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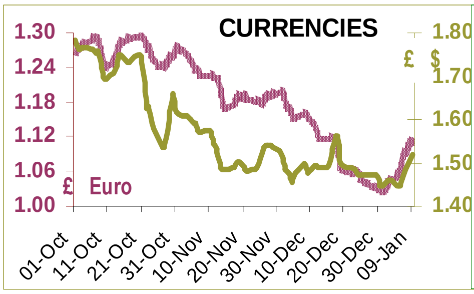

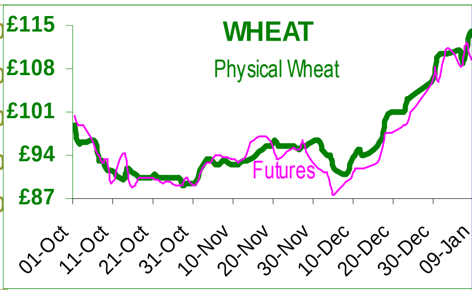

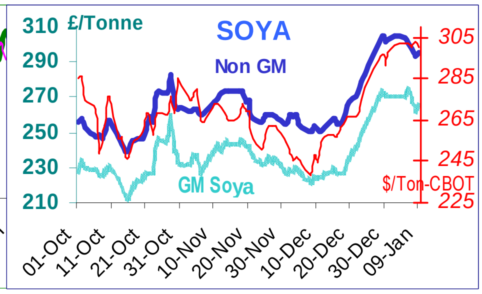

What can we expect this New Year? We try to make some sense from the chaos. So far, world governments have approved $4940bn in rescue packages for banks. A weapon of mass destruction indeed (Warren Buffet).

In the 1990's Japan's economy boomed, the Nikkei 225 index peaked at 39,000, then it hit a financial crisis. The government took money from the successful companies and gave it to the incompetent/unlucky; ham-stringing Japans' recovery. In the past 18 years the Nikkei index has averaged 15,000, yet is currently 9,000. The Japanese culture is to save money, so it has enormous capital behind it. The US has a credit culture, which will take the US to recover, particularly if they support failing business models? The best way forward now, is to let companies fail; allow short selling and price discovery; and for governments to concentrate on regulation – not intervention. Who, in the current financial climate, would buy a brand new car in the next 3 months, 6 months? The old business model is broken, so forget it. [With apologies to those employed in failing companies/industries].

There are no safe currencies anymore. It used to be the Swiss franc, the D-mark, Sterling. The Yen? Looking to the future, the $ has probably had its day – who wants to own a failing economy? Identifying safe banks and shares has proved to be a difficult occupation, so most opted for government bonds and cash. But low interest rates mean cash is unattractive so what will the financial boys invest in? Agricultural commodities are back in favour! (damn!) Currency has weakened and the funds have been buying, so wheat and non-GM Hipro have gone up £19 and £35/t respectively since Dec 5th. Some will invest in gold – but gold is an odd thing, you dig it out of a hole in the ground, cherish it, then bury it under a bank

All countries are losers in a financial war. But some will recover much faster than others, depending on the degree of government intervention and on the competitive edge of each country (commodity, finance, trade). Make no mistake, we are in a race – the first country to show real signs of recovery will attract global investment, and show a stronger currency. Despite the low demand for physical commodities, demand is expected to recover more quickly than supply, due to the current squeeze on credit and investment. Therefore expect volatility to be the norm for the next decade?

In the 13th century a wool futures market thrived as wealthy Italian merchants [early bankers] lent money to English wool producers on the security of their future wool crop eg. in 1285, the Riccomanni had contracts with 20 monasteries on terms varying from two to eleven years. In 1294 Edward I declared war against France. To pay his army, Edward requested a withdrawal of funds deposited with the Ricciardi merchants of Lucca. But Philip IV of France had already levied an emergency tax on the Italian merchants resident in France, who had in turn borrowed from the Ricciardi and others. As the Ricciardi could not pay Edward, and were unable to raise finance from other bankers, Edward froze all Italian merchant assets in England, and the Ricciardi went bankrupt. Edward was forced to borrow money from the Frescobaldi, and this started a run on several Italian banks. Later, when the Frescobaldi complained to Edward, realising that he would need bankers in the future, he paid them £10,000 compensation. [Sounds vaguely familiar?].

Regards
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