MVAM - Newsletter

'A Christmas K.I.S.S.' December 2014

Impact from lasting changes in baseline expectations, in %	+1Y GDP
Eurozone	
40$ Fall in oil prices	+1.7
10% depreciation of the trade-weighted euro	+0.8
1% decrease in interest rates	+0.4

ECB, GDP, LTRO to name but a very few, the economic world is full of acronyms. Even the word acrontym is diffiuclt to spell! These all serve the purpose of making you think that economics is very difficult to understand and the people involved need to be very clever. But take it from me, after 25 years of reading the FT (another acronym), and being a graduate of Coventry Polytechnic it's much simpler than people would lead you to believe.

Basically the simple "rules of thumb" laid out in the table above are enough. When only one of the above are moving it's even simpler. At the moment it is oil, and the price of oil is all that matters when forecasting the health of the western economy over the next six months. But while the 40% fall in the price of oil might be great for the economy, your cost of living, or even your wage packet, a read across for an immediately strong stock market isn't quite the slam dunk it should be. Over short to medium periods of time the economy and the stock market do not move in tandem.

This is because this oil price move is creating massive dislocations in the economy. Thirty million barrels of oil are produced every single day. Thirty million multiplied by $40 is $1.2billion A DAY. That money has ceased winging its way to OPEC (oops, another acronym), Norway and Russia but is staying in the pockets of the western consumer.

This is a massive transfer of wealth from the few to the many and that will have profound changes on how money is saved and how money is spent. For example the Norwegian sovereign wealth fund has assets of about one trillion dollars. It owns nearly 2% of all the equities in Europe. It is Europe's largest shareholder. That fund has been built solely on profits for oil. Money might, at some point, need to flow out of that fund. Equities will be sold. Others will be in more urgent need of money than Norway. Industries such as the Middle East airlines of Emirates, Etihad and Qatar Airlines are growing their fleets faster and faster helped by subsidised fuel. Their investment in new planes made by Airbus and Boeing, with engines from Rolls Royce and others, may need to be toned down.

On the other hand the average US household is US$ 900 a year better off!! What will they spend their money on?

Economics at the moment is pretty simple. The world is driven by the cost of energy. Current prices are set to benefit the many who are likely to spend on small things. It is likely to hurt the few (directly, many more indirectly) who have until now been saving, building and spending on very different things. The stock markets need to adjust. They may miss those big savers in the short term but will likely rejoice with the companies whose profits are geared to consumer spending in the medium term. That ringing in your ears this December is more likely to be shop tills than church bells.