United States in Fiscal 2009 was about 53.50 percent of GDP, representing an increase of about 42 percent, Year-On-Year.

However, that figure of 53.50 percent of GDP would rise to about 84 percent if one factored in intra-Governmental debt.

And, of course, as is well known, the biggest creditor of the United States is the PRC.

In the United States, property prices are at their lowest levels in many a decade and, in some states, standing at half-century lows – with buyers, still, few and far between: Prices will, most likely, continue to fall in 2011.

As for the third-largest economy of the world, The Empire of Japan, its public debt is more than 100 percent of GDP and, within the next 18 months or so, it is expected to be closer to 200 percent of GDP.

Just before Christmas, the diet approved a record level of spending for the coming Fiscal Year, ending March 31, 2012, amounting to about $US1.10 trillion.

While the new budget is aimed at trying to fan the embers of the economy into life, it will, without question, add to the already huge, public-debt burden.

The $US1.10-trillion Budget will be utilised as to 55 percent for debt service and social security spending, leaving 45 percent to be utilised for defence, public works projects, education and technology.

This medium could go on and on, mentioning one European country then another, being potential candidates for financial handouts from the EU and/or the IMF, but it would be to no avail to write reams and reams of statistics which, although they might make for interesting reading, would be simply of academic interest, only.

Conclusion: Aside from US President Barak Hussein Obama, cranking up the printing presses in order to flood the country with more American dollars, until the largest single economy of the world is able to assist in providing jobs for its 15 million-plus, unemployed workers, now on the dole or just sitting idly at home, awaiting a miracle, and until the millions of empty homes can find families to move in, it will mean very little: One cannot apply a band-aid, hoping to stop the bleeding from a slashed carotid artery.

It is highly unlikely that the US President will be very successful in stemming the problems, confronting the US economy of today; short-term solutions to try to alleviate, temporarily, the major economic problems, confronting the country, will prove to be useless, in this medium's opinion, and will just aggravate the present dangerous economic situation.

Such suggestions as applying short-term solutions to the long-term problems, dogging the country, are akin to borrowing short-term funds in order to finance long-term investments.

Without US consumers, having jobs, permitting them to earn reasonable incomes that, in turn, would permit them to shop in the High Streets of the US, and without real property, having real value, the US economy cannot move forward.

One must never forget that the backbone of any economy lies in the value of its real property.

In Europe, one sees the potential for more and even greater economic problems than those of 2010. These problems are known to be just over the horizon, and, while it is unlikely that the euro will cease to exist, one cannot help but ponder just how long will the strong economies of eurozone, Germany in particular, agree to lend money to the *'sick'* eurozone economies.

Put another way: Can the few-remaining, financially strong countries, such as Germany, afford to permit member states of the EU to fail?

If the Administration of Ms Angela Dorothea Merkel, the current Chancellor of Germany, intends to stay in the EMU, it will mean a draining away of some of its budgetary surpluses; this will not sit well with the electorate.

The PRC Government has gone on record to suggest that it would be able and willing to assist the economies of eurozone if needs be such. But, once again, such financial assistance would only be temporary.

The root causes of the problems of many of the eurozone states cannot be attacked by borrowing money from the PRC, from the EU, or the IMF, although such loans would permit these states time for consideration to be given to ways and means to find solutions to some of the many conundrums.

One can see, at this point, that economic growth, if it is to exist at all in respect of many of the economies of this part of the world, will slow to a crawl; and, this will impact on international equity markets, sooner rather than later.

About the only area of the world that is likely to experience any material, economic-growth performance is in Asia, and especially in the PRC where that Government has been concentrating on encouraging the manufacturing sector of the economy to meet the demands of domestic consumers.

With a relatively stable government, it is more than likely that Beijing will continue to keep a firm hand on the tiller of the economy.

The PRC is much further ahead than India, as far as its economy is concerned, although its Achilles Heel remains the one-child policy that, sooner or later, will come to haunt the country.

At this point, it is only too obvious, also, that the renminbi is quite likely to be among the best currency for this year since it poses little downside risk, unlike the euro and the US dollar, both of which appear to be heading for rapid, foreign-exchange translation erosions, with the euro, veering in the direction of parity with the US dollar – if not below the translation value of the greenback vis-à-vis other *'hard'* currencies.

Whereas, it appears that the renminbi could well continue to appreciate against most other currencies of the world.

A level of €1.20 =$US1.00 is, today, almost expected within the first half of this year, but how much lower the euro is likely to drop is dependent on a great number of presently unknown factors, the most-important of which, being the number of eurozone countries' economies that go screaming for financial assistance to the EU and the IMF, being at the top of the list.

As the euro's translation value vis-à-vis the US dollar drifts to lower levels, with the currency's buying power, being eroded as its drops from one notch to another lower one, so imports into Europe will dwindle because the foreign imports will be too expensive for many of the consumers of this part of the world.

Hence, exporting countries, especially the PRC, India and Japan, will feel the pinch.

For the Hongkong Special Administrative Region of the PRC, it is quite likely to experience an invasion of large, foreign companies, entering the territory, intent on establishing a presence, here, in order to tap into the PRC economy where the prospects of growth are only too obvious.

1. An economic and monetary union(EMU) of 17 European Union (EU) states that has adopted the euro as their sole medium of exchange. The EU comprises: Austria; Belgium; Cyprus; Estonia, Finland; France; Germany; Greece; Ireland; Italy; Luxembourg; Malta; The Netherlands; Portugal; Slovakia; Slovenia and Spain.

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