

# Acting is all about honesty. If you can fake that, you've got it made.

George Burns—politicians are less competent than actors, but keep opting for fakery!

Another cast-iron guarantee?

Almost immediately after forming his new Government, the Prime Minister turned to the tricky topic of Europe. Recognising that Tory activists distrusted the Lib-Dems' instincts in this area, he sought to calm nerves by clarifying the position of the coalition. Without a prior ratification by referendum, he said, there'd be no further surrender of sovereignty to Brussels.

That's the way it's looking.

Was this a political promise or something to be taken seriously? When the chips were down, would it be repudiated or honoured? He didn't say, but we may find out in the next few days. That's when he'll have to decide how to react to legislative proposals (drafted in Brussels, Paris and Frankfurt) to regulate London's Hedge Funds.

The City will have to defend itself.

Will he be true to his word or false to it? Will he defend the City? Or join with its enemies in attacking it? Probably the latter. Europe's bureaucrats, it has to be appreciated, are desperate for a scapegoat. They've been profoundly embarrassed by the euro's difficulties. They can't admit that the cause was administrative incompetence or economics failure. They have to find an alternative. And what could be better than speculative excess? It gets the legislators and the central bankers off the hook. And, played skilfully, it might additionally undermine London. A double whammy!

It might have to descend to the tactics of the politicians!

In Europe, meanwhile, anxieties about the euro have subsided. Funds totalling a trillion dollars have been readied to defend the currency. Investors are impressed. They hadn't realised the problem was so bad. But they will not launch a raid for a while. They'll wait to see how the fundamentals go.

Is Greece on the road to recovery? Very doubtful.

Will fiscal austerity make Greece competitive? And if so, how long will it take? Will the country be able to live with the same currency as Germany in the foreseeable future? Is insurrection in the meantime a serious risk? Nobody knows. There are dangers, though. The conjunction of negative inflation and higher interest rates will raise the real cost of credit. Might it go so high as to drive activity irreversibly into depression?

Lib-Dems can't think for themselves.

The Greek tragedy has not been without its effects on the thinking of the Lib-Dems. Clegg and his acolytes always approve of European dogma. If Brussels and Frankfurt and Paris think it right that countries reduce their fiscal deficits, then so must the spineless fifth-columnists in Britain. Before the election, the party claimed it would be hazardous to cut the deficit too quickly. Now it's worried about doing so too slowly.

They have to wait until Brussels thinks for them.

Sadly, there's a predilection for tax increases rather than spending cuts. And, insanely, there's no mention of the need to rationalise public sector pensions. Ministerial salaries are to be cut by 5%. But that's irrelevant. It's the outrageous emoluments of civil servants and local authority workers that have to be slashed. It's the budgets for the Quangos and the regions that have to be reviewed. But there seems to be no intention to do so. Brown's body may have been evicted from No 10, but his ghost apparently lives on.

The global economy is growing.

Elsewhere in the world, economics numbers have been quite good, though second differentials appear now to be declining. Last week brought publication of the US's April employment report. It showed a big increase (it's a lagging indicator, of course), but a rise nevertheless joblessness.

But not very quickly.

In Asia, the picture's not dissimilar: good but not as good as it was a few months ago. Things may slow a little more in the months ahead: Beijing is hinting that the yuan is shortly to be allowed to rise again. The authorities in the central bank want to stem domestic inflation and to neutralise the case for protectionism.

Autumn 2011 will be a testing time.

Commodity prices are consistent with the thesis of moderating growth. They fell sharply at the height of Europe's financial difficulties and didn't recover much afterwards. Most Australian data are still looking good, but there are one or two signs of impending slowdown.

Markets are all right for the moment.

Securities markets' valuations were slaughtered during Europe's crisis. Investors feared, with some justification, that swathes of sovereign debt would become worthless. And they worried also about the implications for commercial banks. The latter hadn't rebuilt their balance sheets, but were already vulnerable to another black hole!

London, a little more vulnerable than most.

The latest news is a little better, but only a little. Valuations will rise, but not confidently. London may lag somewhat. There are barbarians without; and possibly within as well.

**Contact us . . .** For further information about Pointon York's SIPP products and services, call Natalie Oliver on 01858 419 371 or visit the corporate website at [www.sippolutions.com](http://www.sippolutions.com). Alternatively, contact Roger Nightingale, by telephone, on 01858 419 300; by e-mail at [rnightingale@sippolutions.com](mailto:rnightingale@sippolutions.com), or browse his web site at [www.rogernightingale.com](http://www.rogernightingale.com).

**Disclaimer:** This document reflects the opinions of Roger Nightingale, not those of Pointon York SIPP Solutions. It is for private information only. Pointon York is not soliciting any action based upon it.

Whilst information contained in Roger Nightingale's articles is based on sources believed to be reliable, neither the accuracy nor the completeness can be guaranteed. Any judgments articulated are Roger Nightingale's as at the date appearing on the material. They are subject to change without notice and might not be followed with a specific ad-hoc document.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients of Pointon York SIPP Solutions. It is intended for investment professionals only. It is not for public distribution.